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Government
of South Australia

Report

of the

Auditor-General

Supplementary Report

for the

year ended 30 June 2015

Tabled in the House of Assembly and ordered to be published, 13 October 2015

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State finances and related matters: October 2015

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General enquiries regarding this report should be directed to:

Auditor-General
Auditor-General's Department
Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000

Copies may be obtained from:
Service SA
Government Legislation Outlet
Ground Floor
108 North Terrace
Adelaide SA 5000

Website: www.audit.sa.gov.au

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Government of South Australia
Auditor-General's Department

Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000
DX 56208
Victoria Square
Tel +618 8226 9640
Fax +618 8226 9688
ABN 53 327 061 410
audgensa@audit.sa.gov.au
www.audit.sa.gov.au

12 October 2015

The Hon R P Wortley MLC
President
Legislative Council
Parliament House
ADELAIDE SA 5000

The Hon M J Atkinson MP
Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Dear President and Speaker

Report of the Auditor-General: Supplementary Report for the year ended 30 June 2015: State finances and related matters: October 2015

Pursuant to the provisions of the *Public Finance and Audit Act 1987*, I present to each of you a copy of my Supplementary Report for the year ended 30 June 2015 'State finances and related matters: October 2015'.

Content of the Report

Part A of the Auditor-General's Annual Report for the year ended 30 June 2015 referred to audit work on the State finances and related matters that would be subject to Supplementary reporting to Parliament. This report provides detailed commentary and audit observations on aspects of the State's finances.

Acknowledgements

The audit team for this report was Salv Bianco, Robert Huddy, Greg Kloot, Grace Lum, Stefanie Chin, Alexander Kromwyk and Diane Williams.

I also express my appreciation for the cooperation and assistance provided by Department of Treasury and Finance's staff during the course of the audit.

Yours sincerely

Andrew Richardson
Auditor-General

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1 Introduction

The 2015-16 South Australian Budget was tabled in Parliament in June 2015. This commentary provides our observations on the State's finances. In particular:

- an overview of matters currently relevant to the State's public finances
- the frameworks that exist for reporting on the State's finances. There are three separate reporting requirements involving statutory and conventional accounting, each providing a different perspective
- a brief analysis of the financial performance of the State for the year, based on the three different reporting frameworks used in the public sector. This primarily involves an examination of the results for the past year, and the Budget and forward projections included in the Budget Papers
- a review of the financial position of the State, including understanding some of the major assets and liabilities, and the impact that they have on the State's finances.

Limitation on audit analysis

Most of our analysis in this Report is based on data provided in the Budget Papers, particularly the 2015-16 Budget, supplemented with information provided by DTF.

There are some limitations associated with the data when analysing results. These limitations include the following:

- The audit commentary in this Report is based on a review of the Budget material and related information. It is not an audit in the same sense as work conducted to provide an audit opinion on a financial report. The Budget data represents unaudited estimates.
- This review considers the estimated result for 2014-15. Past experience is that actual results have varied, sometimes substantially, from the estimated result.
- Classification changes occur from year to year in revenue and expense definitions that can affect the comparability of individual items across the time series. Such changes do not generally affect the net lending (borrowing) result. The Budget Papers explain structural breaks in time series.

In my view, these limitations are reasonable and do not invalidate the overall trend analysis from the Budget data.

2 Overview of State finances

2.1 Overview

This Chapter provides a broad overview of matters that are, in our opinion, currently relevant to the State's public finances. Further commentary and details follow in later Chapters of this Report. Specific terms are used in reporting on public finances. The main terms and their meanings are provided in Chapters 3 and 4. References to the Budget are to Budget Paper 3 'Budget Statement' (general government sector) unless otherwise stated.

2.1.1 Key observations and conclusion

There has been a prolonged period where Budgets have projected deteriorated outcomes from the immediately preceding Budget or Budgets primarily due to annual downward revisions of revenue projections.

The 2014-15 expected net operating balance result exceeded budget. Expenses and revenues were above budget, but the overall better than budget result was due to unbudgeted dividend income of $459 million. This was from MAC which, while within the total public sector, is outside of the general government sector, the focus of the annual budget. This improvement flowed through to reducing the net lending deficit.

The 2015-16 Budget shows deteriorated expectations for the 2015-16 year, compared to those estimated in the 2014-15 Budget. However, the Budget projects a return to operating surpluses, growing across the forward estimates. Key influences on net operating balances in the 2015-16 Budget are projected revenue growth beyond recent experience, mainly from Commonwealth sources, and continuing operating expenditure restraint underpinned by significant budget savings targets, including employee number reductions. Net lending results take into account reduced capital expenditures relative to previous years, after allowing for bringing the nRAH to account, and include significant asset sales in 2015-16. The Budget also benefits from a few one-off inter-government sector transfers as has been past practice.

As has been the case in recent years, the Budget is set against challenging domestic and international economic circumstances. The 2015-16 Budget recognises that the State will continue to face a range of challenges over the next few years, arising from the significant structural adjustment task ahead when car manufacturing stops in 2017 and the impact of falling commodity prices on mining operations. The Budget response is to include key initiatives (both revenue and expenditure) that are expected to stimulate the economy and boost economic growth and job creation.

Some key observations on the Budget are as follows:

- Fiscal targets are consistent with the 2014-15 Budget.
- New operating and investing initiatives total $686.5 million over four years. The Budget states that new expenditure is focussed on measures designed to stimulate the economy through promoting business investment, trade and tourism.
- The Budget includes a tax reform initiative that is estimated to reduce tax revenue by $668.2 million over four years. The stated aim is to promote business investment, economic growth and job creation.
- Nominal growth rates for employee expenses over the four years of the 2015-16 Budget are mainly below 2% and decline in real terms underpinning estimated expenditure restraint over the forward estimates.

- The actual expenditure for 2013-14 and estimated expenditure for 2014-15 indicate that expenditure restraint has been achieved reflecting the impact of savings initiatives built into recent budgets.
- Some significant one-off contributions in 2014-15 have impacted on general government sector net debt:
  - South Australian Water Corporation (SA Water) debt restructure – $2.7 billion reduction in net debt
  - MAC return of capital – $852.9 million reduction in net debt
- A further $300 million contribution from MAC is expected in 2016-17.
- The nRAH is recognised in 2016-17 as a finance lease, resulting in an increase in net debt and non-financial assets of $2.8 billion.
- Capital expenditure is expected to be $1.3 billion in 2015-16 and over $1.4 billion for each of the remaining three years of the Budget.
- Proceeds from asset sales are expected to be $339 million in 2015-16.
- The State's credit rating has been affirmed as AA with a stable outlook.

2.2 Fiscal strategy

The Government sets out its fiscal strategy in each Budget and its broader fiscal targets, together with performance against those targets.

After the global financial crisis in 2008-09 a common fiscal target was the achievement of sustainable surpluses. Some of the key elements of past Budgets were:

- 2009-10 Budget – Declining revenues, combined with higher infrastructure and operating spending, led to an operating deficit in 2008-09, the first in six years, and previously unbudgeted growth in net debt. An operating deficit of $304 million was budgeted for 2009-10. The announced fiscal strategy was to return the State to sustainable surpluses in the medium term.
- 2010-11 Budget – The fiscal strategy for the 2010-11 Budget was to establish and maintain sustainable surpluses. An operating deficit was budgeted for 2010-11 with a return to initially small but growing surpluses from 2011-12. The Budget detailed significant budget improvement measures adopted from the then Sustainable Budget Commission's recommendations.
- 2011-12 Budget – This Budget reported that taxation and GST revenues remained significantly below estimates made prior to the global financial crisis, and those estimated in the 2010-11 Budget. A key fiscal strategy was to re-establish and maintain sustainable operating surpluses. An operating deficit was budgeted for 2011-12 and operating surpluses were projected from 2012-13, although at lower levels than in the previous Budget.

The 2011-12 MYBR noted that global economic uncertainty had intensified resulting in significant deterioration in the budget position after the 2011-12 Budget was released. Over the forward estimates, revenue (mainly GST and taxation revenue) was revised down by $1.1 billion and the net operating balance was not forecast to return to surplus until 2014-15, two years later than forecast in the 2011-12 Budget. New fiscal targets were set by the Government as part of the 2011-12 MYBR. Two key targets were:

- a net operating surplus by the end of the forward estimates (then 2014-15)
- a maximum ratio of general government net debt to revenue of 50%.

These two key fiscal targets were retained for the 2012-13 and 2013-14 Budgets.

The 2014-15 Budget maintained the target of a net operating surplus by the end of the forward estimates, but changed the target of a maximum ratio of general government net debt to revenue of 50% to a maximum of 35%. This was in response to a reduction in general government sector net debt of $2.7 billion, arising from the Government's decision to change the gearing level (level of debt as a percentage of assets) arrangements of SA Water Corporation from 2014-15.

2.2.1 Net operating balance target

Since the 2011-12 MYBR the Government has had a fiscal target of a net operating surplus by the end of the forward estimates. This means that, to meet the target when it was first set, a net operating surplus needed to be achieved in 2014-15.

The 2013-14 Budget reinforced the adverse effect of ongoing weaker than expected economic conditions and did not project a return to net operating surplus until 2015-16. Similarly, the 2014-15 Budget estimated a net deficit of $479 million and expected a return to net operating surpluses in 2015-16 and subsequent years. The 2015-16 Budget estimated result for 2014-15 is a deficit of $279 million. The Budget is then expecting a small surplus of $43 million in 2015-16 and significant and growing surpluses across subsequent years.

2.2.2 Debt fiscal target

Since the 2011-12 MYBR the Government's debt fiscal target has been based on the ratio of general government net debt to revenue.

Net debt is expected to increase from $4.108 billion as at 30 June 2015 to $5.761 billion as at 30 June 2019. Net debt peaks as at 30 June 2017 at $6.533 billion. Expressed as a percentage of revenue, net debt is forecast to increase from 24.9% as at 30 June 2015 to 29.9% as at 30 June 2019. As at 30 June 2017 the net debt to revenue ratio is expected to be 36.2%, which exceeds the new debt fiscal target of a maximum ratio of 35%. The net debt increase in 2016-17 is due to the expected recognition of the nRAH ($2.8 billion) in that year.

Refer to chart 2.7 later in this Chapter for an analysis of this ratio.

2.2.3 The State credit rating

Securing and maintaining a triple-A credit rating for the State has been used in the past by the State Government as another target measure (indicator) of prudent management of risks to State finances.

South Australia's credit rating from Standard & Poor's was downgraded from AAA to AA+ following the release of the 2012-13 Budget in May 2012. In early September 2012, Moody's also downgraded South Australia's credit rating.

Prior to this downgrade, South Australia had maintained a triple-A credit rating since 2004.

In late September 2012 Standard & Poor's further downgraded South Australia's credit rating from AA+ to AA with a stable outlook.

At the time of the release of the 2015-16 State Budget, Standard & Poor's commented that its current credit rating of the State of South Australia of AA is not immediately affected by the State's Budget. It noted that the Budget seeks to stimulate the economy and create jobs by restructuring business taxes and building infrastructure. It also commented that while the State's higher revenue growth forecasts are supported by stronger GST revenue, it considers the State's budgetary performance is likely to recover at a slower rate; a number of factors are likely to weigh on unemployment, which may dampen the State's fiscal recovery. In late September 2015 Standard & Poor's affirmed their credit rating for South Australia as AA, with a stable outlook.

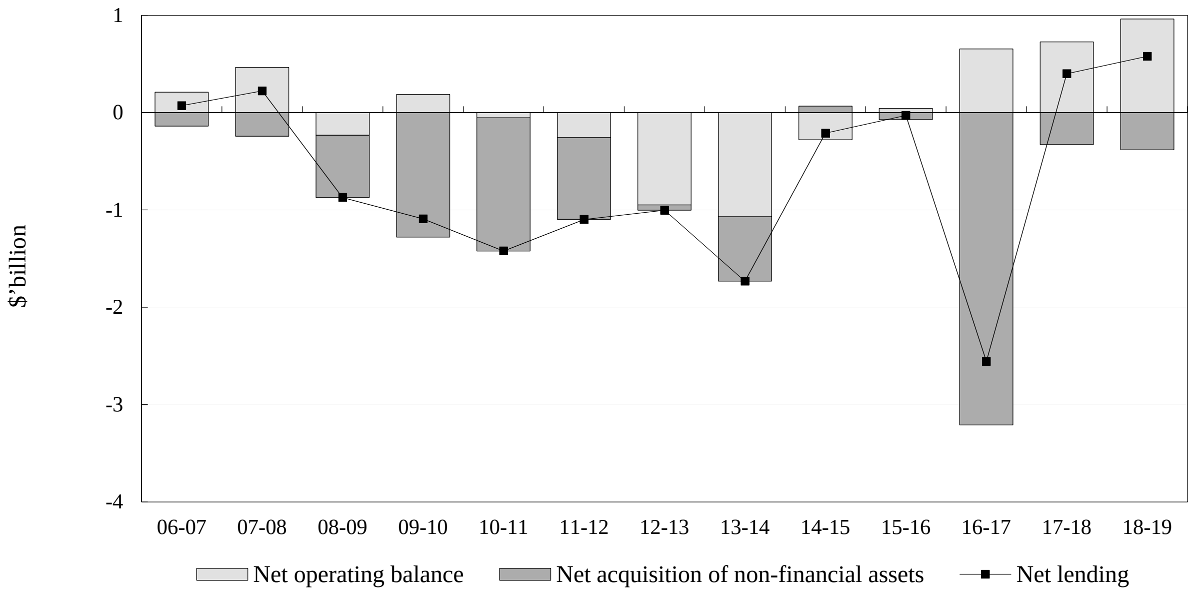
Moody's commented on the 2015-16 Budget that South Australia has made progress in reducing its current spending in support of its budget targets, with expenditures growing at a record low of 0.7% in 2012-13 and 0.8% in 2013-14. Moody's saw this as an encouraging sign that the Government is serious about budgetary redress. It also noted, however, that:

- maintaining very low expenditure growth projected by the Budget will require strong government resolve
- while the reduction in tax rates has the potential to support economic growth, lower taxes will also reduce the State's income base in future years, which could be a concern if GST-backed grants are less robust than anticipated.

2.3 Changing financial position

The following chart demonstrates the trend in net lending since 2006-07 and the expected trend over the forward estimates.

Chart 2.1 – General government sector net operating balance, net acquisition of non-financial assets[(a)] and net lending



(a) Net acquisition of non-financial assets included as negative amounts.

Chart 2.1 shows the increased frequency of net lending deficits (where revenues are less than operating and net investment expenditure) since 2008-09 reflecting:

- a significant capital expenditure program since 2008-09 (net acquisition of non-financial assets)
- actual or expected significant net operating deficits for the period 2011-12 to 2014-15
- the recognition of the nRAH asset in 2016-17 (previously budgeted for 2015-16).

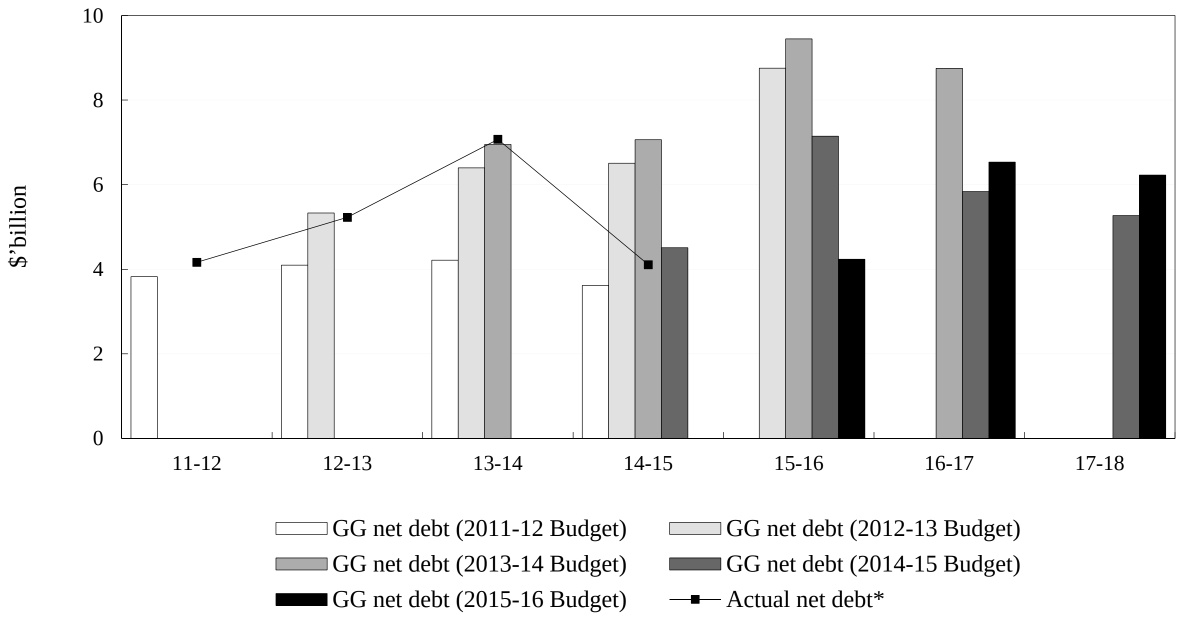
For the seven year period from 2008-09 to 2014-15 net operating deficits result for each year other than 2009-10. This reflects the impact of the global financial crisis, ongoing global economic uncertainty, and the budget policy dimensions and decisions for revenue and expense management set over recent years. A return to a small net operating surplus is projected in 2015-16, on the basis of anticipated strengthening revenue growth rates and significant expenditure restraint.

Net lending deficits also occur or are projected for each of the years 2008-09 to 2016-17. As a consequence, net debt rises from a surplus cash position of $276 million as at 30 June 2008 to peak at $7.1 billion as at 30 June 2014, before reducing to $5.8 billion as at 30 June 2019. The 2016-17 year includes recognition of the nRAH ($2.8 billion).

Net lending deficits are significantly influenced by capital investment spending decisions. Over $8 billion is spent or estimated to be spent on net acquisition of non-financial assets for the period 2008-09 to 2018-19. This includes $2.8 billion in 2016-17 associated with the recognition of the nRAH.

The following chart shows how general government sector net debt estimates have changed over recent budgets.

Chart 2.2 – Comparison of general government sector (GG) net debt between budgets



* 2014-15 is estimated net debt.

Chart 2.2 highlights the significant increase in net debt estimates in the 2012-13 and 2013-14 Budgets. The increases reflect the maintenance of a significant capital expenditure program over a period where there were major write-downs in revenue estimates over successive Budgets. These downward revisions in revenue estimates (mainly taxation and GST revenue grants) have placed significant pressure on the Budget.

The changes in the net debt estimates in the 2014-15 and 2015-16 Budgets are impacted by some significant one-off transactions. These include:

- the increase in the SA Water debt level by $2.7 billion. The effect of this adjustment on net debt is to move $2.7 billion of debt from the general government sector balance sheet to the PNFC balance sheet in 2014-15. The SA Water debt adjustment arrangement does not change the overall level of net debt expected for the NFPS (combined general government and PNFC sectors)

- the payment by MAC of a contribution of $852.9 million into the Highways Fund resulting from a government decision to open the provision of Compulsory Third Party (CTP) insurance to the private sector from 1 July 2016. The Budget also includes a $300 million return of surplus net assets from MAC in 2016-17. MAC is classified as a PFC. As with the SA Water transfer, the MAC contribution reduces general government sector net debt but does not change the total government financial position as there is an offsetting reduction in PFC assets. Section 2.5.1.2 below discusses this further.

2.4 Operating statement

2.4.1 Estimated results for 2014-15

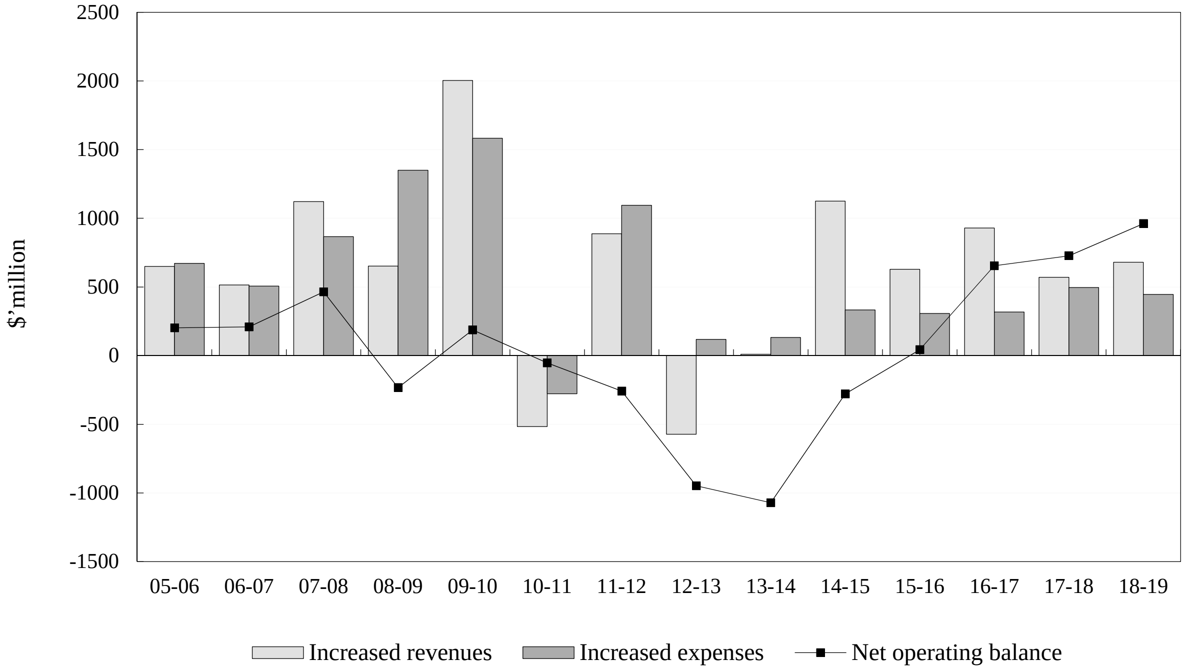
The 2015-16 Budget estimates a net operating balance deficit of $279 million for 2014-15 compared to the budgeted deficit of $479 million. The difference between the budgeted and estimated result is mainly due to an unbudgeted dividend of $459.2 million (as part of the total MAC contribution of $852.9 million into the Highways Fund). DTF advised that the dividend was determined as 95% of the 2013-14 operating profit of MAC as this is the dividend policy applied to other major statutory corporations. The remainder of the amount ($393.7 million) was treated as a return of capital directly to the balance sheet. Table 9.7 of Chapter 9 provides details of the impact on general government sector net debt of this return of funds from MAC.

The net lending deficit is estimated to be $212 million, compared to the budgeted amount of $380 million. The difference between the budgeted and estimated deficit is mainly due to improvement in the net operating balance estimate in 2014-15.

2.4.2 Budget forecasts 2015-16 to 2018-19

Chart 2.3 shows annual increases in revenues and expenses since 2005-06 compared to annual changes estimated for the four years of the 2015-16 Budget, together with each year's net operating balance.

Chart 2.3 – Annual change in general government sector revenue, expenses and net operating balance[(a)]



[(a)] 2009-10 and 2010-11 are influenced by Commonwealth stimulus grants.

For the three years to 2007-08, annual increases in revenues and expenses were reasonably consistent and net operating surpluses were achieved over the period. The global financial crisis affected the years 2008-09 to 2011-12. Commonwealth funding, including stimulus grants, peaked in 2009-10 and concluded in 2011-12.

The chart shows that revenues are estimated to increase significantly over the four years of the 2015-16 Budget. This increase is driven by expected increases in GST revenue grants of $1.7 billion over the four years of the Budget. Over this same period taxation revenue is expected to increase by $644 million. The 2015-16 Budget also includes taxation measures that deliver $668.2 million in tax reductions over the four years of the Budget.

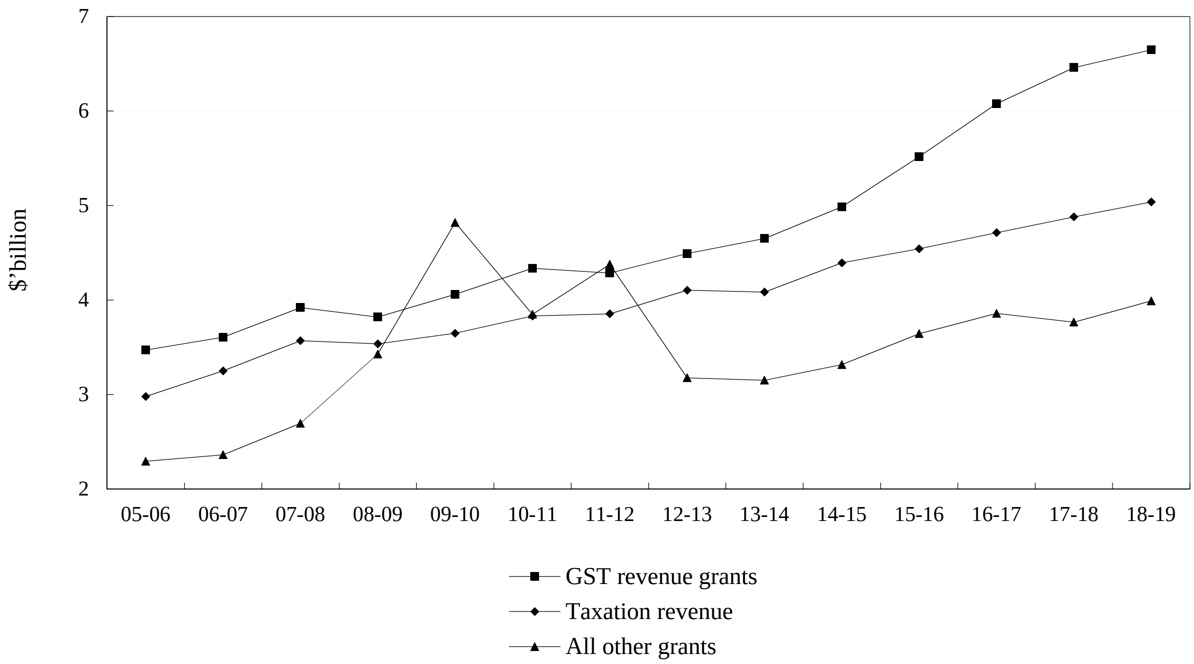
The Budget expects to return to a small net operating surplus in 2015-16 and then achieve significant, increasing net operating surpluses over the subsequent three years, underpinned by significant GST revenue grants growth to 2017-18 and expenditure restraint. Over the four years of the Budget employee expenses are expected to decline in real terms, with nominal growth in each year generally below 2%.

Chart 2.3 also highlights that the projected net operating surpluses for 2016-17, 2017-18 and 2018-19 are the three highest of any year on the chart.

2.4.3 Revenue forecasts 2015-16 to 2018-19

Chart 2.4 shows expected trends for the major revenue items in the 2015-16 Budget against the experience of the ten years to 2014-15.

Chart 2.4 – General government sector Commonwealth grants and taxation revenue



The chart highlights the impact of the global financial crisis and subsequent global economic uncertainty over the period 2008-09 to 2011-12. Over this period there were two breaks in trend where:

- GST revenue grants and taxation revenue fell in 2008-09
- GST revenue grants fell in 2011-12.

Further, there were significant temporary compositional changes in revenues following the global financial crisis, when immediate and large reductions in GST revenue grants and taxation revenue were offset by Commonwealth stimulus funding. Specifically, chart 2.4 shows that the category 'all other grants' (principally other Commonwealth grants) increased markedly in the period 2008-09 to 2010-11. This was mainly due to the Commonwealth Government's Nation Building – Economic Stimulus Plan and Nation Building Plan for the Future capital grants. Grants remained high in 2011-12, mainly reflecting the timing of Commonwealth capital grants for major water, road and rail infrastructure projects.

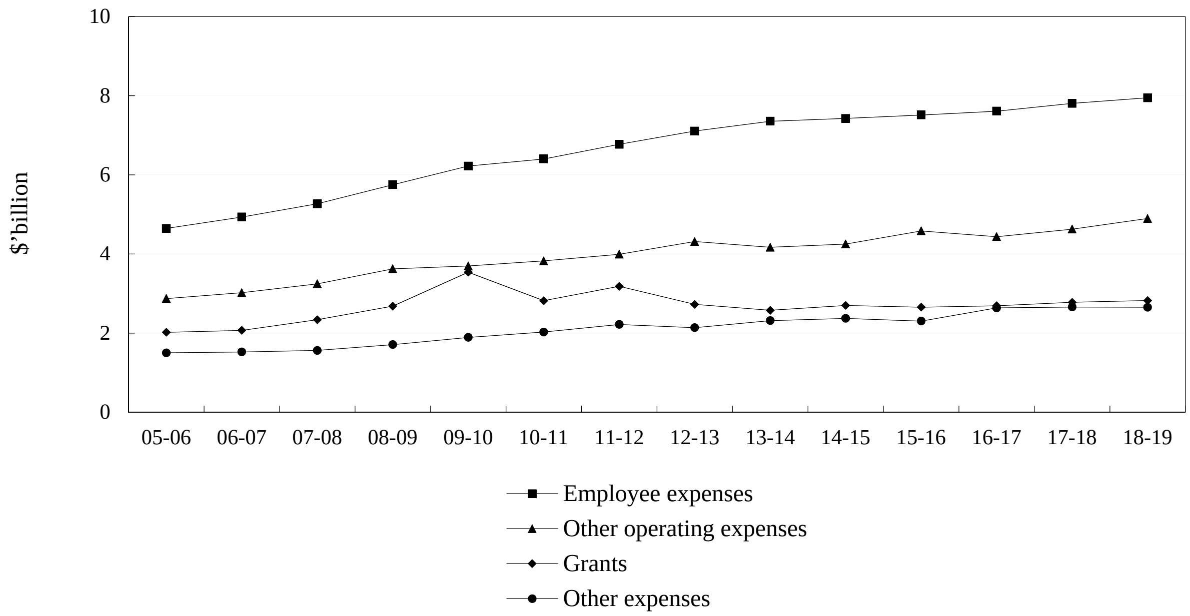
Chart 2.4 demonstrates the significant growth in GST revenue grants over the four years of the 2015-16 Budget. The Budget notes that upward revision to GST grant estimates since the 2014-15 Budget mainly reflect revisions to South Australia's share of the national GST pool available for distribution.

Chart 2.4 also shows that, factoring in taxation measures that deliver $668.2 million in tax reductions over the four years of the Budget, taxation revenue is expected to grow modestly over these four years. Real growth from 2015-16 is expected to average around 1%.

2.4.4 Expense forecasts 2015-16 to 2018-19

Chart 2.5 shows trends expected for total expenses in the 2015-16 Budget split into four main categories, against the experience of recent years.

Chart 2.5 – General government sector expenses



Employee expenses are estimated to increase in 2014-15 and beyond but at significantly lower rates than the experience in earlier years. Nominal growth rates over the four years of the 2015-16 Budget are mainly below 2%, with expenses declining in real terms. This primarily reflects expected reductions in employment numbers over the forward estimates.

Other operating expenses mainly show consistent gradual increases, other than in the two years:

- 2012-13 – the additional increase was due to relief of $320 million debt on the South Australian Housing Trust balance sheet following relief of the same amount of South Australia's public housing payments due to the Commonwealth
- 2015-16 – includes a number of one-off contingency provisions.

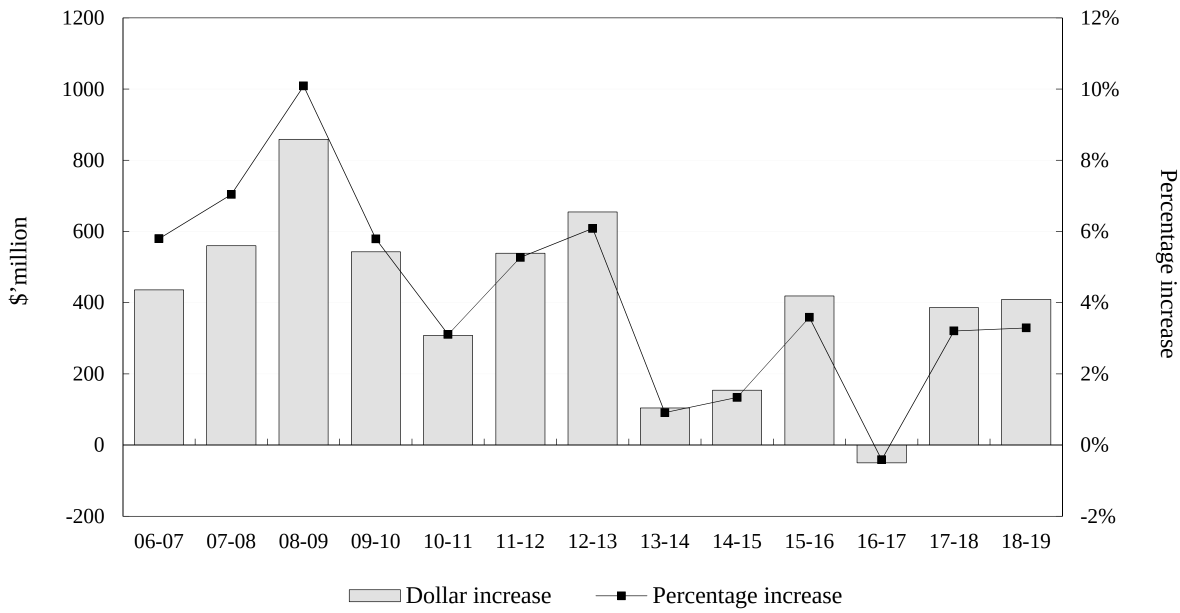
The fluctuation in grant expenses is mainly associated with fluctuations in Commonwealth grant revenues discussed above in section 2.4.3.

Other expenses increase in 2016-17 as a result of the first-time recognition of expenses (interest and amortisation expense) associated with the nRAH finance lease agreement.

The expenditure restraint built into the 2015-16 Budget and recent past Budgets is illustrated by the estimated annual movements in the two main expenditure items of the Budget, employee expenses and other operating expenses. These two items combined represent 71% of expenses for 2015-16, a proportion consistent with most years.

Chart 2.6 shows that the annual movements estimated or projected for employee expenses and other operating expenses for the period 2014-15 to 2018-19 compared to the previous eight years' experience. The chart shows growth in 2013-14 (actual) and 2014-15 (estimated) of below 2%. This reflects the realisation of savings introduced in recent Budgets. For all four years of the 2015-16 Budget expenditure growth is expected to be below 4%, averaging 2.4%.

Chart 2.6 – Annual change in employee and other operating expenses



Integral to expenditure restraint is achieving significant savings initiatives built into the forward estimates from recent Budgets. Achieving these expenditure targets continues to be a major task and therefore a risk to the current budget strategy.

2.4.5 Net acquisition of non-financial assets

For 2014-15 net acquisition of non-financial assets (the balance of purchases of non-financial assets less sales of non-financial assets and depreciation) is estimated to be -$67 million, which is in line with the budgeted amount of -$99 million. This means that the value of disposals of assets though sales and depreciation of assets is expected to exceed purchases for 2014-15.

Purchases of non-financial assets in 2015-16 are expected to be $1.3 billion and are projected to be above $1 billion for each year of the forward estimates. Purchases increase significantly in 2016-17 due to the recognition of $2.8 billion for the nRAH.

For the general government sector, sales of non-financial assets peaked at $1.2 billion in 2012-13. Sales included proceeds from the forward sale of the State's Green Triangle forest plantations ($635.1 million) and proceeds from the appointment of Tatts Lotteries SA Pty Ltd as exclusive Master Agent to operate the SA Lotteries' brands and products for a term of 40 years ($402.8 million). These amounts are exclusive of stamp duty.

Sales are expected to be $339 million in 2015-16 and reduce to less than $100 million for the remaining three years of the forward estimates.

2.4.6 Ratios of net debt to revenue

As highlighted earlier, one of the Government's fiscal targets is to achieve a level of general government net debt that remains affordable over the forward estimates – equating to a maximum ratio of net debt to revenue of 35%.

Chart 2.7 shows the ratio of net debt to revenue for recent years and for the 2014-15 and 2015-16 Budgets.

Chart 2.7 – General government sector ratio of net debt to revenue Budget comparisons

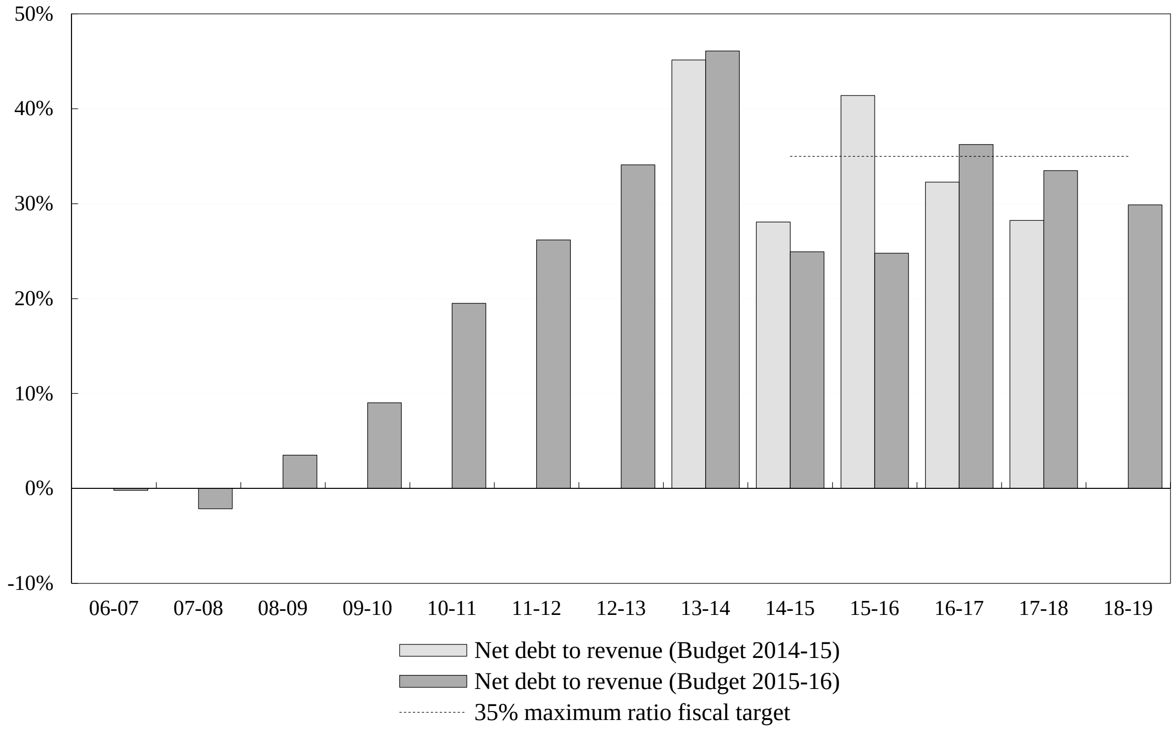


Chart 2.7 shows that in the 2015-16 Budget the ratio of net debt to revenue falls below the 35% maximum set by the Government's fiscal target in 2014-15. The ratio peaks in 2016-17 at 36.2% as a consequence of the recognition of the nRAH. The ratio falls back below 35% in 2017-18 and 2018-19 on the basis of expected significant revenue growth and net operating surplus projections of $727 million in 2017-18 and $961 million in 2018-19.

Net debt is also reduced in 2016-17 by an internal government transfer (asset realisation). A further MAC contribution of $300 million is expected from the government decision to open the provision of CTP insurance to the private sector from 1 July 2016.

The differences in the ratio between the 2014-15 Budget and the 2015-16 Budget are mainly due to the recognition of the nRAH a year later (2016-17) in the 2015-16 Budget. This Budget notes that recognition of the lease obligation for the nRAH in 2016-17 reflects independent advice on expected commercial acceptance dates. This was confirmed following a Deed of Settlement and Release executed in September 2015.

2.4.7 Interstate comparison

Chapter 10 includes comment on 2015-16 Budget comparisons for key budget aggregates across jurisdictions. In 2015-16, all States except Tasmania and Western Australia have projected net operating surpluses. All States except South Australia and Victoria are estimating net lending deficits up to and including 2017-18, with New South Wales and Queensland showing deficits continuing to 2018-19.

2.5 Non-financial public sector balance sheet[1]

The State's balance sheet is expected to strengthen over the four years of the 2015-16 Budget, as measured by net worth. This is the combined effect of a rise in the value of non-financial assets due to projected valuation increases and asset acquisitions, offset by increases in net financial liabilities.

Net financial worth deteriorates over the forward estimates by $1 billion due primarily to the growth in borrowings of $2.3 billion, offset by a reduction in the superannuation liability of $1.4 billion (assuming increases in interest (discount) rates over the period).

Net worth is estimated to increase by $5.5 billion over the forward estimates to reach $44.2 billion by 2018-19 as estimated growth in the value of land and fixed assets ($6.5 billion) outstrips liability growth ($1.3 billion).

2.5.1 Assets

Total assets are expected to increase over the forward estimates from $69 billion as at 30 June 2015 to $75.8 billion as at 30 June 2019. There is a large increase in 2016-17 due to the recognition of the nRAH ($2.8 billion).

Net acquisitions (purchases less depreciation and asset sales) increase non-financial assets by $3.9 billion for the four years through to 2018-19. Revaluations in the PNFC sector are also estimated to add substantially to non-financial assets.

Total financial assets are expected to be $4.7 billion in 2014-15, rising to $4.9 billion in 2018-19. This increase is primarily due to the movement in investments in other public sector entities under the equity category of financial assets. Investments in other public sector entities represent the value of the Government's interest in PFCs including ReturnToWorkSA and MAC.

2.5.1.1 Return to Work Corporation of South Australia

ReturnToWorkSA reported a comprehensive profit result of $1.5 billion in 2014-15. This compares to a comprehensive profit result of $235 million in 2013-14. The improvement in the comprehensive profit was mainly due to a decrease in the outstanding claims liability resulting from legislative changes. On 1 July 2015 the *Workers Rehabilitation and Compensation Act 1986* was replaced with the *Return to Work Act 2014*, significantly reducing future compensation entitlements.

As a result, for the first time in many years the Return to Work Scheme (the Scheme) has a funding ratio (assets divided by liabilities) of greater than 100%, meaning the Scheme is fully funded. Net liabilities at 30 June 2014 were $1.1 billion and the funding ratio 71%. The legislative changes, coupled with ReturnToWorkSA's initiatives to get claimants back to work more promptly, resulted in a $1.3 billion decrease in the net outstanding claims liability, moving ReturnToWorkSA into a net asset position of $370 million (net liability position of $1131 million in 2013-14). The funding ratio increased from 71% to 114%.

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1 Balance sheet data is for the NFPS unless otherwise stated due to the high value of non-financial assets in PNFCs.

The outstanding claims liability as at 30 June 2015 is $2518 million. This is a discounted (present value) estimate, net of recoveries and including allowance for future expenses.

Under the new legislation existing short-term claimants, with a whole person impairment below 30%, will cease receiving income support by 30 June 2017. This is the main reason for the outstanding claims liability reducing by $1.3 billion. The Scheme's independent actuary made reference in their report that the robustness of the whole person impairment assessment rules under the new legislation has not been tested in practice, and if these rules do not operate as intended, the cost implications may be significant.

Inherent uncertainty associated with the new Scheme arrangements prevents the degree of certainty on the estimate that would warrant no comment or clarification in an audit opinion. Without modification of the opinion on the financial report of ReturnToWorkSA, attention was drawn in the independent auditor's report to the inherent uncertainty associated with the outstanding claims liability reported for that entity at 30 June 2015.

2.5.1.2 Motor Accident Commission

MAC reported a comprehensive profit result for 2014-15 of $425 million. As at 30 June 2015 MAC had net assets of $823 million ($1252 million) reflecting an $852.9 million return of capital, offset by a $205 million reduction in outstanding claims liability.

The Government has decided to open the provision of CTP insurance to the private sector in South Australia from 1 July 2016. As a consequence of this decision, MAC will end its role as the sole provider of CTP insurance in South Australia. This will allow MAC to cease writing new CTP insurance policies and to run off its claims against policies issued up to and including 30 June 2016. This decision has allowed the Government to consider how to utilise net assets accumulated by MAC.

The 2014-15 MYBR outlined that, due to strong investment returns, MAC was able to pay $852.9 million to the Highways Fund in December 2014. This amount was larger and earlier than the projected amount of $500 million that was originally included in the 2014-15 Budget. This payment was made out of the net assets above the level required for sufficient solvency of MAC, according to a formula approved by the Treasurer, to be maintained.

This payment was made consistent with section 26(2) of the *Motor Accident Commission Act 1992* which provides for payments to be made to the Treasurer, or as the Treasurer directs, where a surplus exists in the CTP Fund.

This transaction is reflected in the 2014-15 estimated results of the 2015-16 Budget. The payment of the $852.9 million flows through to a reduction in net debt. The detail of the impact on the 2014-15 figures is provided in section 2.4.1.

The distributions have the same effect as an asset sale in that they are in the nature of one-off asset realisations that are not repeatable once insurance arrangements are established with the private sector.[2]

The Budget projects a further MAC contribution of $300 million in 2016-17.

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[2] To the extent that they are deposited into the Highways Fund the distributions will be applied for the purpose of the Fund.

MAC's statement of financial position comprises assets and liabilities that are sensitive to interest rates, claims experience and other assumptions and assets that are subject to market movements.

The estimated outstanding claims liability decreased by $205 million ($247 million decrease) to $1.9 billion in 2014-15. It is estimated on a basis to achieve an 80% probability that the provision is adequate. This requirement exceeds the Australian Prudential Regulation Authority nominated target of 75% probability of sufficiency.

MAC is required to maintain a Sufficient Solvency target. It creates a prudential reserve for MAC and is determined by a formula issued by the Treasurer. As at 30 June 2015, the Sufficient Solvency target was $2383 million ($2659.1 million) which compares to the Fund's assets of $2882.9 million ($3512 million), a surplus of $499.9 million and equating to 121% (132.1%) of the required level of Sufficient Solvency.

MAC's assets comprise mainly financial assets of $2252 million and property of $604 million at 30 June 2015. These assets are exposed to the effects of movements in interest rates and to market risks that influence valuations.

An interest rate change will inversely affect the values of fixed interest investments. In practice, a proportion of the impact of this change will be offset by a corresponding inverse movement in MAC's outstanding liabilities valuations.

MAC estimates the following financial impacts based on 30 June 2015 exposures.

		Financial impact	
	Movement in	2015	2014
Item	variable (%)	$'000	$'000
Interest rates	0.5	(29 584)	(31 690)
Australian equity markets	(5)	(10 988)	(24 705)
International equity markets	(5)	(10 809)	(25 219)

2.5.2 Liabilities

Borrowing is a major component of liabilities over the period of the forward estimates. Net debt, mainly borrowings less cash and deposits, is estimated to rise from $10.9 billion as at 30 June 2015 to $13.1 billion as at 2018-19.

The general government sector net debt is estimated to fall to $4.1 billion at 30 June 2015, primarily as a result of the return of capital from SA Water ($2.7 billion) and MAC ($852.9 million) during 2014-15. In 2016-17 net debt peaks at $6.5 billion as it includes the effect of accounting for the nRAH (discussed further in section 2.6.7.1 below).

The other major component of liabilities, unfunded superannuation liabilities, is estimated to be $12.8 billion for the year to 30 June 2015. Unfunded superannuation liabilities are valued at points in time by discounting future superannuation benefit payments by a discount rate that reflects the prevailing risk-free interest rate, consistent with the requirement of AASs. A discount rate of 3% was used for the estimate in the 2015-16 Budget, compared with 4.3% for the 2014-15 Budget. A 1% decrease in the discount rate is estimated to increase the superannuation liability by $3 billion.

The unfunded superannuation liability is a long-term liability to current and past members of closed defined benefit superannuation schemes. The Budget reports that while financial market volatility in the recent past has resulted in multi-billion dollar revisions to the value of the liability recorded on the balance sheet, there has been no material change in the actual expected payments to beneficiaries underlying the liability.

The Government reports that it remains committed to fully fund the superannuation liability by 2034. Table 4.4 of 2015-16 Budget Paper 3 'Budget Statement' itemises expected past service superannuation liability cash payments for 2014-15 and the four years of the Budget.

2.6 Risks and management tasks for the 2014-15 Budget

The stated fiscal strategy of the 2015-16 Budget is to achieve a net operating surplus by the end of the forward estimates. Consistent with recent past years, key elements to the success of the 2015-16 Budget will be realising estimated real growth in major revenue items and achieving expenditure restraint arising from recent budget improvement measures. The Budget also included measures expected to promote business investment, economic growth and job creation.

As in past years, we sought DTF's view of areas of the Budget considered to be the highest risks and the nature of specific monitoring measures. DTF responded that the major risks to the fiscal outlook are set out in Chapter 6 of 2015-16 Budget Paper 3 'Budget Statement'. These include: the impact of economic activity on household spending patterns and demand for housing, which impact on GST and property taxation; expenditure risks such as higher than expected wage increases, cost escalations on capital projects and activity growth in hospitals and schools; and changes in Commonwealth policy.

This section discusses some of the risks to achieving the Budget estimates. The values ascribed to some risks are from the Budget Papers[3] which explain and illustrate the effect of many of the budget risks.

Integral to any budget is the quality of data, which by its nature is based on estimates, assumptions and targets. Processes supporting the data preparation are a vital element in the integrity of the Budget. Section 6.6 of Chapter 6 discusses processes established by DTF.

2.6.1 Net operating balance

The 2015-16 Budget estimates a net operating deficit for the general government sector for 2014-15 of $279 million. This deficit includes an unbudgeted payment of a dividend by MAC of $459.2 million. The budget is expected to return to a surplus of $43 million in 2015-16 and the surplus is expected to grow to $961 million by 2018-19.

Table 2.1 shows the impact of the global financial crisis and the Government (both State and Commonwealth) response to ongoing global economic uncertainty by tracking how net operating balance estimates for the general government sector have changed since the 2008-09 Budget, which was presented before the crisis.

3 2014-15 Budget Paper 3 'Budget Statement', Chapter 6.

Table 2.1 – Comparison of estimated net operating results between budgets

Net operating balance	2008-09 $'million	2009-10 $'million	2010-11 $'million	2011-12 $'million	2012-13 $'million	2013-14 $'million	2014-15 $'million	2015-16 $'million	2016-17 $'million	2017-18 $'million
2008-09 Budget	160	356	434	424						
2009-10 Budget	*(233)	(304)	78	96	304					
2010-11 Budget		*187	(389)	55	216	370				
2011-12 Budget			*(53)	(263)	114	80	655			
2012-13 Budget				*(258)	(867)	(778)	(15)	512		
2013-14 Budget					*(948)	(911)	(431)	375	661	
2014-15 Budget						*(1 071)	(479)	406	776	883
2015-16 Budget							*(279)	43	654	727

* Actual or estimated result.

The actual net operating surplus result for 2009-10 of $187 million was heavily influenced by Commonwealth funding in response to the global financial crisis and other changes.

The changes since the estimated surpluses of the 2008-09 Budget (before the global financial crisis) represent a $1.7 billion unfavourable turnaround over the four years to 2011-12 in the changed economic environment.

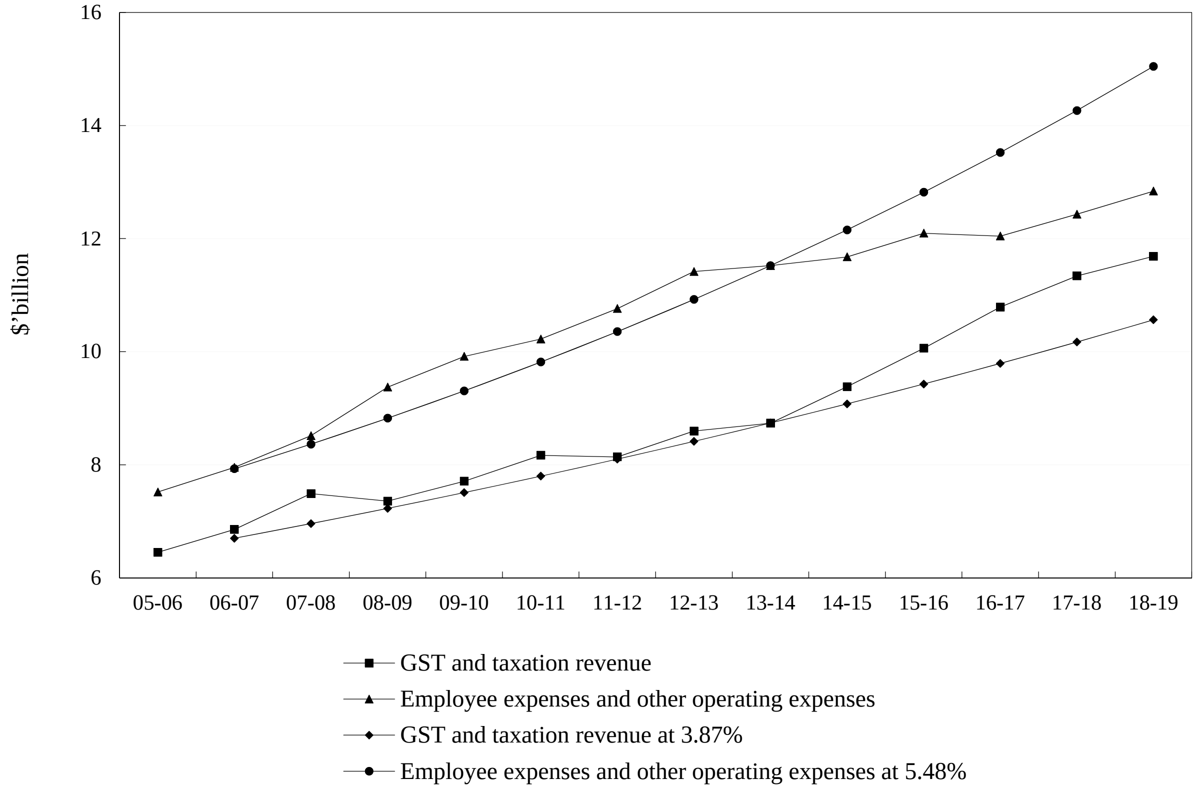
Table 2.1 also demonstrates the ongoing impact on the estimates for the years 2012-13 to 2015-16. For these estimate years successive Budgets have mostly lowered the estimated net operating result from the previous Budget. This has had a marked effect as expected surpluses in the 2011-12 Budget became estimated deficits in the 2012-13 Budget. The cumulative unfavourable expected turnaround in the net operating surplus between these two Budgets amounted to $2.5 billion. The 2013-14 Budget revised the net operating surpluses down by a further cumulative amount of $767 million. This mainly reflected the deterioration of GST and taxation revenue estimates over this period and the present level of expenditure projections.

The 2015-16 Budget (consistent with the previous three years' Budgets) expects a return to net operating surpluses in 2015-16. The projected surplus for 2015-16 is $43 million, which is significantly less than was projected for this estimate year in the previous Budgets.

Buffers are built into the Budget through contingency provisions, including headroom. These amounts are provided for unexpected events or for expenditure that is subject to further approvals. As with past Budgets, the 2015-16 Budget includes contingency buffers. Beyond this, and in the absence of other changes in spending or taxation policies, unfavourable outcomes will flow to the net operating result and, in the event of deficits, to net debt.

The net operating result is at risk from both revenue and expense outcomes. Chart 2.8 compares trends for some previously discussed key revenue and expense items in the 2015-16 Budget, namely GST and taxation revenue and employee expenses and other operating expenses.

Chart 2.8 – Comparison of GST and taxation revenue and employee expenses and other operating expenses



In chart 2.8, the GST and taxation revenue line tracks actual revenues up to 2013-14 and estimated revenues from 2014-15 to 2018-19. For the nine years to 2013-14, these two combined items grew on average annually by about 3.87%. Applying this average growth rate from 2005-06 through to 2018-19 creates the GST and taxation revenue at 3.87% line. A gap between the charted past experience and Budget estimates emerges in 2015-16 and is sustained over the final three estimate years. Further comments on operating revenue risks are provided in section 2.6.2 below.

For the nine years to 2013-14 combined employee expenses and other operating expenses grew on average annually by about 5.48%. Applying this average growth rate from 2005-06 through to 2018-19 creates the employee expenses and other operating expenses at 5.48% line. Comparing the trend of this line to the estimated expenses for the 2015-16 Budget shows an increasing difference between the two lines. This difference highlights the significance of the expenditure restraint required from the 2015-16 Budget. The flattening of growth in actual expenses in 2013-14 and expected expenses in 2014-15 indicates that expenditure restraint has been achieved through the impact of cumulative savings initiatives. The 2015-16 Budget estimates over the four years contain significant savings initiatives that have been introduced in recent Budgets. New savings (being the value for the four years of each Budget) introduced since the $1.5 billion Sustainable Budget Commission savings in the 2010-11 Budget include:

- $430.7 million in the 2012-13 Budget
- $227.2 million in the 2012-13 MYBR
- $140 million in the 2013-14 Budget
- $1.5 billion in the 2014-15 Budget.

2.6.2 Operating revenues

The estimated result for 2014-15 expects GST revenue to be marginally more than budgeted and taxation revenue to decrease by $130 million. Over the forward estimates both these revenue lines are expected to grow in real terms, although taxation revenues are only expected to grow in real terms by around 1% on average from 2015-16. This growth has been impacted by a policy initiative in the 2015-16 Budget of tax reductions estimated at $668.2 million over four years.

GST revenue has now shown to be highly sensitive to household spending patterns. State taxation also varies with economic activity and demand for housing. GST revenue is expected to grow nominally at around 10% in 2015-16 and 2016-17, by around 6% in 2017-18 and 3% in 2018-19.

The significance of GST and taxation revenue is demonstrated in the following chart which shows the annual proportions of actual GST and taxation revenue to total general government sector revenue and the proportions estimated for the four years of the 2015-16 Budget.

Chart 2.9 – GST grant revenue and taxation revenue as a percentage of total revenue

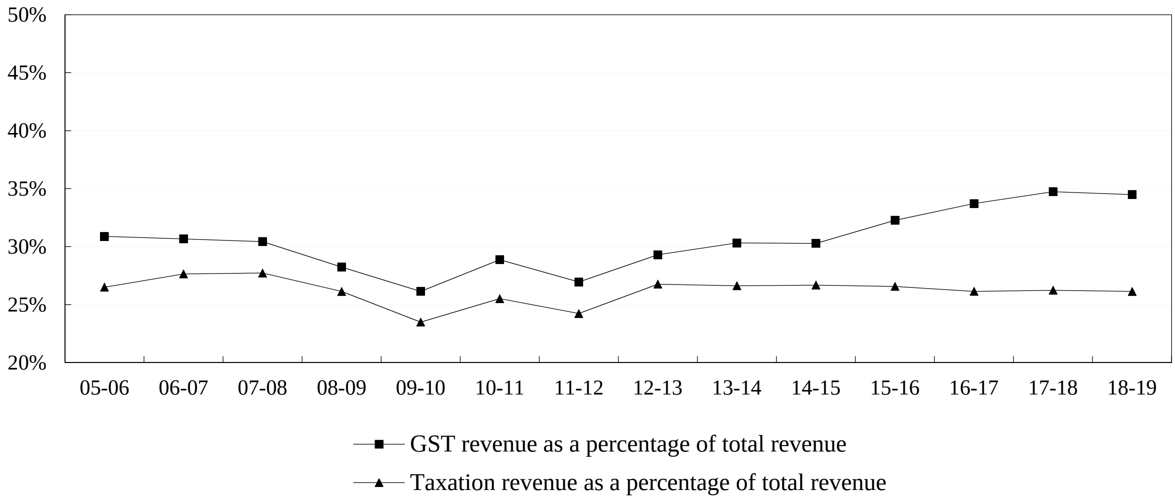


Chart 2.9 demonstrates the impact of the global financial crisis on GST grant revenue and taxation revenue over the period 2008-09 to 2011-12. In this period there were major write-downs in successive budgets of GST grant and taxation revenue estimates. Over this same period the State received significant Commonwealth temporary grant funding in response to the global financial crisis.

The ratio of GST to total revenue returns to values experienced prior to the global financial crisis in 2013-14 and 2014-15. Over the four years of the 2015-16 Budget there is an upward trend in the ratio, which approaches 35%. For taxation revenue, the trend over the forward estimates is that the ratio flattens to marginally below values experienced prior to 2008-09. This is attributable to:

- expected growth in the GST pool and South Australia's share of the pool
- a major taxation initiative in the 2015-16 Budget which foregoes an otherwise projected $668.2 million in State taxation over the four years of the Budget.

GST revenue in 2014-15 is estimated at $5 billion, representing 30% of total revenue. South Australia's GST revenue grants are expected to increase at rates that vary from estimated growth rates for the GST pool. Factors contributing to changes to South Australia's share of the GST pool include a declining population share and movements in South Australia's projected relativities, which are particularly affected by the distribution of Commonwealth National Partnership Agreement funding amongst the States and growth in State taxation and royalties revenue relative to other States. This is discussed further in section 7.2.1 of Chapter 7.

The two largest items of State taxation are payroll tax and conveyance duty. Growth in payroll tax is based on the outlook for employment and wages growth. For conveyance duty, the level of property transfers are expected to grow modestly and return to long-term trend levels over the medium term, and property prices are expected to grow broadly in line with long-term trend growth in per capita nominal household income.

The Budget comments that the difficulty in predicting trends in property market values and activity levels in recent years makes forecasting of property taxes, especially conveyance duty, difficult. Since 1997-98 the annual growth in conveyance duty revenue has ranged from negative 20% to positive 42%. The difference in volatility of the two main sources of taxation revenue is represented in the following chart, which shows actual annual nominal percentage changes from 2004-05 and expected changes over the forward estimates.

Chart 2.10 – Annual percentage change in payroll tax and conveyance duty

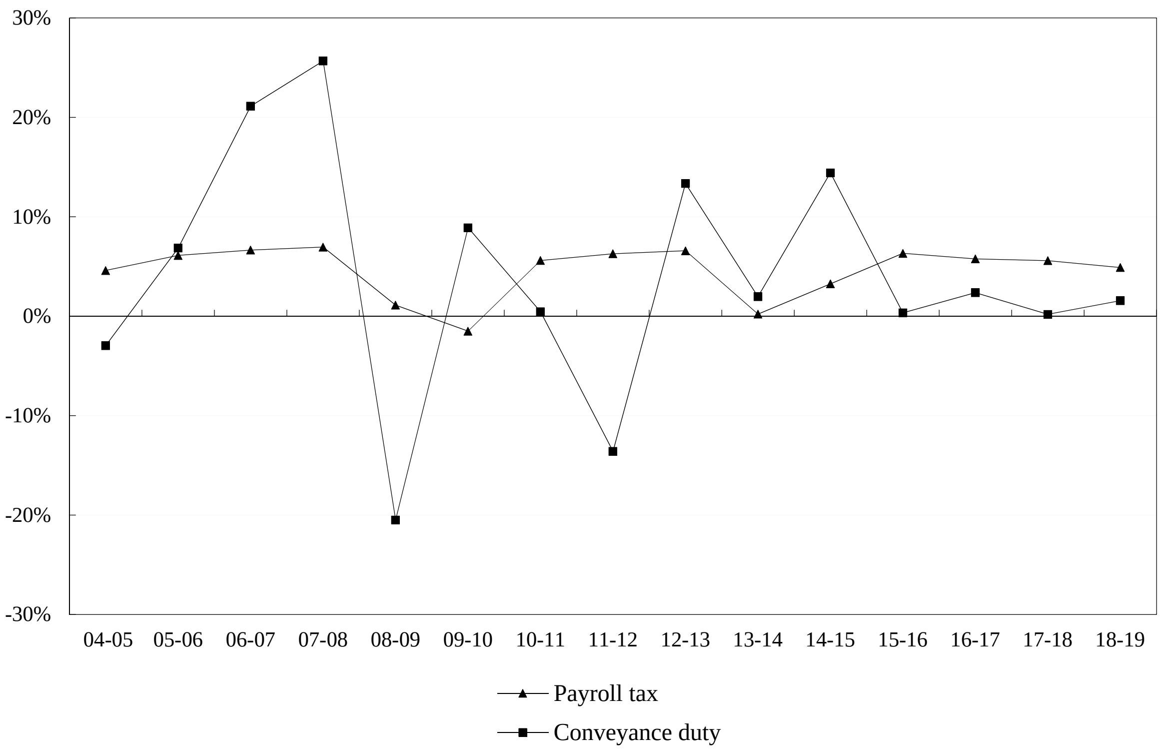


Chart 2.10 shows the relative stability of payroll tax growth over the period in comparison to the significant fluctuations in conveyance duty. Conveyance duties are a volatile revenue stream sensitive to both transaction levels and transaction prices. The chart also demonstrates that, over the forward estimates, conveyance duty is expected to only grow modestly each year.

The 2015-16 Budget reports that there is a risk that property prices and/or activity levels will be lower than estimated, particularly if relatively soft employment conditions remain or structural change in the economy causes employment uncertainty.

The Budget also notes that South Australia's GST revenue grants comprise over 50% of general purpose revenues and therefore the budget is particularly exposed to lower than expected growth in the GST pool. Further, changes to the methodology underlying the Horizontal Fiscal Equalisation (HFE) process for GST grant distribution could adversely impact on the State's revenue base and budget position.

Risk analysis in the Budget Papers notes that a:

- 1% change in GST pool growth has a revenue impact for South Australia of about $55 million p.a.
- variance of 1% in State taxation revenue equates to about $45 million p.a.
- 1% variation in property values equates to about $10 million in conveyance duty revenue
- 1% variation in transactions equates to about $8 million in conveyance duty revenue.

2.6.3 Operating expenses

Consistent with recent past Budgets, the 2015-16 Budget expects significant restraint in spending. Nominal growth in employee expenses is expected to be below 2% in all years except 2017-18 (2.6%).

2.6.3.1 Salaries and wages

Salaries and wages remain the main public sector operating cost. The Budget records that enterprise bargaining negotiations were completed or are progressing for a number of major workforce groups. Budget commentary states that the outcomes of future wage negotiations will be crucial in determining whether expenditure forward estimates in this Budget can be achieved, and the level of government services that can be delivered in light of the current challenging economic conditions.

The Budget records that if public sector-wide wage outcomes for new enterprise agreements vary by 1% p.a. from allowances in the forward estimates, the Budget impact is estimated to be approximately $183 million in 2018-19. The Budget states that the Government will continue to limit future wages growth to 2.5% p.a. and any increases above this limit will need to be offset by productivity improvements or other cost reduction measures. Comment is also made that if real wage restraint cannot be achieved, further FTE reductions and savings may be required in future Budgets to maintain the fiscal position.

2.6.3.2 Parameter and policy changes

The Budget Papers provide summary details of parameter and policy changes that occur between Budgets. Parameter effects usually include adjustments for enterprise bargaining outcomes, the carryover of expenditure from the previous year, revised timing of expenditure, expenditure associated with additional Commonwealth revenues and changes to interest expenses. Some expenses are covered by using contingency provisions set aside in the annual Budget.

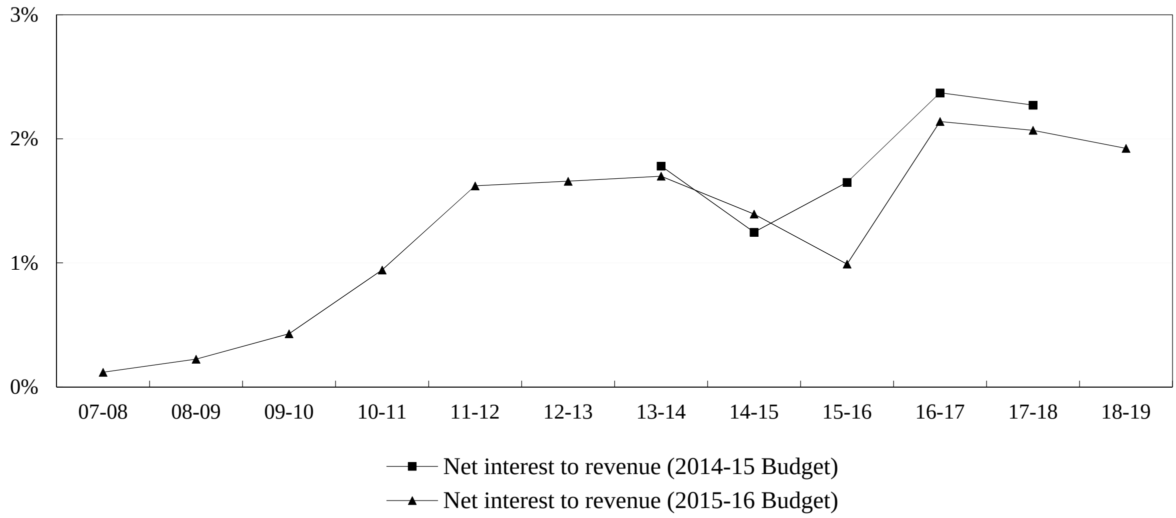
Parameter effects since the 2014-15 Budget have reduced operating expenses by $234 million (before provisions) over the four years to 2017-18. This reduction is due to a number of matters, including revision of estimates of depreciation, interest and nominal superannuation interest expenses.

The 2015-16 Budget reports that policy decisions since the 2014-15 Budget have added $850 million (before provisions) to operating expenses over the four years to 2017-18, including $164 million estimated for 2014-15 (section 6.2.1.2 of Chapter 6 discusses this further). The ongoing practice of approving expenditure commitments between Budgets, while a practical necessity for many reasons, is an area that warrants a high degree of government management discipline given the present budget challenges to achieve savings targets and achieve revenue growth.

2.6.4 Ratio of interest to revenue

Chart 2.11 shows the outcomes for the general government sector ratio of net interest expense to revenue for recent years and as estimated in the 2014-15 and 2015-16 Budgets.

Chart 2.11 – General government sector net interest to revenue ratio



This chart shows the ratio of net interest to revenue rising significantly from 2009-10 through to 2013-14. The ratio then drops in 2014-15 and 2015-16 primarily due to the reduction in net debt in 2014-15 resulting from SA Water ($2.7 billion) and MAC ($852.9 million) equity contributions.

The ratio rises again in 2016-17 as this year includes estimated interest payments on the finance lease for the nRAH ($211.4 million).

The Budget notes that a 1% increase in the average interest rate applying to general government sector debt would increase net interest expense by approximately $42 million in 2015-16, rising to $58 million in 2018-19.

2.6.5 Savings initiatives

Savings initiatives have been a major element of recent Budgets. The 2010-11 Budget consolidated savings announced in earlier Budgets (of over $700 million p.a. by 2013-14) into new savings, which totalled $1.5 billion over a four year period, arising from the recommendations of the Sustainable Budget Commission. These were additional to cost recovery and revenue measures ($478.6 million) and some retained savings included in agencies from previous Budgets.

Since the 2010-11 Budget, subsequent Budgets have introduced additional significant savings initiatives including the following:

- The 2012-13 Budget introduced new savings initiatives totalling $430.7 million over the four years of the forward estimates. The two main measures were an increase in the efficiency dividend from 0.25% to 1% of employee expenses and the reduction of a further 1000 FTE staff over the forward estimates.
- The 2012-13 MYBR introduced $227.2 million of savings initiatives through the introduction of an additional efficiency dividend of a 1% p.a. reduction in the net cost of services and a reduction in costs in specifically identified portfolio areas.
- The 2013-14 Budget introduced savings measures of $140 million through the extension of the 1% p.a. efficiency dividend to 2016-17, the bringing forward of 2015-16 savings measures and reducing the maximum TVSP payout.
- The 2014-15 Budget introduced a return to major savings measures (other than in the form of efficiency dividends) amounting to $1.5 billion over the four years of the Budget. This is made up of operating savings of $1.2 billion and investing savings of $290 million.

Savings introduced since the 2010-11 Budget now exceed the significant savings initiatives set in that Budget arising from the work of the Sustainable Budget Commission. Table 2.4 of 2015-16 Budget Paper 3 ‘Budget Statement’ summarises savings delivered and to be achieved since 2009-10.

Previous Reports have emphasised that the Health and Ageing portfolio has not been able to achieve savings targets or has experienced other service demands that have necessitated additional funding. The Health and Ageing savings task was reassessed as part of the 2012-13 MYBR. This included revising the level and timing of budget improvements it expected to be delivered across the forward estimates. The 2013-14 MYBR also made some adjustments to the savings targets. Table 8.8 in Chapter 8 provides a summary of the Health and Ageing savings task, including adjustments made to savings targets.

Previous Reports have commented that an inherent risk of the saving strategy of government is its sheer size and breadth. This continues to be the case given:

- the growth in the savings task of agencies since the 2010-11 Budget. The 2014-15 Budget alone introduced $1.5 billion in additional savings
- in the past Health and Ageing has not met its full quota of savings targets. The achievement of the current level of Health and Ageing savings continues to be a difficult challenge and poses a significant risk to achieving the Budget strategy.

The expenditure outcome for 2013-14, together with the estimated result for 2014-15, indicate that there has been expenditure restraint compared to prior years.

The ongoing management of the savings task requires significant discipline and presents ongoing risks including industrial action, public demand to maintain services, unsatisfactory administrative performance and budget management complexity.

2.6.6 Full-time equivalents reduction management strategy

A key part of the savings strategy in Budgets since 2010-11 has involved reduction in public sector FTEs. For example, the 2010-11 Budget included a reduction of 3743 FTEs, excluding increases from other initiatives, and the 2012-13 Budget introduced a savings initiative to reduce a further 1000 FTE staff.

The 2015-16 Budget notes that FTEs in the general government sector are estimated to decrease by 2971 between 30 June 2015 and 30 June 2019, reflecting the cumulative impact of savings measures, partially offset by new expenditure measures.

To assist agencies to achieve the 2010-11 savings target, the Government introduced an enhanced redeployment process to match excess employees with suitable vacant roles. The Government also approved further targeted voluntary separation program arrangements.

The Budget notes that TVSPs are available (at the discretion of chief executives) to persons whose positions are abolished as part of savings measures and organisational restructures. Since 1 July 2014, the maximum TVSP payout was reduced from 116 weeks pay to 52 weeks pay.

Further, after 30 June 2014, a public sector employee who has been identified by their agency as excess and who has been unsuccessful in finding alternative public sector employment, will be able to be separated with an appropriate financial package, having regard to applicable legislation and industrial provisions.

DTF has advised that between 1 November 2010 and 30 June 2015, 3292.8 FTE reductions were achieved through TVSP payments (excluding executive reductions) as reported to DTF. Table 8.7 and related commentary in Chapter 8 provide further details.

DTF advised that, based on data received from major agencies, overall agencies estimated they would be 938 FTEs below their budgeted FTE levels as at 30 June 2015. The overall position comprised various agencies being over and under their cap. For example the:

- Department for Correctional Services reported that actual FTEs were 58 above cap mainly due to additional FTEs as a result of using surge beds to meet capacity demands
- Department of Planning, Transport and Infrastructure reported actual FTEs of 222 below its cap mainly due to the acceptance of TVSPs as part of the organisational restructure
- Department of the Premier and Cabinet reported actual FTEs of 181 below its cap mainly due to vacancies and long-term leave positions within Shared Services SA (SSSA) and Service SA.

Table 8.6 and related commentary in Chapter 8 provide further details.

2.6.7 Capital payments

For the period 2009-10 to 2012-13 capital expenditure in the general government sector has exceeded $2 billion annually except in 2011-12 ($1.9 billion). The estimated level of capital expenditure for 2014-15 is $959 million. As in past years, carryover adjustments were made for delays where expenditure will now be incurred in later years. As part of the budget carryover process, investing carryovers from 2014-15 to 2015-16 and future years are $178 million.

Significant capital outlays (and the nature of the activity) introduce a heightened risk to the proper management and control of capital projects. Purchases of non-financial assets are projected to be at lower levels than the period up to 2012-13, but remain over $1 billion for all four years of the 2015-16 Budget. The Budget includes a slippage allowance for 2015-16 of $320 million, compared to $160 million in the previous year.

The capital program also comprises large projects with inherent complexities and risks. Over the four years to 2018-19 capital spending includes $1.4 billion on road projects, $353 million on major public transport projects, $489.7 million on the redevelopment of major metropolitan and regional hospitals and $215.6 million on education projects.

Capital payments are discussed further in section 8.2.8 of Chapter 8.

2.6.7.1 New Royal Adelaide Hospital – Public Private Partnership project

In June 2011 the Government announced financial close on a contract with the SA Health Partnership Nominees Pty Ltd consortium to build, operate and maintain the nRAH under a PPP arrangement. The hospital is expected to be open by November 2016.

The nRAH is recognised as an asset and a finance lease liability of $2.8 billion in the 2016-17 forward estimate year. This accounts for the large increase in net debt in 2016-17. The amount represents the net present value of design and construction costs, lifecycle payments, interest and other project costs.

Annual service payments of $395.3 million are also budgeted to commence in 2016-17.

Only part of this annual payment amount will be expensed each year as it includes cash payments that are applied to the reduction in the lease liability, which DTF has advised in a full year will be $111.7 million. The remainder of the payment is reflected as an expense, including finance charges on the lease and operating expenditure.

DTF also advised that an annual expense of $73 million is expected relating to the amortisation of the asset on the balance sheet.

Further, an additional $176.6 million was allocated in the 2014-15 MYBR over three years (from 2014-15 to 2016-17) for the transition of services to the nRAH.

2.6.7.2 Asset sales

Sales of non-financial assets are netted from purchases of non-financial assets when determining total net acquisition of non-financial assets. Total asset sales for the general government sector over the four years to 2018-19 are estimated to be $524 million.

The majority of the sales of non-financial assets are expected in 2015-16 ($339 million).

Since the global financial crisis in 2008-09 sales of non-financial assets were highest in 2012-13 at $1.2 billion as a result of the finalisation of two significant sale processes: proceeds from the forward sale of the State's Green Triangle forest plantations ($635.1 million) and proceeds from the appointment of Tatts Lotteries SA Pty Ltd as exclusive Master Agent to operate the SA Lotteries' brands and products for a term of 40 years ($402.8 million). These amounts are exclusive of stamp duty.

2.6.8 Budget monitoring

The critical importance of strong monitoring of budget progress has been continually emphasised in previous Reports. DTF advised us of specific measures in place for 2014-15. They were consistent with 2013-14 and include monthly monitoring of financial performance and quarterly monitoring of capital projects, savings measures and FTEs.

Further, monitoring reports are provided to the BRCC (formerly the SBCC) based on information supplied by agencies and analysis prepared by DTF.

DTF advised that the existing monitoring regime will continue in 2015-16, with monitoring reports provided to the Senior Management Council and the BRCC. DTF also advises that the monitoring of FTE reductions for savings measures will no longer occur in 2015-16 as the majority of savings are either efficiency dividends or measures of a similar nature which agencies have flexibility to achieve through means other than FTE reductions.

Given the magnitude of the budget improvement measures introduced in the 2010-11 Budget and the importance to the fiscal outlook of the achievement of these measures, DTF introduced an enhanced monitoring process in 2010-11 to monitor agency progress in achieving savings measures and FTE reductions.

Specific processes concluded or introduced since 2010-11 are described in section 8.4.7 of Chapter 8.

2.6.8.1 Department for Health and Ageing

At the time of the 2012-13 Budget, the Department for Health and Ageing was projected to overspend its 2011-12 budget by $122 million. A provision was made in the Budget for this projected overspend. In addition, the 2012-13 Budget included new operating initiatives totalling $167 million in 2012-13 and 2013-14 to re-profile the Department for Health and Ageing’s budget savings task. The aim was to provide Health and Ageing with additional resources for a more even annual build-up of savings to enable it to achieve its aggregate savings target by 2014-15.

The Government reassessed the level and timing of budget improvement it considered Health and Ageing could deliver across the forward estimates. This resulted in a reduction, totalling $523.2 million, to the Health and Ageing’s budget savings target over the forward estimates in the 2012-13 MYBR. The 2014-15 Budget introduced additional savings of $532.7 million for the Health and Ageing portfolio.

Section 8.4.8 of Chapter 8 provides further details on the Health and Ageing savings task, including a summary of the revised savings measures and initiatives. Table 8.8 in Chapter 8 demonstrates that the annual savings task for Health and Ageing is subject to significant annual growth, reaching a cumulative annual savings amount of $806 million in 2018-19. A significant component of the targeted savings is potential savings identified by the Department for Health and Ageing as requiring further analysis and refinement. A number of these savings measures may be subject to separate Cabinet approval.

3 Reporting framework

3.1 Introduction

Three reporting frameworks are used for reporting on the State's finances, namely the:

- Uniform Presentation Framework
- AASs
- Treasurer's Statements issued pursuant to the PFAA.

The following sections provide a brief overview of each of the frameworks.

3.2 Uniform Presentation Framework

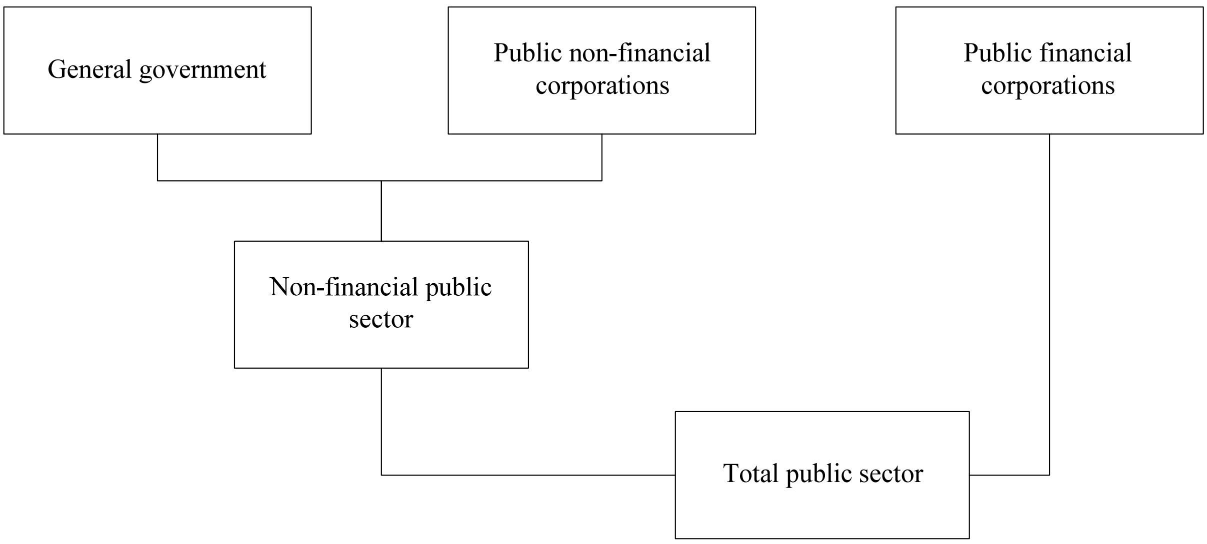
3.2.1 Background

By agreement between the Commonwealth, States and Territories, each jurisdiction presents their Budget Papers and mid-year budget update on a Uniform Presentation Framework basis.

The Uniform Presentation Framework is a reporting standard based on the ABS's accrual based GFS framework. The primary objective of the Uniform Presentation Framework is to ensure that Commonwealth, State and Territory Governments provide a common core of financial information in Budget Papers to enable direct comparisons amongst jurisdictions.

In South Australia, the Budget is prepared using the GFS framework. The GFS framework excludes revaluations from the GFS net operating balance, as they are not transactions for the purposes of the GFS framework.

Three sectors (which are then consolidated into two additional sectors) of government activity are used in the GFS framework, recognising that State Government responsibilities cover a wide range of activities. They are:



A description of the three primary sectors is as follows:

General government **–** all budget dependent departments and agencies providing services free of charge or at prices below their cost of production or service cost. These are the services that tend to be primarily financed through taxes and other charges, and for this reason this sector tends to be the focus of fiscal targets.

PNFCs **–** trading enterprises mainly engaged in the production of goods and services for sale in the marketplace at prices that aim to recover most or all of the costs involved. In South Australia the sector includes the South Australian Housing Trust and SA Water. The consolidation of the general government and PNFC sectors represents the NFPS.

PFCs – bodies primarily engaged in the provision of financial services. This includes financial institutions such as SAFA, HomeStart Finance and the Superannuation Funds Management Corporation of South Australia.

The Budget Papers include the following GFS financial statements:

- general government sector operating statement and balance sheet
- PNFC sector operating statement and balance sheet
- NFPS operating statement and balance sheet
- cash flow statements for these sectors.

The PFC sector data is not published in the Budget Papers.

3.2.1.1 Key Government Financial Statistics headline amounts

When analysing GFS financial statements, the key GFS headline amounts are as follows:

- ***GFS net operating balance*** – also referred to as operating result, is the excess of revenue over expenses from transactions. The net operating balance excludes expenditure on the acquisition of capital assets, but includes non-cash costs such as accruing superannuation entitlements and the consumption of capital (depreciation).

- ***GFS net lending/borrowing*** – represents the net operating balance less the net acquisition of non-financial assets. It indicates the extent to which accruing operating expenses and net capital investment expenditure is funded by revenues.

- ***Net worth*** **–** is calculated as total assets (both financial and non-financial) less total liabilities, shares and other contributed capital. Net worth incorporates a government's non-financial assets, such as land and other fixed assets, which may be sold and used to repay debt, as well as certain financial assets and liabilities not captured by the net debt measure, most notably accrued employee superannuation liabilities, debtors and creditors.

- ***Net financial liabilities*** **–** comprise total liabilities less financial assets (net financial worth), but exclude equity investments (net worth) in the other sectors of the jurisdiction. Net financial liabilities include substantial non-debt liabilities such as accrued superannuation and long service leave entitlements.

- ***Net debt* –** is the sum of deposits held, advances received and borrowing, less the sum of cash and deposits, advances paid, investments, loans and placements.

3.2.2 Scope of audit review of Government Financial Statistics financial statements

This Report primarily covers commentary on GFS based information. Although we seek to have a sound understanding of the Budget preparation process, the data and assumptions are not subject to audit. Work performed on the 2015-16 Budget year's GFS data has included some analytical procedures to ensure that the amounts presented are reasonably supported and that where trends in data materially differ they can be adequately explained.

Accordingly, no opinion is provided on the accuracy of either the historical or prospective figures presented.

3.3 Australian Accounting Standards

The AASs framework is the basis for agency (budget and actual) and whole-of-government (actuals only) reporting.

3.3.1 Agency financial reports

The statutory financial reports that are prepared by individual agencies and subject to audit are compiled using AASs.

3.3.2 AASB 1049 'Whole of Government and General Government Sector Financial Reporting'

A summary of information prepared on this basis is provided in Chapter 12.

The whole-of-government/general government CFR has been prepared pursuant to accounting standard AASB 1049. AASB 1049 sets out the requirements for whole-of-government and general government sector financial reporting. The standard requires compliance with other applicable AASs (except as specified in the standard) and disclosure of additional information such as reconciliations to key fiscal aggregates determined in accordance with the ABS 'Australian System of Government Financial Statistics: Concepts, Sources and Methods'.

3.3.3 Budgetary reporting in general purpose financial statements

Over numerous years the AASB worked towards an objective of harmonising generally accepted accounting principles and the GFS. This project, developed in phases, aimed to develop requirements for a single set of financial reports that are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements. That is, the AASB saw merit in requiring not-for-profit entities within the general government sector to report original budgeted information and explanations of major variations from budget. Consequently, the AASB issued AASB 1055 'Budgetary Reporting' in 2013. This standard was first applicable in 2014-15 and requires not-for-profit entities within the general government sector, whose budgeted financial statements are presented to Parliament, to disclose:

- original budgeted amounts, presented and classified on a basis that is consistent with the financial statements prepared in accordance with AASs

- explanations of major variances between the original budget and actual amounts (which may include reference to revised budgets presented to Parliament).

In 2014-15 these disclosure requirements have applied to both the controlled and administered items of an entity where such budget information is presented to Parliament.

These AASB 1055 requirements also apply to the general government sector and the whole-of-government financial statements, replacing budgetary reporting requirements previously held in AASB 1049.

3.4 Treasurer's Statements – *Public Finance and Audit Act 1987*

The Treasurer's Statements are prepared pursuant to the requirements of section 22 of the PFAA, and are reported in the Appendix – Volume 1 to the Auditor-General's Annual Report for the year ended 30 June 2015 (the 2014-15 Annual Report).

A summary of information prepared on this basis is provided in Chapter 11.

4 Summary of key fiscal measures and targets

4.1 South Australian fiscal targets

The 2015-16 Budget Papers[4] indicate that the Government is committed to the following fiscal targets:

Target 1: *A net operating surplus by the end of the forward estimates.*

Target 2: *Once surplus is achieved, operating expenditure growth will be limited to trend growth in household income. This target is designed to limit the growth in operating expenditure in order to maintain a pattern of sustainable growth, irrespective of the growth in revenues during the expansionary phase of the economic cycle.*

Target 3: *Achieve a level of general government debt that remains affordable over the forward estimates – a maximum ratio of net debt to revenue of 35%. This target is designed to facilitate, in conjunction with the preceding targets, the maintenance of reasonable debt levels that allows for investment in key infrastructure without the burden being placed on future generations.*

Underpinning the general government debt target, the Government continues its commitments that:

- consistent with the Government's obligations under the Competition Principles Agreement, operations of public corporations that cannot be paid for from their own revenue streams will be funded from the budget
- the defined benefit unfunded superannuation liability will be fully funded by 2034.

4.1.1 General government net operating deficits/surpluses

A net operating deficit is still expected in 2014-15, before the budget returns to a $43 million surplus in 2015-16. Surpluses are then expected to continue across the forward estimates, reaching $961 million in 2018-19.[5]

4.1.2 General government net debt to revenue

Over the forward estimates the ratio of net debt to revenue is expected to peak at 36.2% in 2016-17 as a result of the increase in net debt associated with the nRAH. Although this is marginally above the fiscal target of 35%, operating surpluses reduce debt in 2017-18 and 2018-19. By 30 June 2019 the ratio of net debt to revenue is expected to fall to 29.9%.

The estimated increase in net debt in 2016-17 incorporates the recognition of the financial obligations for the nRAH on the State's balance sheet, which increases net debt by $2.8 billion. Net operating surpluses from 2015-16 onwards are expected to result in net debt reductions for 2017-18 and 2018-19. General government sector net debt is expected to be 4.1% of GSP as at 30 June 2016, rising to 6.1% by 30 June 2017 before falling back to 4.9% as at 30 June 2019.

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[4] 2015-16 Budget Paper 3 'Budget Statement', page 5.
[5] 2015-16 Budget Paper 3 'Budget Statement', page 6.

4.2 Fiscal measures in other jurisdictions

In considering the State's fiscal strategy, it is useful to note the current practice across Australian jurisdictions. This is set out below.

Jurisdiction		Budget fiscal objective/strategy[(a)(b)]
Commonwealth	—	Achieve budget surpluses, on average, over the course of the economic cycle.
	—	Maintain strong fiscal discipline to reduce the Government's share of the economy over time in order to free up resources for private investment.
	—	Strengthen the Government's balance sheet by improving the net financial worth over time.
NSW	—	To deliver further surpluses as projected over the forward estimates – the 2015-16 Budget forecasts a $2.5 billion surplus.
	—	To continue to affirm the State's triple-A credit rating.
Vic	—	Ensure general government net debt as a percentage of GSP is maintained at a sustainable level over the medium term.
	—	Fully fund the unfunded superannuation liability by 2035.
	—	A net operating surplus consistent with maintaining general government net debt at a sustainable level over the medium term.
Qld	—	Reducing general government sector debt by $5.4 billion over six years, with a target of paying down $12 billion of general government debt over 10 years, while retaining assets in public hands.
	—	Bolstering frontline service delivery, particularly in the key areas of health and education.
WA	—	Ensure that general government sector expense growth does not exceed revenue growth.
	—	Maintain a cash surplus from operating activities for the general government sector of at least 50% of infrastructure spend per year.
	—	Maintain the total NFPS net debt to revenue ratio at or below 55%.
ACT	—	Achieve net operating surplus over the medium term.
	—	Maintain a AAA credit rating.
	—	Make targeted investments to achieve economic growth.
	—	Maintain taxation revenues at sustainable levels.
Tas	—	To ensure annual growth in general government operating expenses will be lower than the long-term average growth in revenue.
	—	Government businesses will be required to deliver services to Tasmanians at the lowest sustainable cost, while also providing an appropriate financial return to the Government.
NT	—	Commitment to strengthen the Territory's finances and return the budget to a sustainable position by eliminating the fiscal deficit by 2017-18.
	—	By 2020 the NFPS net debt as a percentage of revenue is 60%.

(a) Unless otherwise stated, all fiscal measures relate to the ABS defined general government sector.
(b) Other targets may also be used in relation to such areas as debt, taxes, expenses, net worth, superannuation, infrastructure and risk.

4.3 Some audit observations on the fiscal measures

Like South Australia, other jurisdictions have framed budgets that broadly aim to achieve budget surplus, reduce government debt and fund unfunded superannuation liabilities in the long term. Many jurisdictions have targeted strategies to maintain or improve competitive and sustainable taxation regimes that are linked to the promotion of economic growth.

5 Estimated results for 2014-15

5.1 Overview

The following section summarises the estimated operating results for 2014-15.

5.2 2014-15 estimated results

5.2.1 General government sector

The estimated result for the year is a net operating deficit of $279 million (budget $479 million deficit) and a net lending deficit (borrowing) of $212 million (budget $380 million deficit). The following table shows 2013-14 financial year data and differences between the estimated result and budget for 2014-15.

Table 5.1 – General government budget comparisons 2013-14 to 2014-15

	2013-14 Actual $'million	2014-15 Budget $'million	2014-15 Estimated result $'million	Difference to budget $'million	Difference to budget %
Revenue:					
Taxation revenue	4 085	4 524	4 394	(130)	(3)
Grants:					
Current	7 635	8 000	8 098	98	1
Capital	169	269	205	(64)	(24)
Sale of goods and services	2 265	2 282	2 309	27	1
Interest income	40	32	30	(2)	(6)
Dividend and income tax equivalent income	398	256	780	524	205
Other	752	704	652	(52)	(7)
Total revenue	15 343	16 067	16 468	401	3
Less: **Expenses:**					
Employee expenses	7 353	7 268	7 425	157	2
Superannuation expenses:					
Superannuation interest cost	468	443	438	(5)	1
Other superannuation expenses	736	796	806	10	1
Depreciation and amortisation	812	927	870	(57)	(6)
Interest expenses	300	232	259	27	12
Other operating expenses	4 169	4 254	4 251	(3)	0
Grants	2 577	2 626	2 699	73	3
Total expenses	16 415	16 547	16 748	201	1
Net operating balance	(1 071)	(479)	(279)	200	42
Less: **Net acquisition of non-financial assets:**					
Purchases of non-financial assets	1 590	1 217	959	(258)	(21)
Less: Sales of non-financial assets	117	389	156	(233)	(60)
Less: Depreciation	812	927	870	(57)	(6)
Plus: Change in inventory	1	-	-	-	-
Plus: Other movements in non-financial assets	-	-	-	-	-
Total net acquisition of non-financial assets	661	(99)	(67)	32	32
Net lending (borrowing)	(1 733)	(380)	(212)	168	44

Note: Totals may not add due to rounding.

The 2014-15 Budget anticipated a net operating deficit of $479 million for 2014-15, a significant improvement on the actual net operating deficit of $1071 million experienced in 2013-14.

The estimated result for 2014-15 shows a $200 million improvement against budget, leading to a net operating deficit of $279 million. This improvement against budget is mainly attributable to the unbudgeted MAC dividend receipt of $459.2 million. The impact on the general government revenue position of the MAC dividend is outlined in 2015-16 Budget Paper 3 'Budget Statement', page 85.

As evident in table 5.1, despite declines in capital grant and taxation revenue, total 2014-15 estimated revenue has exceeded budget as a result of the significant MAC dividend receipt.

5.2.1.1 Net acquisition of non-financial assets

The 2014-15 estimated result for purchases of non-financial assets of $959 million is $258 million below the 2014-15 Budget.

Table 5.2 shows that, consistent with the high value of capital spending, significant adjustments were made during the course of 2014-15. The estimated result decrease is predominantly driven by 'carryovers into 2015-16 and forward years' totalling $178 million and project re-profiles totalling $137 million.

The 2014-15 estimated result also allows for mid-year budget adjustments and slippage provisions beyond the financial year.

Table 5.2 – Comparison of purchases of non-financial assets budget to 2014-15 estimated result

	$'million	$'million
2014-15 Budget		1 217
Policy decisions		87
Parameter variations:		
Carryovers from 2013-14	122	
Adjustment to capital slippage provision (Net adjustment from MYBR and Budget)	(60)	
Carryovers into 2015-16 and forward years	(178)	
Significant project re-profiles	(137)	
Use of provisions set aside in the 2014-15 Budget and the 2014-15 MYBR	(1)	
Other (includes reclassifications to operating and contingency adjustments)	(89)	
2014-15 estimated result		959

Note: Totals may not add due to rounding.

5.2.2 Non-financial public sector

The NFPS (consolidating the general government and PNFC sectors) estimated result for the year was a net lending deficit (borrowing) of $428 million, which represents a $231 million improvement against budget.

The following table summarises the position.

Table 5.3 – NFPS Budget comparisons 2013-14 to 2014-15

	2013-14 Actual $'million	2014-15 Budget $'million	2014-15 Estimated result $'million	Difference to budget $'million	Difference to budget %
Revenue	16 399	17 316	17 593	277	2
Less: Expenses	17 657	18 002	18 044	42	0
Net operating balance	(1 229)	(686)	(451)	235	34
Less: Net acquisition of non-financial assets	715	(27)	(23)	4	15
Net lending (borrowing)	(1 944)	(659)	(428)	231	35

Note: Totals may not add due to rounding.

The decrease in the net lending deficit (borrowing) of $231 million is largely driven by an improvement in the general government sector's result (refer table 5.1 in this Chapter).

6 Budget 2015-16 overview

6.1 Overview

The following commentary focuses on trends arising from the 2015-16 Budget. It provides an overview of the:

- 2015-16 Budget having regard to the estimated result for 2014-15
- long-term view of forecasted results across the forward estimates to 2018-19.

6.1.1 Matters of significance to the 2015-16 Budget

The 2015-16 Budget contains several initiatives aimed at supporting the transition of the State economy and growing employment.[6] In particular, significant tax reform has been flagged in order to promote investment and stimulate the economy.

Specific items of tax reform include:

- abolishing stamp duty on transfers of non-quoted marketable securities and non-real property, and expanding the eligibility criteria for corporate reconstruction relief from 18 June 2015

- abolishing stamp duty on non-residential real property transfers by phasing it out from 1 July 2016 to 30 June 2018

- abolishing the Save the River Murray levy and the Hindmarsh Island Bridge levy and ensuring that principal places of residences that are transferred into Special Disability Trusts for no consideration are exempt from stamp duty and land tax from 1 July 2015

- extending the small business payroll tax rebate for an additional year. It is estimated that up to 2200 employers will each receive payroll tax relief of up to $9800 in 2015-16.

The Budget states that these tax reform measures are expected to reduce taxation revenue by almost $670 million over the four years to 2018-19, with ongoing reductions of over $268 million p.a. from 2018-19. New operating and investing initiatives in the 2015-16 Budget total $686.5 million over the next four years, partially offset by $74.6 million in savings and offsets over the same time period.[7]

The Budget also identifies that:

- 2014-15 net operating deficits for the general government sector and NFPS are estimated at $279 million and $451 million respectively, with the general government sector expected to return to a net surplus in 2015-16

- general government net debt is estimated to increase by 41% over the period 30 June 2015 to 30 June 2019. NFPS net debt is estimated to increase by 20% over the same period although this is largely attributable to general government sector movements.[8]

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[6] 2015-16 Budget Paper 3 'Budget Statement', page 3.
[7] 2015-16 Budget Paper 3 'Budget Statement', page 17.
[8] 2015-16 Budget Paper 3 'Budget Statement', page 61.

6.2 General government sector – Operating statement

Table 6.1 sets out the differences between the 2015-16 Budget and the estimated result for 2014-15.

Table 6.1 – GFS – General government sector budget comparison of the 2014-15 estimated result to the 2015-16 Budget

Revenue:	2014-15 Estimated result $'million	2015-16 Budget $'million	Difference $'million	Difference %
Taxation revenue	4 394	4 543	149	3
Grants:				
Current grants	8 098	8 708	610	8
Capital grants	205	454	249	121
Sale of goods and services	2 309	2 329	20	1
Interest income	30	29	(1)	(3)
Dividend and income tax equivalent income	780	314	(466)	(60)
Other	652	720	68	10
Total revenue	16 468	17 097	629	4
Less: **Expenses:**				
Employee expenses	7 425	7 512	87	1
Superannuation expenses:				
Superannuation interest cost	438	378	(60)	(14)
Other superannuation expenses	806	812	6	1
Depreciation and amortisation	870	916	46	5
Interest expenses	259	198	(61)	(24)
Other operating expenses	4 251	4 583	332	8
Grants	2 699	2 656	(43)	(2)
Total expenses	16 748	17 055	307	2
Net operating balance	(279)	43	322	(115)
Less: **Net acquisition of non-financial assets:**				
Purchase of non-financial assets	959	1 327	368	38
Less: Sales of non-financial assets	156	339	183	117
Less: Depreciation	870	916	46	5
Total net acquisition of non-financial assets	(67)	72	139	(207)
Net lending (borrowing)	(212)	(29)	183	(86)

Note: Totals may not add due to rounding.

The major differences for the 2015-16 year are:

- a $149 million increase in State taxation revenue due in part to an expected $70 million increase in payroll tax receipts
- a $610 million increase in current grants revenue mainly attributable to estimated increases in GST revenue grants from the Commonwealth of $531 million
- a $466 million decrease in estimated dividends and income tax equivalent income mainly attributable to the MAC dividend that occurred in 2014-15
- a $332 million increase in other operating expenses mainly attributable to rises in contingency provisions

- a $368 million increase in the purchase of non-financial assets which is primarily due to large capital programs commencing in 2015-16, partially offset by other major projects concluding in 2014-15. For example, the commencement of the South Road Upgrade from Torrens Road to the River Torrens and the North-South Corridor Darlington.

Further detail of the factors influencing the 2015-16 Budget is considered in the context of the longer term trends discussed later in this Report.

6.2.1 Reconciliation of variations since 2014-15 Budget

Each year a reconciliation is included in the Budget Papers of the current budget estimates with the corresponding estimates for the previous year. This explains differences between budgets arising from what the Government categorises as parameter and policy changes.

Parameter changes are variations that do not flow from policy choice changes. Revenue includes taxation changes from economic activity and Commonwealth revenue. Expenses include carryovers between years from timing differences, reclassifications and corrections.

Policy changes are the decisions made by the Government to increase or decrease taxation and spending. The following table summarises all parameter and policy changes made since the 2014-15 Budget that affect the net operating balance and provisions used to offset some of those changes.[9]

Table 6.2 – Reconciliation of general government sector net operating balance

	2014-15 Estimated result $'million	2015-16 Budget $'million	2016-17 Estimate $'million	2017-18 Estimate $'million
2014-15 Budget	(479)	406	776	883
Parameter and other variations:				
Revenue – taxation	(100)	(140)	(156)	(129)
Revenue – other	34	34	212	279
Operating expenses	(47)	109	146	26
Net effect of parameter and other variations	(113)	3	202	176
Policy measures:				
Revenue – taxation	(29)	(113)	(151)	(226)
Revenue – other	435	(7)	(6)	(8)
Revenue – offsets	61	65	37	22
Operating expenses	(164)	(325)	(222)	(139)
Use of provisions	10	13	17	20
Net effect of policy measures	313	(367)	(325)	(331)
2014-15 Budget estimated net operating balance	(279)	43	654	727

Note: Totals may not add due to rounding. Brackets mean an unfavourable change.

6.2.1.1 Revenue variations

Table 6.2 identifies that taxation revenue parameter variation downgrades remain steady over the forward estimates. South Australia's GST revenue grants are expected to increase over the

9 2015-16 Budget Paper 3 'Budget Statement', table 1.5.

forward estimates with the Commonwealth Grants Commission recommending a higher share of the GST pool for South Australia in 2015-16 – refer to Chapter 7 for further details. The following table shows the components of revenue parameter changes.[10]

Table 6.3 – Revenue parameter changes since the 2014-15 Budget

	2014-15 Estimated result $'million	2015-16 Budget $'million	2016-17 Estimate $'million	2017-18 Estimate $'million
All State Taxation	(100)	(140)	(156)	(129)
Commonwealth specific purpose and National Partnership grants:				
Special purpose	15	22	(18)	(42)
National Partnership	(55)	(170)	55	7
GST revenue grants	30	202	263	397
Sales of goods and services	35	(17)	(54)	(49)
Other contributions and grants	(11)	(11)	(11)	(10)
Dividends and income tax equivalents	65	15	(20)	(28)
Interest income	(2)	(5)	(7)	(8)
Royalties	(68)	(43)	(16)	(10)
Other	25	40	20	21
Total	(66)	(106)	56	150

Note: Totals may not add due to rounding.

Table 6.3 shows the downward revisions, since the 2014-15 Budget, in State taxes, interest income, royalties, other contributions and grants, sales of goods and services and National Partnership grants. The downward revision in State taxes reflects softer than anticipated labour and property market conditions as well as lower than expected spending on gambling activities. The downward revision in other interest income is reflective of lower than projected interest rates on cash and cash equivalent holdings.

Commonwealth Government National Partnership grants have been revised down for 2015-16 with upward revisions in future years. These revisions mainly reflect changes to the profile of grant funding for the South Road upgrade at Darlington, Goodwood and Torrens Rail junction upgrades, and the realignment of Commonwealth Government grant funding associated with the South Road upgrade between Torrens Road and the River Torrens.

6.2.1.2 Operating expense variations

Table 6.2 shows that parameter effects are estimated to reduce operating expenses by $234 million over the four years to 2017-18. Policy spending decisions since the 2014-15 Budget are anticipated to add a further $850 million to operating expenses over the same period, $164 million of which is estimated for 2014-15.[11] The following table shows the value of policy measures taken in each of the past five years after presentation of the Budget for the year.

Table 6.4 – Policy spending decisions

	2010-11 $'million	2011-12 $'million	2012-13 $'million	2013-14 $'million	2014-15 $'million
Policy measure operating expenses	125	199	352	226	164

10 2015-16 Budget Paper 3 'Budget Statement', table 1.7 and 2014-15 MYBR, table 1.7.
11 2015-16 Budget Paper 3 'Budget Statement', table 1.5.

Table 6.4 shows that $1066 million was added to spending for the past five years – an average of $213 million p.a. This increase reflects the established practice of discretionary expenditure decisions being made after Budgets are announced. As shown in table 6.2, the policy expense adjustments of $164 million since the 2014-15 Budget have contributed to an estimated 2014-15 net operating deficit of $279 million.

6.3 Public non-financial corporation sector – Operating statement

A net operating deficit of $218 million is budgeted in 2015-16, which is a deterioration of $47 million from the 2014-15 estimated result. The net lending deficit is also budgeted to increase by $35 million to $250 million in 2015-16, which is mainly attributable to the net operating deficit. The differences between the two years are set out in the following table.

Table 6.5 – GFS – PNFC budget comparison of the 2014-15 estimated result to the 2015-16 Budget

Revenue:	2014-15 Estimated result $'million	2015-16 Budget $'million	Difference $'million	Difference %
Sale of goods and services	1 752	1 756	4	0.2
Other	645	538	(107)	(17)
Total revenue	2 396	2 294	(103)	(4)
Less: **Expenses:**				
Employee expenses	197	202	5	3
Superannuation expenses	24	26	2	8
Depreciation and amortisation	438	455	17	4
Interest expenses	273	291	18	7
Other property expenses	283	249	(34)	(12)
Other operating expenses	1 209	1 258	49	4
Other expenses	143	31	(112)	(78)
Total expenses	2 568	2 512	(55)	(2)
Net operating balance	(171)	(218)	(47)	28
Less: **Net acquisition of non-financial assets:**				
Purchase of non-financial assets	633	641	8	1
Less: Sales of non-financial assets	209	161	(48)	(23)
Depreciation	438	455	17	4
Add: Change in inventories	58	6	(52)	(90)
Total net acquisition of non-financial assets	44	31	(13)	(30)
Net lending (borrowing)	(215)	(250)	(35)	16

Note: Totals may not add due to rounding.

6.4 Non-financial public sector – Operating statement

The 2015-16 budgeted result for the NFPS is a net operating deficit of $176 million, an improvement of $275 million from the 2014-15 estimated result.[12]

6.5 A longer term perspective of financial performance

The following sections provide additional details from a historical perspective.

[12] 2015-16 Budget Paper 3 'Budget Statement', page 124.

6.5.1 General government sector operating statement time series

Table 6.6 provides a 10 year time series for those individual elements that contribute to the budget result.

Table 6.6 – GFS – General government sector operating statement – time series

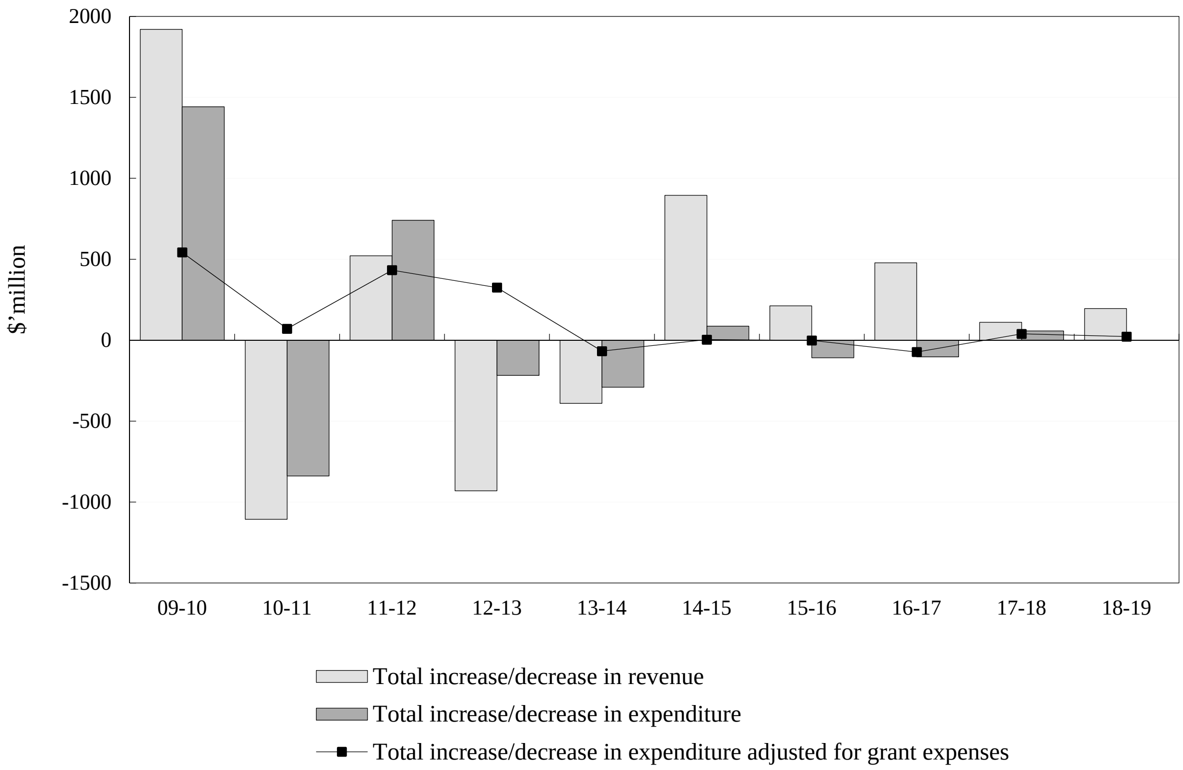
	2009-10 Actual $’million	2010-11 Actual $’million	2011-12 Actual $’million	2012-13 Actual $’million	2013-14 Actual $’million	2014-15 Est. result $’million	2015-16 Budget $’million	2016-17 Estimate $’million	2017-18 Estimate $’million	2018-19 Estimate $’million
Revenue:										
Taxation revenue	3 649	3 831	3 854	4 104	4 085	4 394	4 543	4 713	4 880	5 038
Grants:										
Current	7 039	7 109	7 465	7 354	7 635	8 098	8 708	9 384	9 797	10 349
Capital	1 841	1 076	1 204	315	169	205	454	551	429	289
Sales of goods and services	1 936	1 879	2 015	2 115	2 265	2 309	2 329	2 379	2 456	2 538
Interest income	138	168	172	134	40	30	29	30	31	33
Dividend and income tax equivalent income	433	403	385	446	398	780	314	241	244	257
Other	497	550	811	865	752	652	720	728	757	771
Total revenue	15 534	15 017	15 905	15 333	15 343	16 468	17 097	18 026	18 596	19 276
Less: **Expenses:**										
Employee expenses	6 221	6 400	6 770	7 105	7 353	7 425	7 512	7 609	7 804	7 945
Superannuation expenses:										
Superannuation interest cost	455	427	407	314	468	438	378	369	359	348
Other superannuation expenses	600	621	666	675	736	806	812	823	840	850
Depreciation and amortisation	633	670	718	762	812	870	916	1 030	1 046	1 052
Interest expenses	204	308	427	386	300	259	198	415	415	403
Other operating expenses	3 695	3 824	3 993	4 313	4 169	4 251	4 583	4 436	4 627	4 895
Grants	3 540	2 819	3 183	2 726	2 577	2 699	2 656	2 691	2 778	2 822
Total expenses	15 347	15 069	16 164	16 282	16 415	16 748	17 055	17 373	17 869	18 315
Net operating balance	187	(53)	(258)	(948)	(1 071)	(279)	43	654	727	961
Less: **Net acquisition of non-financial assets:**										
Purchases of non-financial assets	2 144	2 122	1 876	2 008	1 590	959	1 327	4 336	1 441	1 456
Less: Sales of non-financial assets	29	82	322	1 197	117	156	339	97	67	21
Less: Depreciation	633	670	718	762	812	870	916	1 030	1 046	1 052
Add: Change in inventories	3	-	3	7	1	-	-	-	-	-
Add: Other movements in non-financial assets	(206)	-	-	-	-	-	-	-	-	-
Total net acquisition of non-financial assets	1 279	1 370	839	55	661	(67)	72	3 209	328	383
Net lending (borrowing)	(1 092)	(1 422)	(1 098)	(1 003)	(1 733)	(212)	(29)	(2 556)	399	578

Note: Totals may not add due to rounding.

6.5.2 Net operating balance influences

The following chart shows the general government sector increase or decrease, in real terms, of total revenue and total expenses to the previous year for the 10 years to 2018-19.

Chart 6.1 – Increase/Decrease of total revenue and total expenses to previous year[(a)(b)]



(a) Estimated June 2015 values.
(b) 2009-10 and 2010-11 are influenced by Commonwealth stimulus grants.

Chart 6.1 demonstrates the responses to the global financial crisis, with 2009-10 showing the highest growth in revenues over the period due to additional Commonwealth stimulus grants.

Revenue for 2010-11 was affected by the very large Commonwealth stimulus grants wind-down, which was matched by a corresponding decrease in related grant expenses. The decrease in revenues for 2012-13 reflected the timing of Commonwealth National Partnership payments. The 2014-15 spike reflects the impact of the MAC dividend receipt.

Respective marginal increases in real revenue and decreases in expenditure are estimated for 2015-16. Real revenue increases forecast for the period 2015-16 to 2018-19 are due mainly to rises in GST revenue grants.

6.6 Integrity of budgetary estimates and data quality

Integral to any budget is the quality of data, which by its nature is based on estimates, assumptions and targets. Processes supporting the data preparation are a vital element in the integrity of the Budget.

We sought clarification from DTF regarding the integrity and reasonableness of the 2015-16 Budget estimates. DTF confirmed that integrity processes performed for the 2015-16 Budget mirrored those applied in 2014-15. Data for all lines is maintained in DTF's Budget and Monitoring System and is only amended via specific approvals through the following processes:

- Cabinet decisions
- carryovers
- impacting and non-impacting data adjustments
- MYBR adjustments
- 2015-16 Budget measures.

Agencies submit data to DTF via the Budget and Monitoring System to update their budget estimates. This data is subject to a range of integrity checks to ensure accounting principles have been correctly applied and that budgets are consistent with the prevailing decisions of government. Quality assurance reports have been developed to aid in the detection of common problems associated with the data provided.

The forward estimate figures are calculated by consolidating approved budgets for individual government agencies. These incorporate government policy decisions and parameter variations relating to the operations of agencies. In estimating revenue items, DTF applies a range of assumptions. These assumptions are outlined in 2015-16 Budget Paper 3 'Budget Statement'.

7 Revenue

Trend data in this Chapter's charts is in real terms at estimated June 2015 values unless otherwise stated.

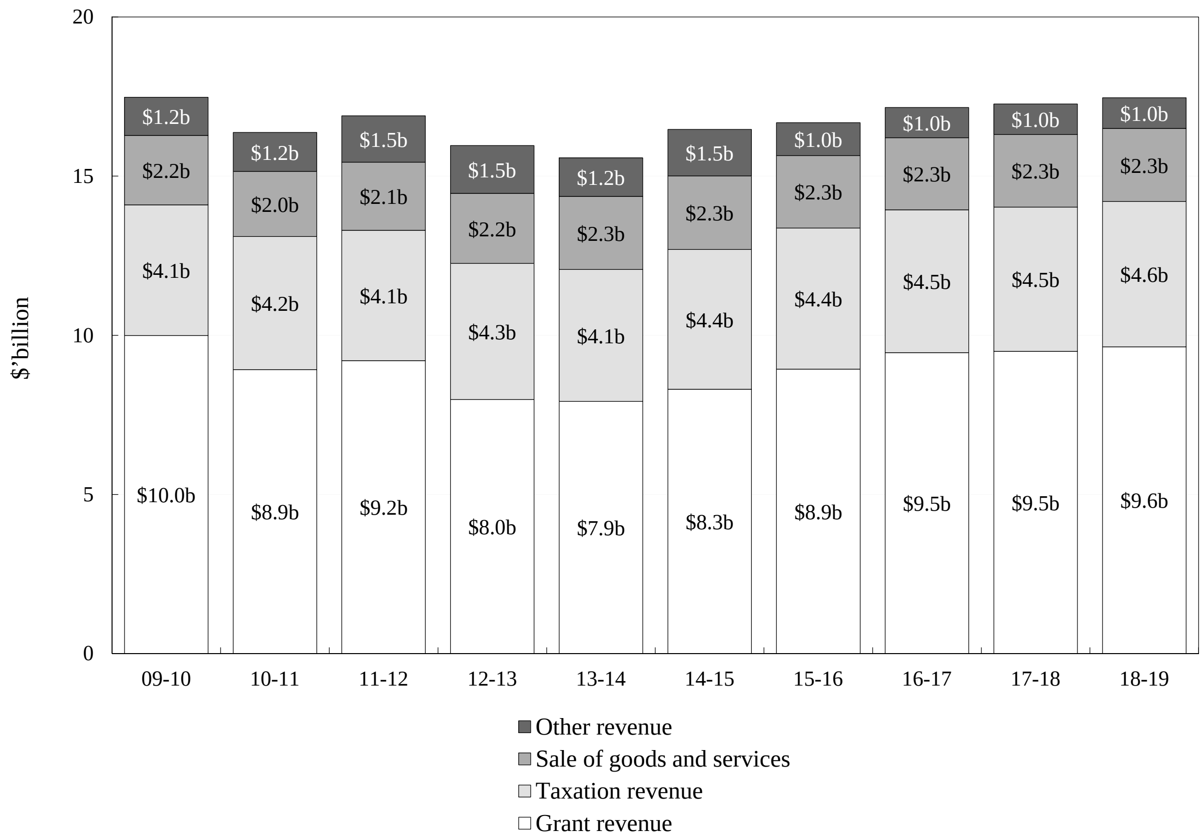
7.1 Revenue overview

Total general government sector revenues are estimated to be $16.5 billion in 2014-15, an increase of $1.125 billion from the previous year's result, and a real increase of $894 million or 5.7%. In real terms total revenue is expected to increase by 6% over the forward estimates to 2018-19.

Commonwealth current grant revenue is expected to increase by 16.1% to 2018-19 in real terms. This projection is supported by Commonwealth Government estimates that the total GST pool will grow, in nominal terms, by approximately 5.6% in 2015-16, 6.8% in 2016-17, 5.8% in 2017-18 and 5.7% in 2018-19. Over the same period, South Australia's GST revenue grants are anticipated to grow by 10.7%, 10.1%, 6.3% and 2.9% respectively.[13]

State taxation revenue is expected to increase by only 3.9% over the forward estimates to 2018-19 in real terms. This moderate increase is impacted by taxation reduction initiatives introduced in the 2015-16 Budget resulting in $668.2 million in tax cuts over the forward estimate period. Since the 2014-15 Budget taxation revenue estimates have also been revised down by $525 million over the period 2014-15 to 2017-18. This revision primarily reflects softer than expected labour and property market conditions. The components of total revenue and trends in real terms are illustrated in the following chart.

Chart 7.1 – General government sector total revenue (real)



[13] 2015-16 Budget Paper 3, 'Budget Statement', page 46.

Chart 7.1 highlights the importance of Commonwealth grants to the State's revenues. Historically Commonwealth grants have represented approximately 50% of total revenue. During the period 2009-10 to 2011-12 Commonwealth grants increased as a proportion of total State revenue, peaking at 57.1% in 2009-10. This increase was mainly due to temporary stimulus funding following the global financial crisis.

This percentage declined to 50.4% by 2014-15, however it is expected to return to 53.6% in 2015-16 with further percentage increases over the forward estimates. Whilst relatively small changes in percentage terms are noted year-on-year, this represents some hundreds of millions of dollars when total revenues are in the order of $16.5 billion and support significant spending activity in targeted areas.

The following commentary provides some additional analysis of the main revenue areas. Detailed commentary is provided in Chapter 3 of 2015-16 Budget Paper 3 'Budget Statement'.

7.2 Commonwealth grants

The Intergovernmental Agreement on Federal Financial Relations provides the framework for the Commonwealth's financial relations with the States and Territories. While Commonwealth funding is the foundation of State finances, it is not controllable by the State.

The following table outlines estimated Commonwealth grants for the five years to 2018-19 and demonstrates a 28.6% increase (nominal) over that period.

Table 7.1 – Commonwealth grants 2014-15 to 2018-19 (nominal)

	2014-15 Estimated result $'million	2015-16 Budget $'million	2016-17 Budget $'million	2017-18 Budget $'million	2018-19 Budget $'million
Current grant revenue					
GST revenue grants	4 986.3	5 517.5	6 077.0	6 460.2	6 648.4
National Partnership grants	393.9	310.8	293.6	210.9	450.8
National Partnership grants for on-passing	161.9	154.0	153.2	158.9	162.8
Specific purpose grants	1 643.9	1 768.6	1 850.8	1 914.4	1 994.4
Specific purpose grants for on-passing	770.1	815.1	866.3	908.9	948.8
Total current grant revenue	7 956.2	8 566.0	9 240.9	9 653.3	10 205.3
Capital grant revenue					
National Partnership	100.0	348.4	448.6	325.9	184.6
Special purpose	93.3	93.9	94.7	95.5	96.3
Special purpose (on-passing)	-	-	-	-	-
Other Commonwealth grants	5.0	4.3	3.1	3.1	3.1
Total capital grant revenue	198.3	446.6	546.4	424.5	284.0
Total Commonwealth grants	8 154.5	9 012.6	9 787.3	10 077.8	10 489.3

Increased 2015-16 budgetary funding outcomes for South Australia have principally arisen from increases in South Australia's GST revenue. The rise in South Australia's GST revenue accounts for 77% of the total nominal increase in Commonwealth current grant revenue over the forward estimate period. Sections 7.21, 7.2.2 and 7.2.3 of this Report provide further detail regarding Commonwealth Government revenue funding profiles over the forward estimates.

7.2.1 GST revenue grants

2014-15 GST revenue grants to South Australia are estimated to be $30 million higher than the 2014-15 budget estimate, largely due to an upward revision to the national GST pool estimate. The Commonwealth Grants Commission has revised up its estimate of the 2014-15 GST pool by approximately $290 million since its 2014-15 Budget. The revised 2014-15 GST pool reflects a 5.7% increase on the actual 2013-14 GST pool as published in the Commonwealth Government's Final Budget Outcome 2013-14.

The Intergovernmental Agreement on Federal Financial Relations includes a specific provision that GST revenue grants will be distributed in accordance with the principles of HFE. The principle of HFE is to ensure that each State has the capacity to provide public services at a similar standard and level of efficiency as the other States for a comparable revenue raising effort.

It is the responsibility of the Commonwealth Grants Commission, an independent Commonwealth statutory authority, to recommend an appropriate distribution of GST revenue to achieve this outcome.

In February 2015, the Commonwealth Grants Commission completed its 'Report on GST Revenue Sharing Relativities – 2015 Review'. The review recommended that South Australia receive 9.7% of the GST pool in 2015-16 compared to 9.2% in 2014-15.

7.2.2 Specific purpose payments

SPPs are provided under section 96 of *The Constitution* for both recurrent and capital expenditure purposes. States are required to spend the funding received under each national SPP in the relevant sector but have the flexibility to allocate funds within that sector to meet agreed objectives. In 2015-16 South Australia is expected to receive $1.8 billion of funding in national SPPs for recurrent purposes (excludes specific purpose grants for on-passing).

In its original form the Intergovernmental Agreement on Federal Financial Relations provided for five national SPPs covering health, schools, disability, housing and skills and workforce development.

Two former SPPs have now been superseded. The National Health Reform funding replaced the National Healthcare SPP from 1 July 2012, while the National Schools SPP was replaced by the Students First program from 1 January 2014. The Students First program arrangements will continue up to the 2017 school year. From the 2018 school year total recurrent funding for schools will be indexed by CPI with an allowance for changes in enrolments.

From 1 July 2017, funding will no longer be provided under the National Health Reform Agreement. Instead, the Commonwealth Government will provide funding for public hospitals and index its contribution by CPI, adjusted for population growth.

7.2.3 National Partnership Commonwealth grants

National Partnerships are time limited agreements under the Federal-State funding arrangements to fund specific projects and to facilitate and/or reward States that deliver on nationally significant reforms.

In 2015-16, South Australia will receive an estimated $310.8 million of funding in National Partnerships for recurrent purposes. This is a decrease of 21.1% compared to the $393.9 million estimated for 2014-15. This decrease reflects funding decisions of the Commonwealth

Government. The 2014-15 Budget identifies the State programs most impacted by these decisions.[14]

National Partnership funding for capital purposes is anticipated to increase by $248.4 million in 2015-16, with a further $100.2 million predicted increase for 2016-17 before declining in subsequent years. The decline largely reflects the timing of Commonwealth Government funding for the Goodwood and Torrens rail junction upgrades and the profile funding for the South Road projects.

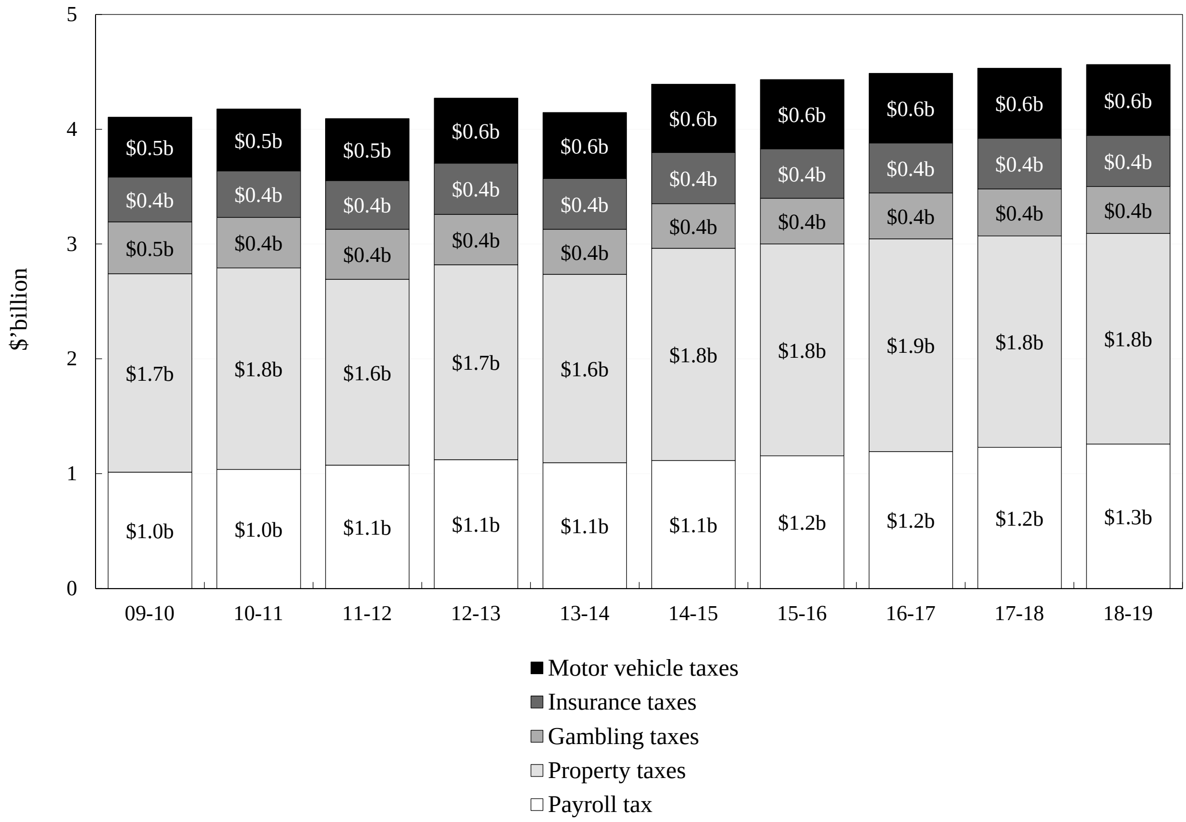
National SPP funding for capital purposes will be $93.9 million in 2015-16 which is materially consistent with 2014-15 funding levels as well as forward estimate projections.

7.3 Taxation revenue

Taxation revenue is the second largest source of revenue to the State and represents approximately 26.7% of revenues in 2014-15. It comprises a diverse range of taxation activities, including payroll, property, motor vehicles and gambling.

The following chart examines the trend in the components of taxation receipts over the 10 year period to 2018-19.

Chart 7.2 – Taxation revenue (real)



Total taxes, in real terms, increase 6% in 2014-15 before slightly rising in 2015-16 and the last three years of the forward estimates. Chart 7.2 demonstrates that throughout this time series, variations in taxation revenue, whilst minor, are mainly attributable to property taxes and payroll tax.

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[14] 2015-16 Budget Paper 3 'Budget Statement', page 52.

Taxation revenue for 2015-16 is estimated to be $4543 million (nominal), a nominal increase of $149 million over the estimated result for 2014-15. It is expected to be $5038 million (nominal) in 2018-19. The real increase over this period is expected to be $170 million compared to 2014-15.

7.3.1 Property taxes

Property taxes include stamp duties on the conveyance of property, land tax, the Emergency Services levy on fixed property, regional natural resources management levies, guarantee fees and other minor taxes.

Property taxes for 2015-16 are estimated to be $1891 million (nominal), a real decrease of $4 million from the estimated result for 2014-15. They are expected to be $2025 million (nominal) in 2018-19, a real decrease of $14 million compared to 2014-15. Chart 7.3 shows the trend in property taxes (in real terms).

Chart 7.3 – Taxes on property (real)

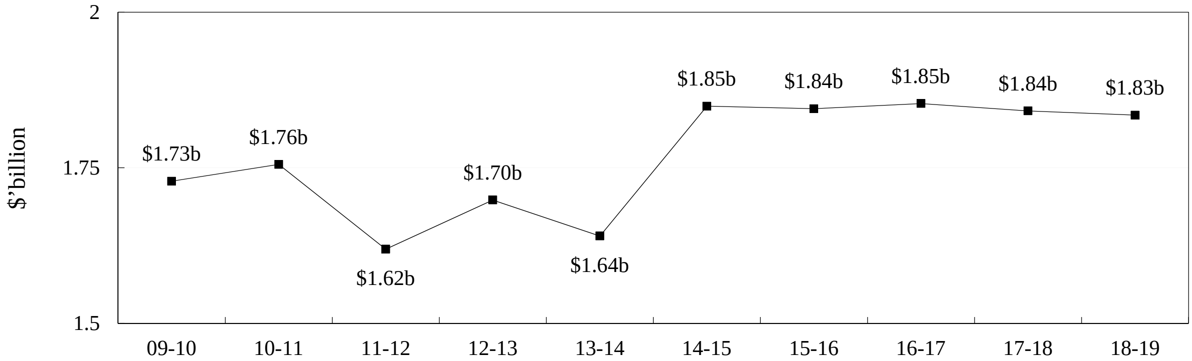
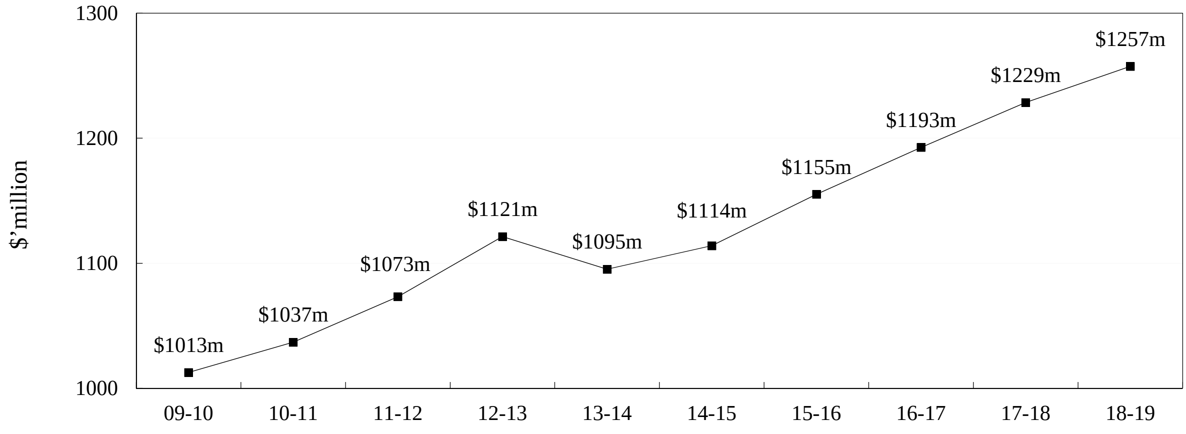


Chart 7.3 highlights the flattening in property taxes over the forward estimates. This mainly reflects the introduction of the Government's package of tax reform measures, including the abolition of conveyance duty on non-real property and non-residential property transfers, share duty and the Save the River Murray levy.

7.3.2 Payroll tax

Chart 7.4 shows payroll tax revenue is anticipated to increase in real terms over the forward estimates.

Chart 7.4 – Employer payroll tax (real)



Payroll tax for 2015-16 is estimated to be $1184 million (nominal), a real increase of $41 million from the estimated result for 2014-15. The payroll tax threshold remained at $600 000 on 1 July 2014, with the payroll tax rate also remaining unchanged at 4.95%. Rises in payroll tax revenue in 2016-17 are impacted by the temporary small business payroll tax concession which ceases in 2015-16.[15]

Payroll tax is expected to be $1388 million (nominal) in 2018-19, a real increase of $143 million compared to 2014-15.

7.3.3 Gambling taxes

Gambling taxes include taxes on gaming machines in hotels and clubs, a tax on the net gambling revenue of the Lotteries Commission of South Australia (SA Lotteries), casino duty and taxes on net wagering revenue of the SA TAB Pty Ltd.

Gambling taxes for 2015-16 are estimated to be $408 million (nominal), an increase of $11 million from 2014-15 (in real teams).

Chart 7.5 – Gambling taxes (real)

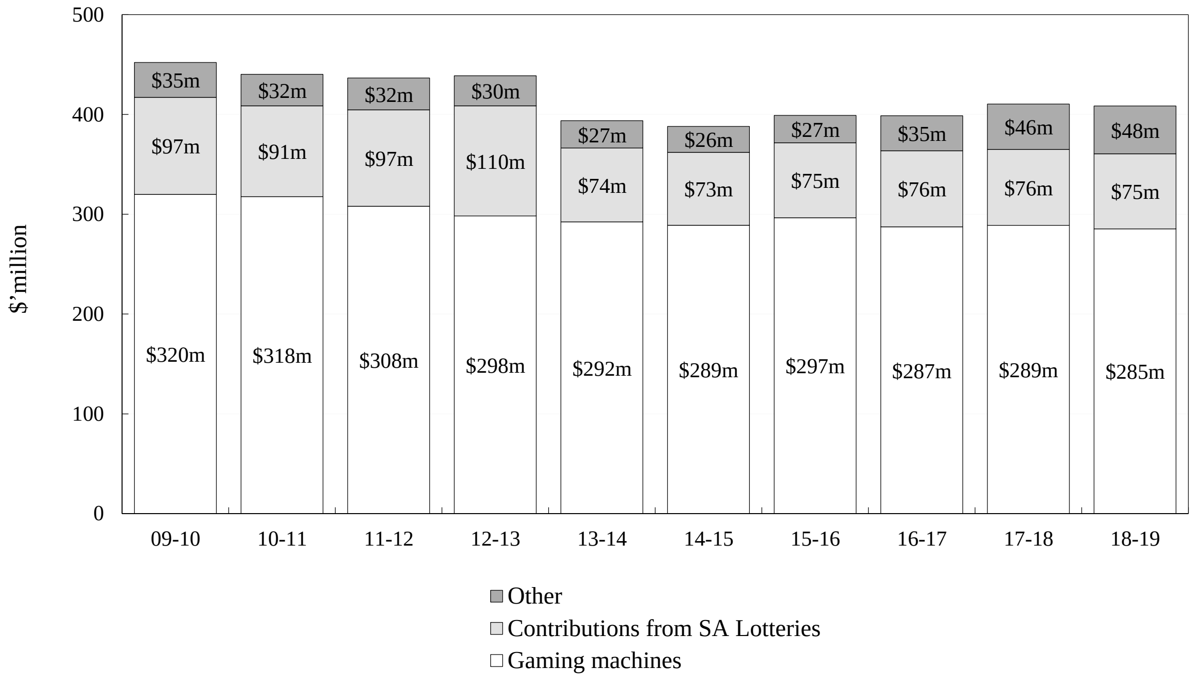


Chart 7.5 demonstrates the downward trend in total gambling revenue over the six years to 2014-15.[16] In 2014-15, total gambling tax revenue is expected to be $16 million lower than the original 2014-15 budget estimate. In particular, 2014-15 Adelaide Casino and hotel gaming machine revenue has been revised down since the prior year budget due mainly to lower than expected growth in net gambling revenue.[17] Further, under the terms of the SA TAB Pty Ltd duty agreement, the SA TAB Pty Ltd will no longer be required to pay a special annual fixed contribution to the Government (associated with the SA TAB Pty Ltd sale process) after 2015-16.

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[15] 2015-16 Budget Paper 3 'Budget Statement', page 38.

[16] In 2012-13 the Government received a 'special dividend' payment from SA Lotteries being the balance of all equity reserves and surplus cash as part of the implementation of the Tatts Lotteries SA Pty Ltd Master Agent arrangements.

[17] 2015-16 Budget Paper 3 'Budget Statement', page 42.

7.4 Sales of goods and services

Revenue from sales of goods and services represented 14% of estimated total revenues in 2014-15 (nominal). Sales of goods and services by the general government sector includes government fees and charges. Most fees and charges increased by 2.4% from 1 July 2015 reflecting the annual indexation of fees.

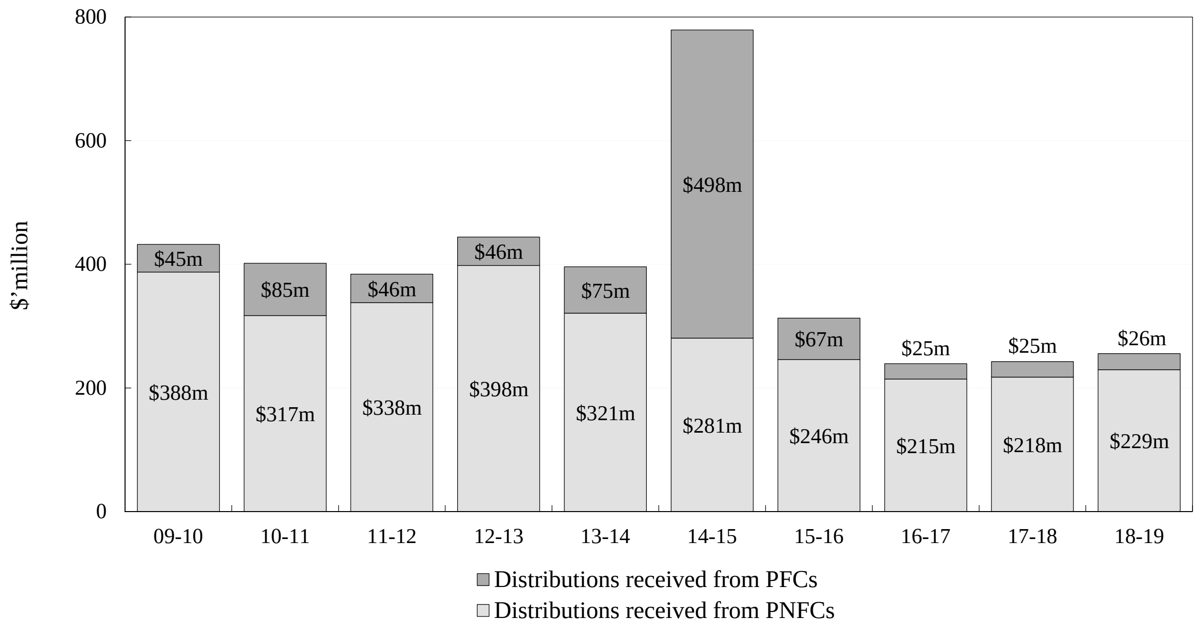
Revenue from the sales of goods and services is expected to be $2538 million (nominal) in 2018-19, a real decline of $10 million compared to 2014-15.

7.5 Dividend and income tax equivalent income

Dividend and income tax equivalent income are the distributions received from PNFCs and PFCs. They include returns of accumulated capital. As the distributions come from two other GFS sectors, on a consolidated financial reporting basis these distributions are considered internal transfers and have no effect on the whole-of-government consolidated operating result. On the GFS sector basis, transfers are recorded as revenue in the general government sector.

Chart 7.6 shows the trend in distributions received from PNFCs and PFCs for the 10 years to 2018-19.

Chart 7.6 – Distributions received by the general government sector (nominal)



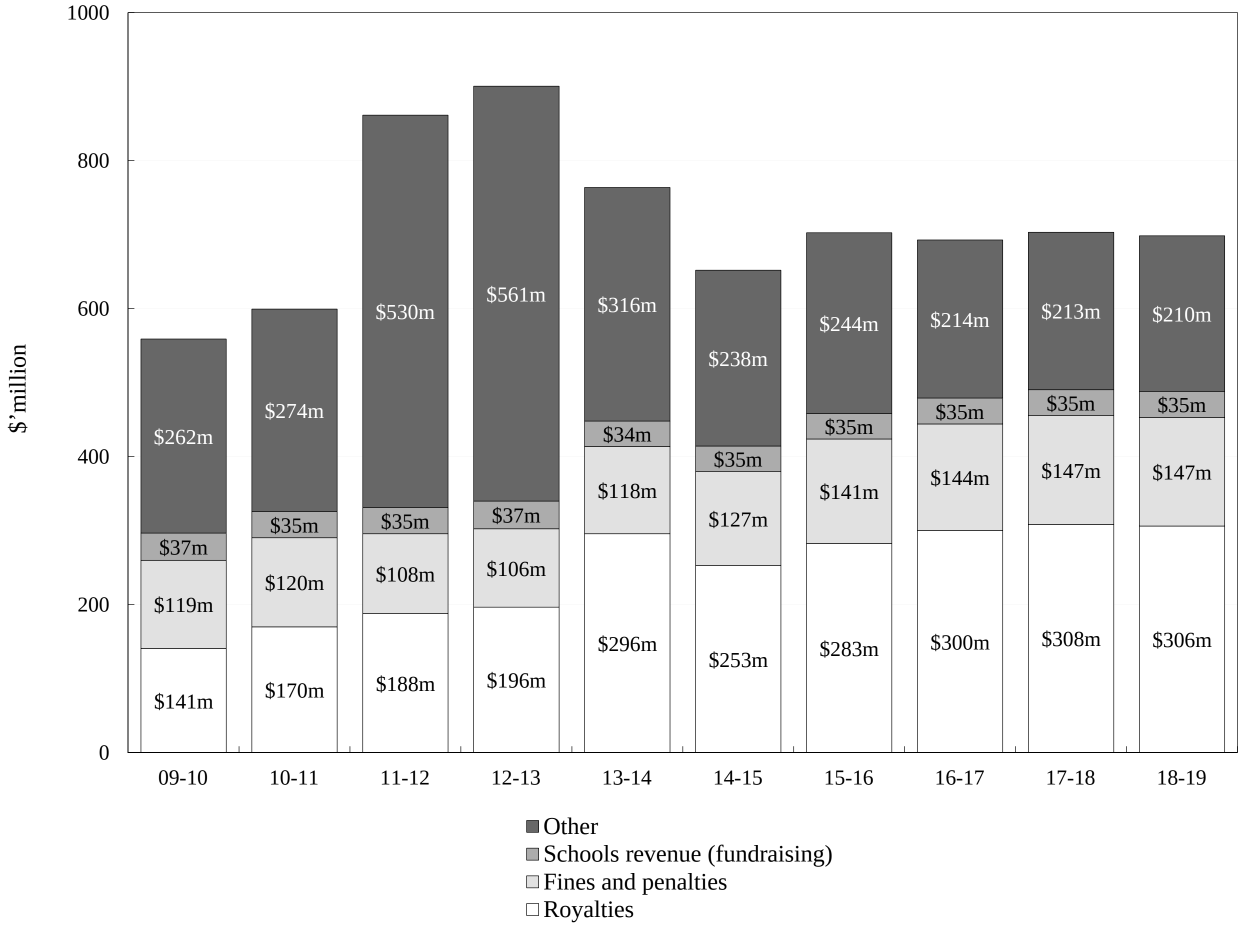
In 2014-15 total distribution income is estimated at $780 million and predominantly comprises the dividend payment from MAC to the Highways Fund (controlled by the Department of Planning, Transport and Infrastructure) of $459.2 million.

Distributions from SA Water are expected to exceed budgeted expectations as a consequence of delays in changing its debt to asset gearing ratio, which resulted in lower borrowing and operating cost savings. Chart 7.6 also demonstrates that distributions are expected to flatten from 2016-17. The 2015-16 $67 million PFC distribution includes a $30 million dividend payment by SAFA representing the return of excess capital from its Fleet SA business segment.

7.6 Other revenue

Other revenue mainly comprises royalties, fines, penalties and school fundraising revenues. The 2014-15 estimated result of $652 million is $52 million lower than the 2014-15 budget estimate mainly due to downward revision to royalty revenue.[18] Other revenue is expected to increase in real terms by $46 million or 7% over the forward estimates.[19]

Chart 7.7 – Other revenue (real)



7.7 Risks to revenue

The Budget provides detailed explanations of various risks to the amount and the flexibility of the revenue budget. Included in the risk analysis are the following:

- ***Taxation*** – a variance of 1% in taxation revenue, not including GST revenues, equates to about $45 million p.a. The Budget highlights that price and activity trends in the property market have a greater impact on the short-term volatility of State taxation revenues than other areas of the economy. This is because of the significant share of taxation revenues derived from property based taxes and the volatility of transaction based taxes.

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[18] 2015-16 Budget Paper 3 'Budget Statement', page 55.

[19] The 2011-12 spike is attributable to the once-off recognition of contributed assets associated with the Adelaide Oval redevelopment. The 2012-13 spike is attributable to the once-off relief of $320 million in the State's public housing debt by the Commonwealth.

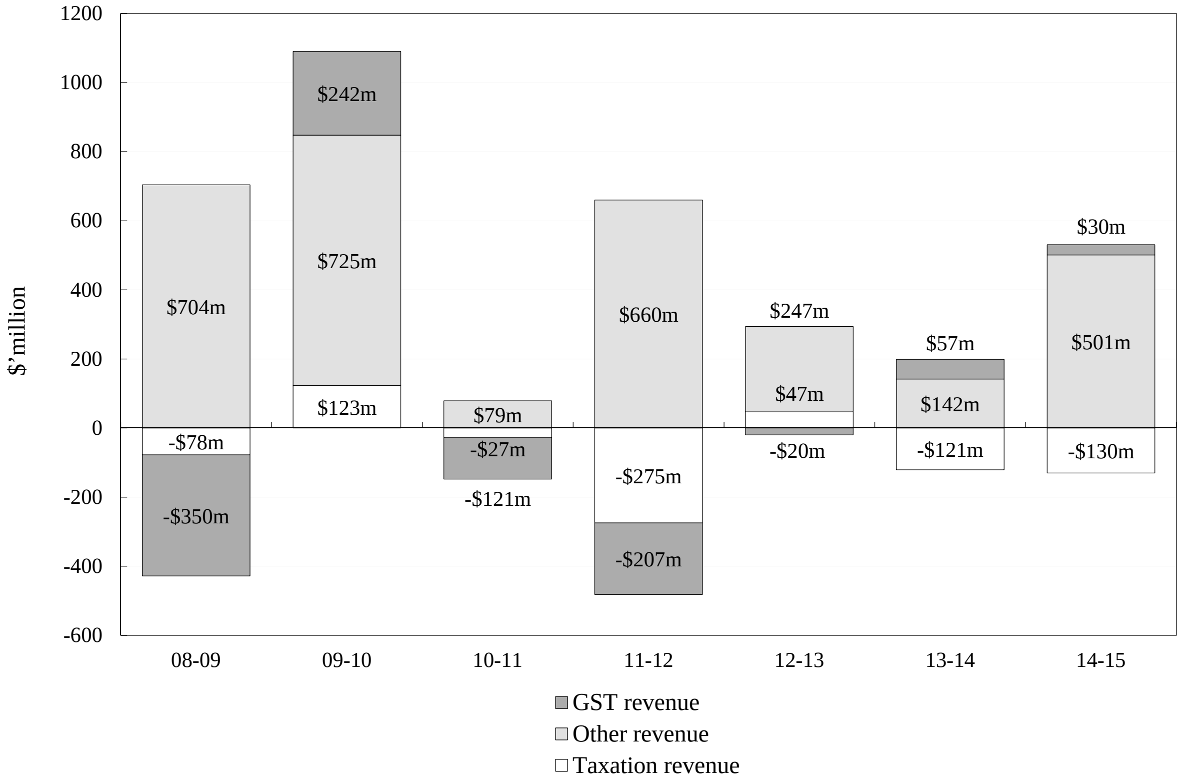
- ***GST revenue grants*** – a 1% change in GST pool growth has a revenue impact for South Australia of about $55 million p.a. Commonwealth general purpose payments are the vehicle for HFE. The methodology and data underlying the HFE process is determined by the CGC. Methodology changes may impact on the State, either positively or adversely. A 0.01 change in South Australia's relativity will result in a variation in GST revenue grants of about $40 million.
- ***Commonwealth specific purpose and National Partnership grants*** – specific purpose and National Partnership Commonwealth grants account for approximately 20% of State Government revenues. Variations in their level or the conditions applying to these payments pose a risk to the budget.

Refer to 2015-16 Budget Paper 3 'Budget Statement', Chapter 6 for the full details of these risks.

7.7.1 Past revenue outcomes

To provide a recent historical context, the following chart shows the difference between budgeted and actual revenues for the past seven years.

Chart 7.8 – Difference between budget and actual revenues (nominal)[(a)(b)]



(a) 2009-10 is influenced by Commonwealth stimulus grants.
(b) 2014-15 is the difference between budget and estimated results.

The chart highlights the large favourable variations from the budget that were experienced in 2009-10, prior to the unfavourable variations in GST and taxation revenue noted in 2010-11 and 2011-12 which were mainly attributable to the global financial crisis. Other revenue has remained favourable over the seven-year time series. Results for 2014-15 show favourable variations in other and GST revenue being partially offset by decreases in taxation revenue.

8 Expenses

8.1 Expenses overview

In the absence of better than budgeted revenue outcomes, the key to achieving the budget operating result targets is to control expenses. Consistent with recent Budgets, the 2015-16 Budget expects significant spending restraint.

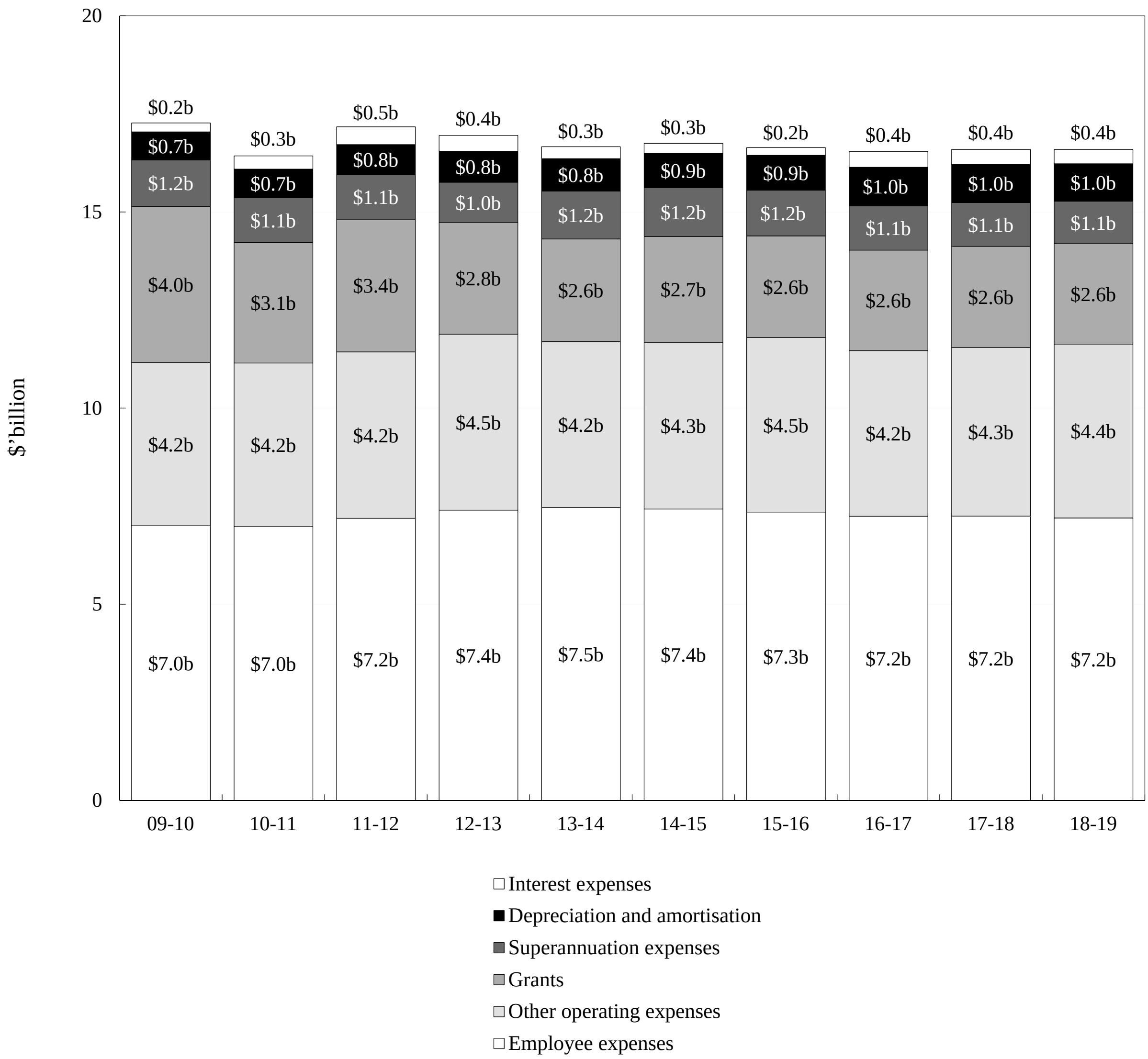
2014-15 estimated expenses total $16.7 billion and exceed budget by $201 million or 1.2%.

Total expenses for 2015-16 are budgeted to be $17.1 billion, $307 million or a marginal 1.8% increase on the 2014-15 estimated result. Total expenses are expected to grow by 9.4% to $18.3 billion in 2018-19.

Table 6.6 of Chapter 6 of this Report provides a 10 year time series for expenditure elements through to 2018-19.

The following chart highlights the trends in expenses (in real terms) that have emerged since 2009-10.

Chart 8.1 – General government sector – expenses (real)



The chart shows the impact that movements in grant expenses have on total expenses over the period 2009-10 to 2011-12. Total expenses rise to $17.3 billion in 2009-10 and $17.2 billion in 2011-12 in real terms, before dropping in the subsequent years. These movements were predominantly impacted by the timing of grant expenditure.

For 2014-15 total expenses are expected to increase to $16.7 billion (real), due mainly to increases in grants and depreciation and amortisation expenses, partially offset by decreases in employee expenses and interest expenses.

The chart also demonstrates the level of expenditure restraint forecast over the forward estimates.

The following discussion focuses on some of the major components that make up expenses. Detailed comments on expenditure are provided in 2015-16 Budget Paper 3 'Budget Statement', Chapter 2.

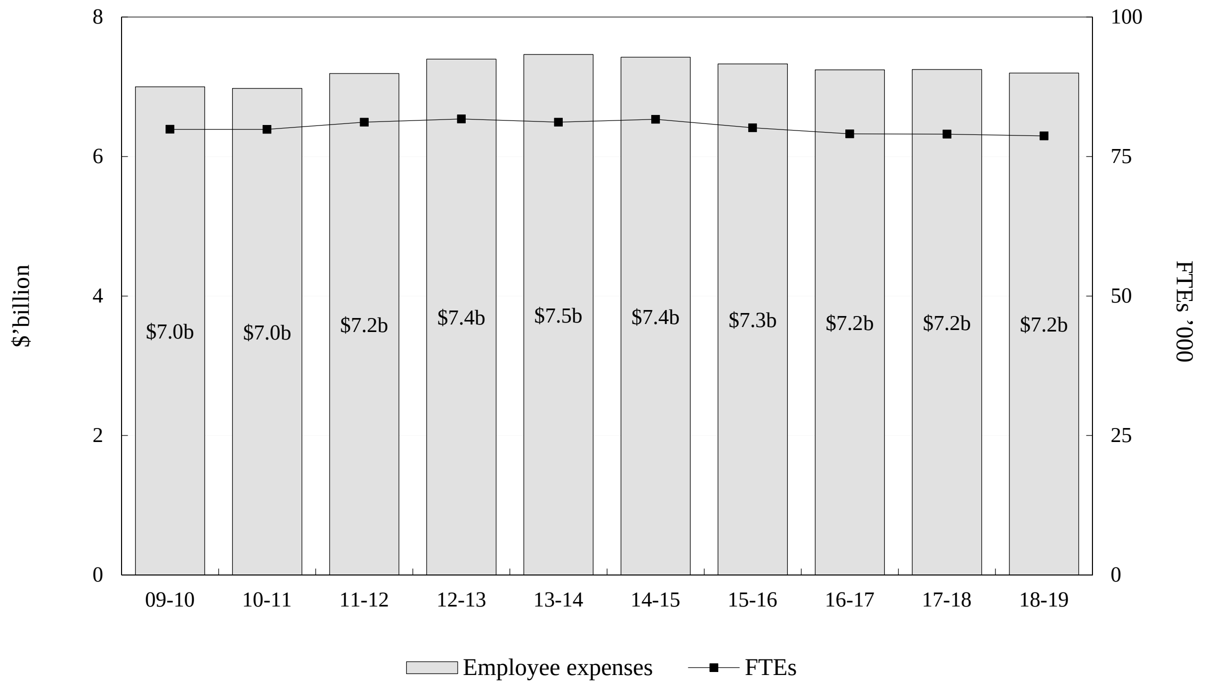
8.2 Expenses by type

8.2.1 Employee expenses

Employee expenses (an estimated $7425 million in 2014-15) represent the highest proportion (44%) of total expenses. They are estimated to increase by less than 1.2% in 2015-16 in nominal terms and then on average by 1.9% p.a. to 2018-19. In real terms the 2015-16 Budget anticipates employee expenses to decrease 3.1% by 2018-19.

The following chart shows employee expenses in real terms and available FTE data from DTF estimates.

Chart 8.2 – General government sector – employee expenses (real) and FTEs[(a)]



(a) DTF estimates

The chart highlights the actual growth in real terms of employee expenses through to 2013-14. This growth is generally consistent with FTE numbers. Employee expenses are expected to decline each year between 2014-15 and 2016-17, remaining relatively constant between 2017-18 and 2018-19.

Real terms growth in employee expenses is generally a combination of any award increases above CPI and the increase in FTEs.

In the five years to 2014-15 employee expenses grew, in real terms, by an average of 1.2% p.a. The 2014-15 Budget shows employee expenses decreasing in real terms by 1.3% for the 2015-16 year. This is partly because, for presentation purposes, the employee expenses line in the forward estimates does not include full estimates for enterprise agreements to be renegotiated or finalised in 2015-16. A proportion of the salaries and wages contingency allowance is included in other operating expenses.

The 2015-16 Budget provides for anticipated public sector wage increases over the forward estimates period, both in individual agency budgets, and in the total of the contingency items in the 'Administered Items for Department of Treasury and Finance' to cover future enterprise agreement outcomes.

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

At the time of the 2015-16 Budget presentation the main enterprise agreements under negotiation included the weekly paid group, building, metal and plumbing trades, police, and teachers and preschool education staff in schools. The main enterprise agreements expected to commence in 2015-16 include ambulance officers and salaried medical officers.

One example of recent annual outcomes (excluding non-wage items) within agreements is:

- *SA Public Sector Wages Parity Enterprise Agreement: Salaried 2014:* Annual salary increase of 2.5% from 1 October 2014, with an annual 2.5% increase from 1 October 2015 and 1 October 2016.

The Government has indicated that future wage outcomes will be crucial in determining whether it can achieve the expenditure forward estimates in the 2015-16 Budget, and also the level of government services that can be delivered in light of existing economic conditions.

8.2.2 Other operating expenses

Other operating expenses include general purchases of goods and services and are estimated to represent 25% of total expenses for 2014-15.

Other operating expenses are estimated to be $4.6 billion for 2015-16, an increase of $332 million or 7.8% in nominal terms from 2014-15, and projected to increase by 4.3% (real) over the forward estimates.

The Budget Papers state that under the forward estimates indexation policy, agencies are required to absorb any cost increases within their existing budget allocations unless the specific price increase has a material effect on the agency budget. The materiality test applied is that a price change experienced has altered agency costs by more than 0.5 percentage points above or below the standard indexation provided for in agency budgets.

8.2.3 Contingency provisions

Contingency amounts are incorporated into the Budget to provide flexibility if additional expenditure is required to be made by the Government. The following table shows the composition of contingency provisions for 2014-15 and 2015-16.

Table 8.1 – Contingency provisions

	2014-15 Budget $'million	2014-15 Estimated result $'million	2015-16 Budget $'million
Employee entitlements	66	82	86
Investing contingencies	23	11	125
Supplies and services	139	60	307
	228	153	519

Note: Totals may not add due to rounding.

While allocating sums to each of the categories for presentation purposes, contingency funds may also be transferred from other lines where available. The 2015-16 Budget includes contingency amounts totalling $519 million, $366 million more than the estimated outcome for 2014-15.

8.2.4 Grants

Grants expense from the general government sector represents payments to other sectors of government and the private sector. These payments include:

- grants to non-government schools, local government and industry
- payments to the South Australian Housing Trust
- community service obligation payments to SA Water and the South Australian Forestry Corporation.

Over the period 2009-10 to 2012-13 grants expense was influenced by the flowthrough of Commonwealth grant revenue. Table 6.6 of Chapter 6 of this Report shows the changes in grants expense over the forward estimates. Grants are estimated to be $2699 million for 2014-15, $73 million over budget predictions.

Grants are budgeted to decrease by $43 million to $2656 million in 2015-16 largely due to the $65 million increase in grants provided to the South Australian Housing Trust in 2014-15 to stimulate the refurbishment and construction of public housing stock. This investment includes $20 million of additional funds and $45 million funding brought forward from 2015-16 and 2016-17.

Grants are budgeted to increase by a further $166 million to $2822 million in 2018-19, due mainly to the anticipated growth in grant payments provided to non-government schools under the National Education Reform Agreement, Communities and Social Inclusion largely for growth in disability services, offset by a reduction in grant payments due to the profile of expenditure associated with the South Australian River Murray Sustainability program.

8.2.5 Superannuation expenses

8.2.5.1 Superannuation interest cost

The superannuation interest expense represents the increase during the year in the defined benefit superannuation obligations due to these being one year closer to settlement, less the expected earnings on superannuation assets. The superannuation interest expense is calculated based on the unfunded superannuation liability at the end of the preceding financial year.

The superannuation interest expense for 2014-15 is estimated at $438 million, $5 million lower than the estimate in the 2014-15 Budget and consistent with estimates in the 2014-15 MYBR. The decrease in the superannuation interest expense reflects the decline in the long-term Commonwealth bond rate, which is a key determinant of the expense.

The superannuation interest expense is expected to decrease over the period of the forward estimates, reflecting existing assumptions for the calculation of the defined benefit superannuation obligations and investment returns.

8.2.5.2 Other superannuation expenses

Other superannuation expenses are employer superannuation contributions incurred by government agencies during the reporting period and include superannuation contributions on salaries and wages. It also includes superannuation on-costs on accrued leave. Estimated other superannuation expenses were $806 million in 2014-15 and are projected to increase to $850 million in 2018-19, a real decrease of 4.5%.

8.2.6 Depreciation and amortisation

Estimated depreciation and amortisation expenses were $870 million in 2014-15 and are projected to increase by 20.9% to $1052 million in 2018-19. The increase reflects the growth in the value of fixed assets through purchases and revaluations. Building projects that the Government expects to complete over the period from 2014-15 to 2017-18 include the Adelaide Festival Centre precinct, site works at the nRAH, Glenside Campus redevelopment and Lyell McEwin Hospital Stage C redevelopment.

The completion of road network projects, including the South Road Superway, the Northern Expressway and duplication of the Southern Expressway, also contribute to the increase in depreciation over the forward estimates.

Amortisation of the finance lease for the nRAH will commence in 2016-17. Amortisation expense is budgeted to be $73 million in 2016-17.

8.2.7 Interest expense

Interest expenses comprise interest paid by the Treasurer on net government borrowings and interest expenses of agencies related to finance leases.

Estimated interest expense in 2014-15 was $259 million, $27 million higher than forecast in the 2014-15 Budget. This increase mainly reflects the delay in the transfer of $2.7 billion of debt from the general government sector to SA Water that was budgeted to occur in July 2014 but did not occur until October 2014.

Interest payments on the financial lease for the nRAH will commence in 2016-17 ($211.4 million). The commencement of the nRAH finance lease agreement is the main driver of a projected increase in interest expense from 2016-17.

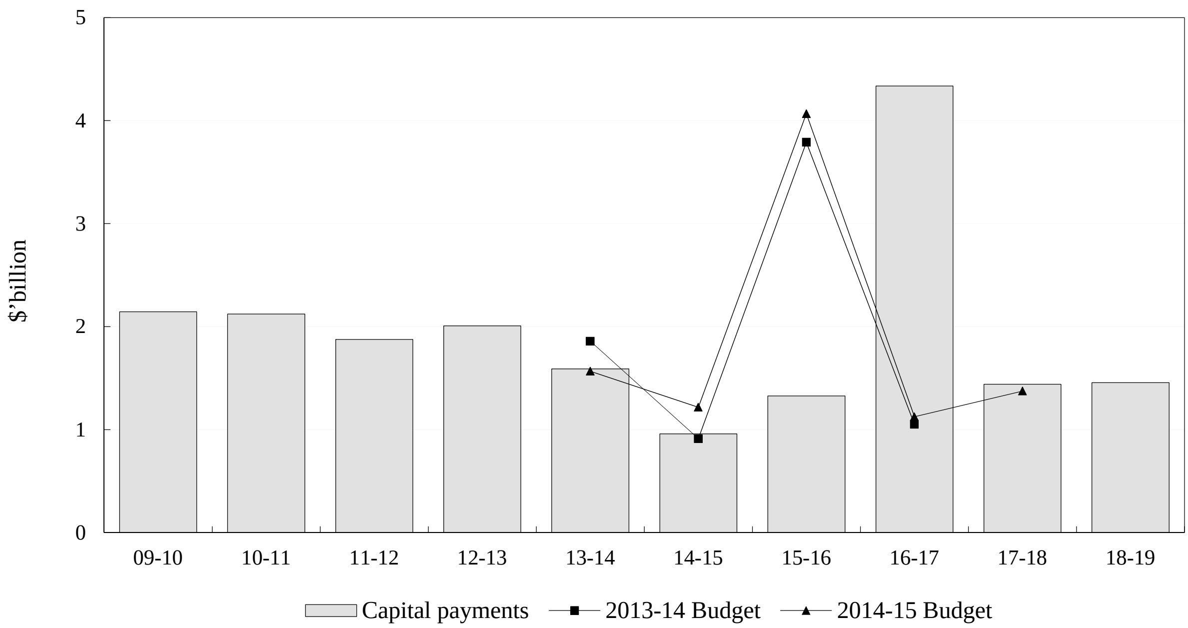
Further discussion in relation to debt movements is provided in section 9.6 of Chapter 9 of this Report.

8.2.8 Capital payments

Capital project payments are represented by the value of purchases of non-financial assets in the general government sector operating statement.

The following chart shows the purchase of non-financial assets over the 10 year period to 2018-19, overlayed with budgeted purchases from the 2013-14 and 2014-15 Budgets.

Chart 8.3 – General government sector purchase of non-financial assets (nominal)



In the 2009-10 Budget, the combined influence of State and Commonwealth spending initiatives elevated general government sector capital spending estimates to high levels. Capital payments exceeded $2 billion in 2009-10 and 2010-11.

Purchases in 2015-16 are budgeted to be $1327 million, $2740 million lower than forecast in the 2014-15 Budget mainly due to the revised timing for the recognition of the nRAH lease liability, which has moved from 2015-16 to 2016-17.

Budgeted purchases in 2015-16 have increased by $368 million on the 2014-15 estimated result due to the continuation of major transport and health infrastructure projects and the commencement of large capital programs in 2015-16 including:

- nRAH site works
- Transforming Health initiative works

- redevelopment of the Adelaide Festival Centre precinct
- upgrade of the North-South Road Corridor
- South Road upgrade from Torrens Road to the River Torrens
- extension of the O-Bahn into the city
- SA Government Radio Network

Purchases of non-financial assets are forecast to increase over the forward estimates. The large increase in the purchase of non-financial assets in 2016-17 represents the recognition of the nRAH finance lease liability. Excluding the nRAH, capital expenditure is expected to be lower across the forward estimates compared to the period 2009-10 to 2012-13.

Although there will be components of future expenditure that have effectively been committed, the forward years contain funds contingent on approvals.

Major projects carry high inherent risks including cost estimating, escalations and timeliness of completion. Sustained higher capital outlays need support from appropriate project management expertise, information systems and controls.

Carryover adjustments are made where appropriate if delays occur in budgeted project expenditure in the year but which will now be incurred in later years. The 2015-16 Budget included investing carryovers from prior years into 2015-16 and future years of $178 million.

The 2012-13 Budget outlined investing project suspensions and deferrals totalling $444.2 million[20] across the forward estimates period. A summary of investing suspensions and deferrals for each agency was provided in table 2.5 of 2012-13 Budget Paper 3 'Budget Statement'. The more financially significant projects deferred in the 2012-13 Budget included the Queen Elizabeth Hospital redevelopment (Stage 3A) and the Modbury Hospital redevelopment. The 2014-15 Budget comments that these large projects have now been suspended in response to the Government's response to the 2014-15 Commonwealth Budget.[21]

The funding previously allocated to these projects, together with funding to redevelop the Flinders Medical Centre announced in the 2014-15 State election, have been redirected to a Health Capital Reconfiguration Fund, which is included in investing contingencies over the forward estimates. The balance of this fund was $284.1 million in the 2014-15 Budget. In the 2014-15 MYBR a further $21.6 million was directed into the Health Capital Reconfiguration Fund primarily from the Women's and Children's Hospital upgrade project, which was scaled back to sustainment works only. The balance of the Health Capital Reconfiguration Fund ($305.7 million) has been applied to partially offset operating costs and investing expenditure associated with Transforming Health initiatives outlined in 2015-16 Budget Paper 4 'Budget Measures Statement', page 44.

8.2.9 Public Private Partnership projects

The major PPP in progress is the nRAH project.

In June 2011 the Government announced financial close on a contract with SA Health Partnership Nominees Pty Ltd to build, operate and maintain the nRAH under a PPP arrangement.

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[20] 2012-13 Budget Paper 3 'Budget Statement', page 28.
[21] 2014-15 Budget Paper 3 'Budget Statement', page 7.

The nRAH is included as an asset and a finance lease liability of $2.8 billion in the 2016-17 forward estimate year. This accounts for the large increase in net debt in 2016-17. The amount represents the net present value of design and construction costs, lifecycle payments, interest and other project costs.

Annual service payments are also budgeted to commence in 2016-17. The total annual payment is estimated to be $395.3 million.

Only part of this annual payment amount will be expensed each year as it includes cash payments that are applied to the reduction in the lease liability, which DTF has advised in a full year will be $111.7 million. The remainder of the payment is reflected as an expense, including finance charges on the lease and operating expenditure.

DTF also advised that an annual expense of $73 million is expected from 2016-17 relating to the amortisation of the asset on the balance sheet.

8.2.9.1 Financial reporting of Public Private Partnership projects

Depending on the terms of contracts, PPPs may, through their contractual arrangements and assignment of risks and benefits under current accounting standards, be classified as, or have elements of, either:

- a finance lease that transfers substantially all the risks and rewards incidental to ownership of an asset
- an operating lease that does not transfer substantially all the risks and rewards incidental to ownership and is excluded from the State balance sheet (may be off-balance sheet). In this case lease payments are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Under AASs whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- the lease transfers ownership of the asset to the lessee by the end of the lease term
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised
- the lease term is for the major part of the economic life of the asset even if title is not transferred
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

As mentioned previously, the capital component of the PPP arrangement for the nRAH is to be recognised as a finance lease in the balance sheet, and consequently has an impact on net debt and net financial liabilities. As the State is the lessee, at the commencement of the lease term, lessees recognise finance leases as assets and liabilities in the Statement of Financial

Position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs of the lessee are added to the amount recognised as an asset. Subsequently, minimum lease payments are apportioned between a finance charge and reducing the outstanding liability.

8.2.10 Asset sales

Sales of non-financial assets are taken into account in calculating the annual net lending result. They are netted from purchases of non-financial assets when determining total net acquisition of non-financial assets.

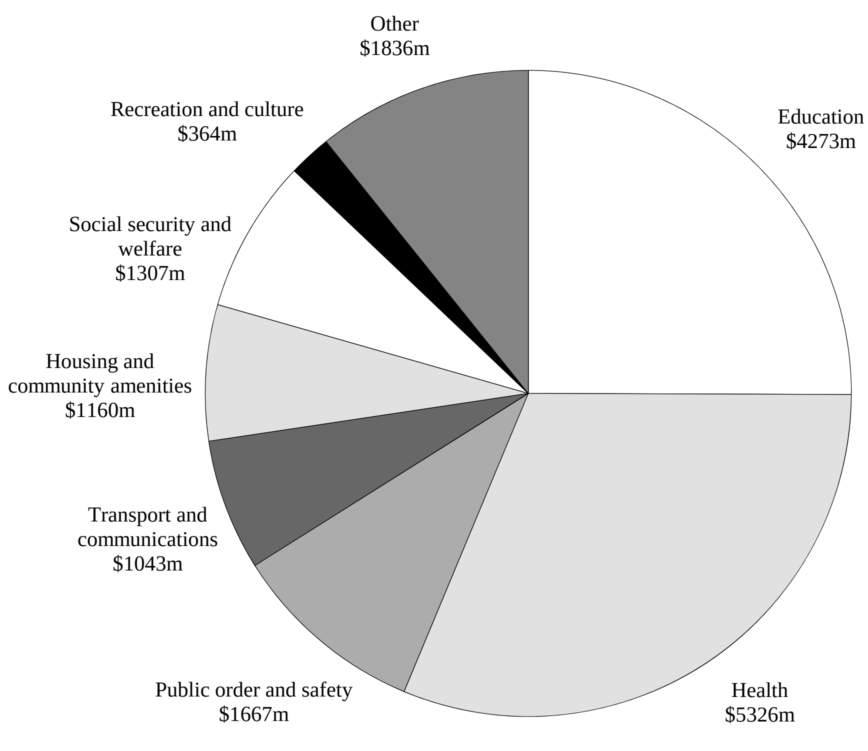
Estimated asset sales in 2014-15 were $156 million, $233 million lower than forecast in the 2014-15 Budget. This decrease is due to the revised timing of asset sales.

Total asset sales for the general government sector over the four years to 2018-19 are estimated to be $524 million, including $339 million anticipated in 2015-16.

8.3 Expenses by function

The GFS reporting framework also provides information on expenditure (excluding capital payments) by function for the general government sector. The following chart shows the 2015-16 Budget expenses and demonstrates the extent to which the health and education sectors dominate the overall expenditure by the State.

Chart 8.4 – General government sector expenses by function[22]



[22] 2015-16 Budget Paper 3 'Budget Statement', table A.16.

8.4 Risks to expenses

8.4.1 Overview

As with revenue, the 2015-16 Budget provides detailed consideration of various risks to the expenditure budget and acknowledges the management task for achieving budgeted outcomes.[23]

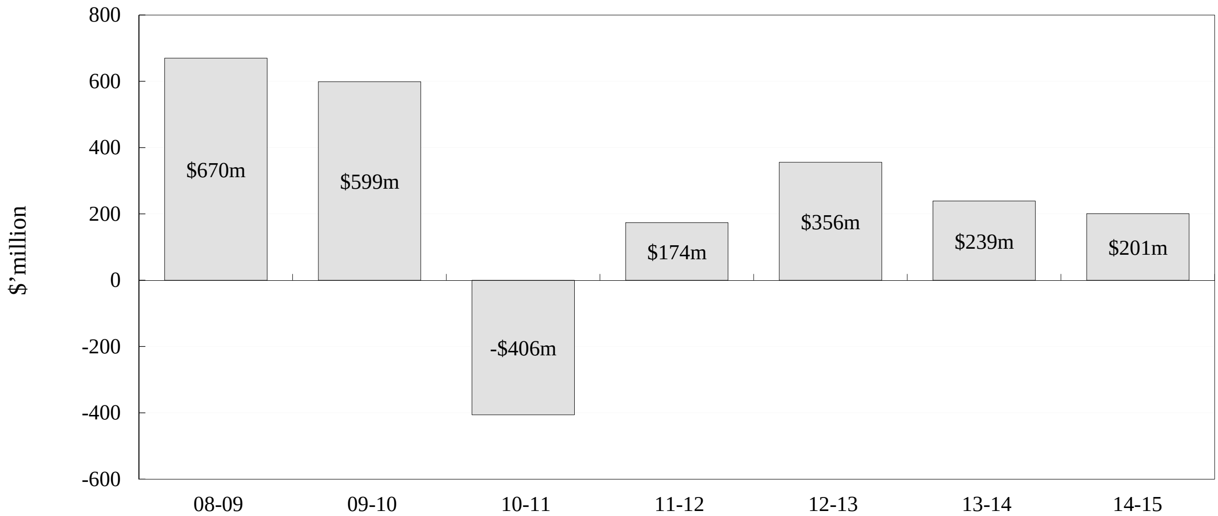
Some of the key risks reported are as follows:

- ***Wages and salaries*** – an increase of 1% p.a. above the amounts factored into the Budget would have an adverse impact of approximately $183 million in 2018-19.
- ***Interest rates*** – a 1 percentage point increase in the average interest rate applying to general government sector net debt would increase net interest expense by about $42 million in 2015-16, rising to $58 million in 2018-19.
- ***Capital investment pressures*** – a number of departments have large capital investment programs over the forward estimates period. Large capital programs increase the risk of cost escalation compared with original projections.

  If cost escalations exceed the amounts included in the capital investment program, annual net lending outcomes will be impacted. A 1% increase in costs for the capital program in the general government sector will increase expenditure by approximately $13.3 million in 2015-16.
- ***Hospital expenditure growth*** – Hospital expenditure has consistently exceeded budget in recent years. While strategies are being implemented to manage this expenditure growth, a 1% growth in excess of the amounts included in the 2015-16 Budget will increase expenditure by $47 million p.a.

To provide a recent historical context, the following chart shows actual outcomes against estimates for expenses for the past six years.

Chart 8.5 – Difference between budget and actual expenses[(a)(b)]



(a) 2014-15 is the difference between budget and the estimated result.
(b) 2008-09 and 2009-10 are influenced by Commonwealth stimulus grants.

23 2015-16 Budget Paper 3 'Budget Statement', page 93.

Expenses exceeded budget in 2008-09 and 2009-10 due mainly to additional Commonwealth economic stimulus grants provided in response to the global financial crisis.

For 2010-11 total expenses were $406 million less than budgeted, largely arising from decreases in grant and other operating expenses.

Total expenditure for 2014-15 is estimated to exceed budget by $201 million. This variance from budget is due largely to increases in employee expenses and grants.

8.4.2 Savings and revenue offsets

For a number of years large value savings targets have featured as an essential element of fiscal strategy. A range of savings initiatives announced since the 2008-09 Budget were consolidated in the 2010-11 Budget after the Government had considered budget improvement measures recommended by the then Sustainable Budget Commission.

8.4.3 Savings strategy

The 2010-11 Budget consolidated savings announced in earlier Budgets (of over $700 million p.a. by 2013-14) into new savings, which totalled $1.5 billion over a four year period arising from the recommendations of the Sustainable Budget Commission. These were additional to cost recovery and revenue measures ($478.6 million) and some retained savings included in agencies from previous Budgets.

Since the 2010-11 Budget subsequent budgets have introduced additional significant savings initiatives, including the following:

- The 2012-13 Budget introduced new savings initiatives totalling $430.7 million over the four years of the forward estimates. The two main measures were an increase in the efficiency dividend from 0.25% to 1% of employee expenses and the reduction of a further 1000 FTE staff over the forward estimates.
- The 2012-13 MYBR introduced $227.2 million of savings initiatives through the introduction of an additional efficiency dividend of 1% p.a. reduction in the net cost of services and a reduction in costs in specifically identified portfolio areas.
- The 2013-14 Budget introduced savings measures of $140 million through the extension of the 1% p.a. efficiency dividend to 2016-17, the bringing forward of 2015-16 savings measures and reducing the maximum TVSP payout.
- The 2014-15 Budget introduced major savings measures amounting to $1.5 billion over the four years of the Budget. This amount is made up of operating savings of $1.2 billion and investing savings of $290 million.

Savings introduced since the 2010-11 Budget now exceed the significant savings initiatives set in that Budget arising from the work of the Sustainable Budget Commission.

8.4.4 Nature of savings initiatives

We have commented in previous Reports that an inherent risk of the savings strategy of government is its sheer size and breadth. The ongoing management of the savings task requires significant discipline and, as noted earlier, Health and Ageing has experienced difficulties meeting savings targets. Further, the introduction of additional savings targets subsequent to the 2010-11 Budget presents ongoing risks including industrial action, public demand to maintain services, unsatisfactory administrative performance and budget management complexity.

8.4.5 Reduction of full-time equivalents

A key part of the 2010-11 savings strategy involved further reduction in public sector FTEs by 3743 FTEs, excluding increases from other initiatives. The 2012-13 Budget introduced a savings initiative to reduce a further 1000 FTE staff over the forward estimates, starting in 2013-14 with savings of $25 million and increasing to $86.6 million in 2015-16. The 2013-14 Budget brought forward the 2015-16 FTE reductions into 2014-15.

The 2014-15 Budget included savings initiatives for reductions of a further 308 FTEs from specific measures, including 200 FTEs identified as a result of the reductions announced in the 2014-15 Commonwealth Budget.

FTE reductions have been achieved through various means such as TVSPs, natural attrition, not renewing employment contracts and not filling vacancies.

Table 8.5 summarises DTF's advice on all general government budgeted FTE reductions associated with specific savings measures since the 2008-09 Budget.

Table 8.5 - FTE employees reductions as at 30 June

	2010	2011	2012	2013	2014	2015	2016	2017	Total
2008-09 MYBR	1 200	200	200	-	-	-	-	-	1 600
2010-11 Budget	-	608	954	742	369	-	-	-	2 673
2011-12 Budget	-	-	26	200	202	2	-	-	430
2011-12 MYBR	-	-	18	16	3	-	-	-	37
2012-13 Budget	-	-	-	7	309	350	350	-	1 016
2012-13 MYBR	-	-	-	-	202	65	393	-	660
2013-14 Budget[(a)]	-	-	-	-	-	-	-	-	-
2013-14 MYBR[(a)]	-	-	-	-	-	-	-	-	-
2014-15 Budget	-	-	-	-	-	70	68	170	308
2014-15 MYBR[(a)]									
2015-16 Budget	-	-	-	-	-	-	13	-	13
Originally budgeted FTE reduction	1 200	808	1 198	965	1 084	487	824	170	6 737

(a) No new specific FTE savings measures are included in the 2013-14 Budget, 2013-14 MYBR or 2014-15 MYBR.

The 2015-16 Budget notes that FTEs in the general government sector are estimated to decrease by 2971 between 30 June 2015 and 30 June 2019.[24] This reduction reflects the cumulative impact of savings measures, partially offset by new expenditure measures.

The following table reflects information provided by agencies to DTF and compares the approved FTE cap to the actual level of FTEs (as at the last pay period in June) for key general government sector agencies (excluding a number of small agencies). The FTE caps reflect agency profiling of the cap as at the end of June 2015.

24 2014-15 Budget Paper 3 'Budget Statement', page 24.

Table 8.6 – Actual and cap FTEs by portfolio as at 30 June 2015

Agency	Actual FTEs	Approved CAP FTEs	Variance FTEs	Variance %
Attorney-General	1 321	1 415	(94)	(6.6)
Communities and Social Inclusion	3 701	3 823	(122)	(3.2)
Correctional Services	1 793	1 735	58	3.3
Courts Administration Authority	614	631	(17)	(2.7)
Defence SA	31	31	-	-
Education and Child Development	23 538	23 555	(17)	(0.1)
Electoral Commission of SA	22	26	(4)	(15.4)
Emergency Services	1 175	1 179	(4)	(0.3)
Environment Protection Authority	214	210	4	1.9
Environment, Water and Natural Resources	1 580	1 495	85	5.7
Health and Ageing	30 852	30 990	(138)	(0.4)
Planning, Transport and Infrastructure	3 058	3 280	(222)	(6.8)
Premier and Cabinet	1 539	1 720	(181)	(10.5)
Primary Industries and Regions	878	906	(28)	(3.1)
SA Police	5 672	5781	(109)	(1.9)
State Development	3 315	3422	(107)	(3.1)
Tourism	102	101	1	1
Treasury and Finance	337	381	(44)	(11.5)
Total	79 742	80 681	(938)	(1.2)

Note: Actual and approved FTE cap figures provided by DTF.
Positive variances indicate over FTE cap.
Totals may not add due to rounding.

The 2015-16 estimate of FTEs for the general government sector as at 30 June 2015 was 81 665.[25] FTE monitoring is limited to key agencies representing the majority of the general government sector.

Explanations, provided by agencies, for the key variances as at the end of June are as follows.

Portfolios above the cap:

- Environment, Water and Natural Resources (85 FTEs) – due to additional Natural Resources Management staff who are funded by Natural Resources Management Boards and therefore have no budget impact (22 FTEs), unexpected seasonable fire crew (16 FTEs) and unfunded redeployees (five FTEs). The remaining variance primarily relates to a misalignment between the salaries and wages budget and FTE cap.

- Correctional Services (58 FTEs) – primarily due to additional FTEs as a result of utilising surge beds to meet capacity demands.

The majority of agencies with large variances below the FTE cap reported that the variances were the result of vacancies. Planning, Transport and Infrastructure reported that it was 222 FTEs below the cap due mainly to the acceptance of TVSPs as a result of the organisational restructure. Health and Ageing reported that it was 138 FTEs below the cap partly due to implementation delays associated with the Enterprise Patient Administration System project, resulting in lower than forecasted recruitment.

[25] 2015-16 Budget Paper 3 'Budget Statement', page 24.

8.4.6 Targeted voluntary separation program

To assist agencies to achieve the 2010-11 savings target, the Government introduced an enhanced redeployment process to match excess employees with suitable vacant roles. The Government considered that successful redeployment of excess employees into funded vacancies would significantly reduce the potential cost of reducing the workforce.

The Government also approved further targeted voluntary separation program arrangements. A key condition is that TVSP offers are only to be made to employees who were declared excess to requirements because their positions have been or will be abolished. TVSPs became available from November 2010.

DTF advised that the TVSP scheme remains available for workforce reductions associated with specific measures. The 2013-14 Budget noted that, from 1 July 2014, the maximum TVSP payout will be reduced from 116 weeks pay to 52 weeks pay. The 2014-15 Budget noted that the South Australian Public Sector Wages Parity Enterprise Agreement: Salaried 2014 included step-down arrangements that reduce the value of the TVSP payment over time. If an employee who has been declared excess to requirements declines an invitation to express interest in receiving a TVSP offer in the first three months, the value of future invitations to accept a separate package would be reduced by:

- 50% (after three months but before six months following the declaration)
- 75% (after six months but before nine months following the declaration).

Table 8.7 sets out a summary of FTE reductions achieved through TVSP payments (excluding executive reductions) as reported by agencies to DTF during the period 1 November 2010 to 30 June 2015.

Table 8.7 – FTE reductions from TVSPs reported by agencies 1 November 2010 to 30 June 2015

General government sector	FTE reductions from TVSPs
Attorney-General’s	124.5
Communities and Social Inclusion(2)	167.3
Correctional Services	25.2
Courts Administration Authority	6.0
Defence SA	1.0
Education and Child Development(3)	283.4
Environment, Water and Natural Resources(4)	319.7
Environment Protection Authority	7.2
Health and Ageing	707.6
Planning, Transport and Infrastructure(5)	412.3
Premier and Cabinet	184.0
Primary Industries and Regions(6)	140.2
SACE Board of SA	1.0
SA Country Fire Service	-
SA Fire and Emergency Services Commission	15.0
SA Lotteries	37.3
SA Police	5.0
SA Ambulance Service	10.0

General government sector *(continued)*	FTE reductions from TVSPs
SA Metropolitan Fire Service	3.0
SA State Emergency Service	1.0
State Development(7)	313.8
TAFE SA	362.2
Tourism	24.4
Treasury and Finance	65.5
Zero Waste SA	8.0
Public non-financial corporations sector	
Forestry SA	68.3
Total	3 292.8

Notes:
(1) Totals may not add due to rounding.
(2) Formerly Families and Communities.
(3) Formerly Education and Children's Services.
(4) Formerly Environment and Natural Resources and incorporating Water.
(5) Formerly Transport, Energy and Infrastructure incorporating Planning and Local Government.
(6) Formerly Primary Industries and Resources.
(7) Formerly Further Education, Employment, Science and Technology and Manufacturing Innovation, Trade, Resources and Energy (formerly Trade and Economic Development) and incorporating Arts SA.

Up until 30 June 2015 agencies were centrally reimbursed for TVSP payments made to achieve savings measures announced in the 2010-11 Budget and subsequent budget initiatives.

DTF has advised that for the period from 1 November 2010 to 30 June 2015 centrally reimbursed TVSP payments to staff totalled $377.4 million. A further $19.9 million in TVSP payments were funded by agencies. These figures exclude fees paid to SSSA for administering the scheme, payroll tax, employee assistance and executive termination payments. From 1 July 2015 agencies will be generally responsible for funding TVSPs.

8.4.7 Budget monitoring and reporting

Actively monitoring progress against Budget targets to enable a timely response to any significant issues arising is a vital element in managing budget risk.

The critical importance of strong monitoring of budget progress has been emphasised in previous Reports. DTF has advised us of monitoring arrangements in place during 2014-15 to oversee the implementation of the specific savings measures introduced since 2010-11. They include monthly monitoring of financial performance and quarterly monitoring of capital projects, budget initiatives and FTEs. Further, monitoring reports continued to be provided to the BRCC (formerly the SBCC), based on information supplied by agencies and analysis prepared by DTF, and to the Senior Management Council.

DTF advised that the existing monitoring regime will continue in 2015-16, however the monitoring of FTE reductions associated with savings measures will no longer occur as the majority of savings are either efficiency dividends or measures of a similar nature which agencies have flexibility to achieve through means other than FTE reductions.

Given the magnitude of the Budget improvement measures introduced in the 2010-11 Budget and the importance to the fiscal outlook of the achievement of these measures, DTF introduced enhanced monitoring processes in 2010-11 to monitor agency progress in achieving savings measures and FTE reductions. Processes concluded or introduced since 2010-11 include the following:

- Early 2011 – monitoring focus was on agency progress in delivering 2010-11 savings and was discussed at the 2011-12 Budget bilateral meetings between the Treasurer and Ministers.
- July/August 2011 – monitoring considered agency progress in delivering savings measures commencing in 2011-12 and plans for delivering measures commencing in 2012-13 and beyond. The Treasurer met with chief executives to discuss progress on savings implementation and presented an enhanced monitoring report to the SBCC.
- Early 2012 – focused on progress against 2011-12 savings targets and identifying issues in achievement of future savings measures. This information was discussed in 2012-13 Budget bilateral meetings between the Treasurer and Ministers.
- July 2012 – focused on verifying achievement of measures budgeted to be implemented in 2011-12, confirming that measures beginning in 2012-13 are on track and ensuring the development of plans to deliver measures beginning in 2013-14 and beyond. The Minister for Finance met with Chief Executives to work through plans and consider agency progress in achieving savings and present a report to SBCC.
- In 2012-13 the Minister for Finance was delegated responsibility by SBCC for monitoring the implementation and delivery of savings by agencies. Regular monitoring of savings measures was incorporated into quarterly processes and a savings section added to quarterly monitoring reports to SBCC.
- The existing regime continued in 2013-14 and 2014-15 with monthly monitoring of financial performance and quarterly monitoring of capital projects, savings measures and FTEs. Monitoring reports were to be provided to the BRCC (formerly the SBCC). Additionally, during the year copies of monitoring reports were provided for discussion at Senior Management Council.

8.4.8 Health and Ageing portfolio savings task

The 2012-13 Budget included new operating initiatives totalling $167 million in 2012-13 and 2013-14 to re-profile the Health and Ageing portfolio budget savings task. This aimed to provide Health and Ageing with additional resources for a more even annual build-up of savings to achieve its aggregate savings target by 2014-15. Health and Ageing's savings requirement to meet its budget was $169 million in 2012-13 increasing to $503.8 million by 2015-16.

In the past, Health and Ageing has not been able to achieve savings targets or has experienced other service demands that have necessitated additional funding. Given that savings measures required of agencies will continue together with requirements to further reduce expenditure, Health and Ageing implemented the following strategies:

- Following Cabinet approval in November 2011, the Office for Business Review and Implementation (OBRI) was established within the Department for Health and Ageing to support the delivery of improved financial management and savings measures. Further commentary on the activities of OBRI is provided below.
- In 2012 Health and Ageing commissioned the hospital budget performance and remediation reviews of the three main local health networks.

In July 2012 and October 2012 the Government approved the implementation of specific efficiency strategies identified in the hospital budget performance and remediation reviews and additional measures required to meet forward budget estimates. On both occasions the Government was advised the savings measures proposed were still insufficient for Health and Ageing to meet the Government's budget targets by 2015-16.

The Government reassessed the level and timing of the budget improvement measures it considered Health and Ageing could deliver across the forward estimates. This resulted in a reduction, totalling $523.2 million, to Health and Ageing's budget savings target over the forward estimates in the 2012-13 MYBR.

The 2014-15 Budget introduced significant additional savings of $532.7 million for the Health and Ageing portfolio. This includes identification of reductions in hospital beds or other health service reductions to save $332 million over the forward estimates.

The following table provides the revised savings measures since the 2012-13 Budget and a breakdown of the Health and Ageing's savings initiatives.

Table 8.8 – Summary of revised savings measures and initiatives

	2012-13 $'million	2013-14 $'million	2014-15 $'million	2015-16 $'million	2016-17 $'million	2017-18 $'million	2018-19 $'million
Revised savings target[1]							
Aggregate budget improvement required	(169.0)	(351.3)	(448.4)	(503.8)	(535.2)	(568.6)	(604.0)
2012-13 MYBR reduction in savings measures	122.9	128.3	148.7	123.4	83.9	73.4	62.7
2012-13 post-MYBR revised savings measures	(46.1)	(223.0)	(299.7)	(380.4)	(451.3)	(495.2)	(541.4)
2013-14 Budget savings measures	-	16.1	(5.0)	(5.1)	(5.3)	(5.4)	(5.5)
2013-14 Budget revised savings measures	(46.1)	(206.9)	(304.7)	(385.6)	(456.5)	(500.6)	(546.9)
2013-14 MYBR savings adjustments		43.8	40.3	15.3	(1.8)	(1.8)	(1.9)
2014-15 Budget savings measures			(17.6)	(94.5)	(157.3)	(263.7)	(302)
2014-15 Budget revised savings		(163.2)	(282.0)	(464.8)	(615.6)	(766.1)	(850.8)
2014-15 MYBR savings measures			(1.5)	(6.1)	(6.5)	(6.8)	(7.0)
2015-16 Budget savings measures				48.0	49.3	50.5	51.8
2015-16 Budget revised savings			(283.6)	(422.8)	(572.8)	(722.5)	(806.0)
Annual growth in savings task		(117.1)	(120.4)	(139.3)	(150.0)	(149.6)	(83.5)
Annual savings achieved	(126.5)	(108.7)	(92.4)				

	2015-16 $'million	2016-17 $'million	2017-18 $'million	2018-19 $'million
Savings initiatives[2]				
Productivity measures	35.7	192.1	285.1	340.1
Additional savings measures	21.9	42.5	80.3	85.9
Potential savings requiring further analysis	81.6	54.6	73.5	96.5
	139.3	289.2	438.9	522.5

Note: Totals may not add due to rounding.

(1) Revised savings target figures provided by DTF in August 2015.

(2) Savings initiatives figures provided by the Department for Health and Ageing in August 2015 for savings starting in 2015-16 and subsequent years.

The table demonstrates that the annual savings task for Health and Ageing is subject to significant annual growth, reaching a cumulative annual savings amount of $806 million in 2018-19. This will present an enormous challenge to deliver the future savings measures. Table 8.8 demonstrates that a significant component of the savings initiatives is potential savings requiring further analysis and refinement. A number of these savings initiatives may be subject to separate Cabinet approval.

Office for Business Review and Implementation

OBRI was operational from February 2012 to support the delivery of improved financial management and savings measures. OBRI's developments and milestones include:

- executive support to the Business Review and Implementation Steering Committee (BRISC) which was established in early 2012 and includes DTF representation. BRISC's role is to oversee and provide governance to improve financial management and risk management of savings measures. OBRI reports monthly to BRISC on the status of implementation of savings initiatives
- regular meetings with local health networks and business units to discuss and assist with the implementation of the efficiency savings measures approved by Government and monitoring progress against planned milestones
- consultants commissioned to undertake a hospital budget and performance efficiency review of the three main metropolitan local health networks in 2012. The resulting reports and recommendations were considered by Cabinet in October 2012 and the Government response to the reviews was released in October 2012. The efficiency opportunities accepted by Government have been monitored and reported to BRISC by OBRI during 2012-13
- a consultant engaged to undertake a hospital budget performance review of the Women's and Children's Health Network Incorporated. A report was provided in June 2013 and made available for public consultation, with responses submitted by early August 2013. The Department for Health and Ageing released the Cabinet approved response in September 2013
- a financial governance framework developed that has been promulgated across Health and Ageing, together with financial management training made available to staff
- a project management framework developed that has been promulgated across Health and Ageing to assist with the management of savings projects. The project management framework includes the development of implementation plans for each efficiency savings initiative and project status reporting requirements which are assessed by OBRI
- establishment of consistent guidelines for measuring savings
- in July 2013 OBRI implemented a web-enabled project management application to enhance project management, monitoring and reporting of savings implementation across Health and Ageing
- in May 2014, OBRI engaged consultants to assess the efficiency, effectiveness and financial performance of SA Medical Imaging and SA Pathology
- in November 2014, findings from the SA Medical Imaging review were released and included 25 recommendations. The Department for Health and Ageing has not yet released a response to this review

- in December 2014, findings from the SA Pathology review were released including six recommendations. The Department for Health and Ageing announced that five of the six recommendations will be adopted
- in 2014-15, OBRI ceased operations. Its reporting functions have been incorporated into the Corporate Finance section of the Department for Health and Ageing.

8.4.9 Specific savings identified in the 2014-15 Budget

The 2014-15 Budget introduced some new savings initiatives that targeted particular areas of expenditure. Two significant initiatives are discussed below.

Procurement arrangements

Savings of $189 million over three years (starting in 2015-16) were planned by reforming agency procurement arrangements, potentially including moving to whole-of-government procurement strategies. The Budget indicated that allocation of this saving to agencies would occur in 2014-15.

DTF advised that, of the $35 million savings target in 2015-16, $3.3 million was allocated to agencies following savings achieved as a result of the renewal of a number of specific whole-of-government ICT contracts. The balance of the savings target was allocated on a net cost of services basis to provide certainty for agency budget management.

DTF also indicated that a Chief Procurement Officer will be appointed to undertake strategic operational procurement leadership across government, initially located in the Department of the Premier and Cabinet. This officer will review agency procurement arrangements and recommend future procurement reforms across government. The remaining savings task of $42 million p.a. from 2016-17 has not yet been allocated to agencies pending the outcome of the procurement reform process.

Non-service consultants and contractors, government advertising and travel and associated costs

Savings of $86.2 million were expected over four years by reducing expenditure on non-service consultants and contractors, government advertising and travel and associated costs.

Details of specific savings targets for individual agencies are provided in 2014-15 Budget Paper 6 ‘Budget Measures Statement’.

DTF advised that these savings have been fully allocated to agencies to manage as part of their overall budget and are monitored under the standard monitoring regime that has been in place for a number of years, which includes quarterly reporting on the achievement of budgeted savings measures. DTF also noted that:

- agencies report against savings measures as listed in the Budget Measures Statement and in this instance items were rolled up and presented under the measure titled ‘Reduction in operating costs’
- in the monitoring process the majority of agencies flagged the savings as having been achieved.

8.4.10 Shared services savings

Previous Reports have discussed the savings targets at the time of implementation of shared services arrangements. These aimed to save $130 million (including savings from future ICT and associated changes) over four years to 2009-10, offset by implementation costs of $60 million over the same period. These targets were overly ambitious and have been adjusted a number of times as the scope of activities to transition to SSSA (changed and to account for the delay in implementation of other activities such as e-Procurement in the Department for Health and Ageing.

Consistent with previous years, in response to our information request as part of preparing this section, the Department of the Premier and Cabinet provided details of all savings amounts included in the Budget up to 2018-19 for the shared services initiative since its announcement in 2006-07. The data provided and outlined in the table below has not been subject to audit.

Table 8.9 – Shared Services savings and shortfalls – 2007-08 to 2018-19

	Actual 2008 to 2013 $'000	Actual 2013-14 $'000	Actual 2014-15 $'000	Budget 2015-16 $'000	Budget 2016-17 $'000	Budget 2017-18 $'000	Budget 2018-19 $'000	Total $'000
Original budgeted savings	310 000	60 000	61 500	63 038	64 613	66 229	67 885	693 265
Revised budgeted savings	292 837	57 900	59 346	63 038	64 613	66 229	67 885	671 848
Less savings allocated to initiative prior to reform:								
Future ICT	153 939	27 948	28 647	29 363	30 097	30 850	31 621	332 465
Supply SA warehouses	6 783	1 029	1 055	1 081	1 108	1 136	1 164	13 356
ICT mobile carriage	11 603	2 387	2 447	2 508	2 571	2 635	2 701	26 852
Future ICT implementation cost offset	386	-	-	-	-	-	-	386
ICT efficiencies MYBR 2011-12	2 900	5 900	6 000	6 150	6 304	6 462	6 623	40 339
Total savings allocated prior to reform	175 611	37 264	38 149	39 102	40 080	41 083	42 109	413 398
Less savings from reform initiatives:								
Tranche 1	12 715	2 816	2 886	2 959	3 033	3 109	3 187	30 705
Financial systems savings	2 459	912	935	958	982	1 007	1 032	8 285
e-Procurement	29 614	14 489	14 850	17 429	17 865	18 311	18 769	131 327
Procurement savings	4 599	1 400	1 435	1 471	1 508	1 545	1 584	13 542
Other savings	3 809	1 019	1 091	1 119	1 147	1 176	1 205	10 566
SSSA operating savings to payroll reform	-	3 100	518	-	-	-	-	3 618
SSSA accommodation savings for Service SA	-	370	550	563	578	593	608	3 262
ICT savings for the Department of the Premier and Cabinet	-	-	1 617	-	1 000	1 025	1 051	4 693
Total savings from reform initiatives	53 196	24 106	23 882	24 499	26 113	26 766	27 436	205 998
Total savings	228 807	61 370	62 031	63 601	66 193	67 849	69 545	619 396
Shortfall/(surplus) against revised budgeted savings	64 030	(3 470)	(2 685)	(563)	(1 580)	(1 620)	(1 660)	52 452
Shortfall/(surplus) against original budgeted savings	81 193	(1 370)	(531)	(563)	(1 580)	(1 620)	(1 660)	73 869

The format of this table is consistent with the previous year. The table shows both the original and revised budgeted savings projected through to 2018-19 together with any shortfall of actual or estimated allocated savings against the respective targets.

As can be seen from the table SSSA reports it has achieved the revised and original savings target for 2014-15 and has budgeted to achieve all future revised savings targets.

The savings allocated to the SSSA initiative prior to reform activities represents those savings that were included in the initiative submitted to Cabinet, however those savings were attained without any transition or reform activities occurring. For example, a major element of these savings is ICT. Agency expenditure budgets were reduced overall by $25 million each year in the 2007-08 Budget to achieve these savings and by a further $33.7 million by the 2012-13 MYBR. To 2014-15 the savings attributed to SSSA amount to $251 million with a further $162.4 million budgeted from 2015-16 to 2018-19.

The savings allocated to the SSSA initiative reform activities represent those savings that were through the creation and transition to SSSA. These include significant savings estimated to be achieved through the implementation of e-Procurement, which will be realised through agency budget adjustments.

The following table compares the budgeted SSSA reform savings to the budgeted implementation costs.

Table 8.10 – Reform initiatives budget savings and budgeted implementation costs

	Total up to 2014-15 $'000	2015-16 to 2018-19 budget $'000	Total $'000
Total savings from reform initiatives	101 184	104 814	205 998
Net (cost) savings from reform	(84 557)	-	(84 557)
	16 627	104 814	121 441

The table indicates that to 30 June 2015 all implementation costs have been recovered from the savings and that by the end of 2018-19 total savings of $121 million over and above the costs of implementation will have been made. This indicates the savings benefits of the shared service reform process can be substantial, even though it has taken several years to realise and much longer than anticipated when the reform process first commenced.

9 Balance sheet

9.1 Introduction

The balance sheet sets out the assets, liabilities and net worth (difference between assets and liabilities) of the State. This Chapter provides commentary on trends and influences noted for the State public sector financial position.

The information principally relates to data for the general government sector and also the NFPS, which consolidates the general government and PNFC sectors.[26]

9.2 Overview of the State's financial position

The following summarises financial position information for the general government and NFPSs of the State.

9.2.1 General government sector financial position

The following table provides time series data for the general government sector.

Table 9.1 – General government sector financial position (nominal terms)

	2011-12 Actual $'million	2012-13 Actual $'million	2013-14 Actual $'million	2014-15 Estimated result $'million	2015-16 Estimate $'million	2016-17 Estimate $'million	2017-18 Estimate $'million	2018-19 Estimate $'million
Financial assets	24 912	23 954	24 779	23 066	23 537	23 859	24 516	25 184
Non-financial assets	35 785	37 621	38 599	38 577	38 675	41 931	42 304	42 729
Total assets	60 698	61 575	63 378	61 643	62 212	65 790	66 820	67 912
Total liabilities	23 499	22 212	23 723	22 982	22 727	24 844	24 407	23 738
Net worth	37 199	39 363	39 654	38 660	39 485	40 905	42 412	44 174
Net financial worth	1 413	1 742	1 056	84	810	(1 026)	109	1 445
Net debt	4 165	5 227	7 071	4 108	4 238	6 533	6 227	5 761

Note: Totals may not add due to rounding.

This table highlights that:

- financial assets increase by $2118 million across the forward estimates
- non-financial assets increase by $4152 million over the forward estimates. This is mainly due to the purchase of buildings and improvements, including the recognition of the nRAH in 2016-17 ($2.8 billion)
- net worth (assets less liabilities) is estimated to increase to $44.2 billion by 30 June 2019

[26] 2015-16 Budget Paper 3 'Budget Statement', appendix D, details agencies within the respective sectors.

- net debt is expected to increase from $4108 million as at 30 June 2015, peaking at $6533 million as at 30 June 2017 before reducing to $5761 million as at 30 June 2019. The increase in net debt is due to the recognition of the financial obligations for the nRAH in 2016-17. The decrease in net debt post 2016-17 is attributable to forecast surpluses over the forward estimates.

9.2.2 Non-financial public sector financial position

The following table provides time series data for the NFPS.

Table 9.2 – NFPS financial position (nominal terms)

	2011-12 Actual $'million	2012-13 Actual $'million	2013-14 Actual $'million	2014-15 Estimated result $'million	2015-16 Estimate $'million	2016-17 Estimate $'million	2017-18 Estimate $'million	2018-19 Estimate $'million
Financial assets	2 543	3 394	4 129	4 642	4 738	4 645	4 774	4 919
Non-financial assets	62 322	62 586	63 734	64 351	65 053	68 859	69 873	70 866
Total assets	64 866	65 981	67 863	68 993	69 790	73 504	74 647	75 785
Total liabilities	27 667	26 617	28 209	30 332	30 305	32 599	32 234	31 611
Net worth	37 199	39 363	39 654	38 660	39 485	40 905	42 412	44 174
Net financial worth	(25 123)	(23 223)	(24 080)	(25 691)	(25 568)	(27 953)	(27 460)	(26 692)
Net debt	7 996	8 949	10 964	10 891	11 274	13 708	13 519	13 076

Note: Totals may not add due to rounding.

This table highlights that:

- non-financial assets dominate the State's financial position
- the value of non-financial assets is estimated to increase over the forward estimates by $6515 million. This increase mainly arises from investment in, and revaluation of, health, transport and water related infrastructure
- net financial worth is predicted to marginally decrease over the forward estimates
- net debt is also estimated to increase across the forward estimates by $2185 million, with the recognition of the nRAH principally contributing to the spiked increase in 2016-17.

9.3 Assets

Table 9.2 shows the State's asset position principally growing year-on-year due to ongoing asset acquisitions.

9.3.1 Non-financial public sector assets

Financial assets include receivables of $789 million, cash and deposits of $1292 million (2014-15 estimate) and equity of $2149 million of which $1296 million represents equity investments in other public sector agencies (2014-15 estimate).

Non-financial assets are estimated to represent 93% of total State assets. The State's non-financial or physical assets mainly comprise plant, equipment and infrastructure (including roads and water infrastructure) as well as land and improvements. These assets are divided between the general government and PNFC sectors.

In accordance with the Treasurer's Accounting Policy Statements, major assets are subject to regular revaluation. Valuation of public sector assets, particularly general government sector assets, is a subjective process and will reflect the specific circumstances of individual government entity operations. Most assets are not realisable.

9.3.1.1 Revaluation of non-financial assets

Revaluations of non-financial assets, together with acquisitions, will generally have the most influence on the improvement of the State's net worth. To illustrate, the following chart summarises actual asset value changes over the four year period 2011-12 to 2014-15 for the major agencies in the general government and PNFC sectors.

Table 9.3 – Revaluation of non-financial assets (actuals)

	2011-12 $'million	2012-13 $'million	2013-14 $'million	2014-15 $'million	Total $'million
General government	658	730	323	220	1 931
PNFCs	353	[27](545)	287	94	189
Total	1 011	185	610	314	2 120

Revaluation of the assets of the major agencies added $2120 million to the total value of non-financial assets over the four year period to 2014-15. Asset revaluations by the Department of Planning, Transport and Infrastructure account for 91% of total non-financial asset revaluations over the four year period covered in table 9.3.

The $94 million increment for the PNFC sector in 2014-15 mainly reflects a $135 million downward revaluation on infrastructure, plant and equipment recorded by SA Water, offset by a $222 million increment in freehold land and buildings recorded by the South Australian Housing Trust.

9.3.2 Financial assets

Total financial assets are expected to be $4642 million in 2014-15, rising to $4919 million in 2018-19. This increase is mainly due to anticipated positive movements in investments in other public sector entities under the financial asset equity category to 2018-19.

Investments in other public sector entities represent the value of the Government's interest in PFCs including ReturnToWorkSA and MAC.

[27] Decrease mainly attributable to a $403 million revaluation decrement against freehold land and buildings recorded by the South Australian Housing Trust.

Additionally, the Superannuation Funds Management Corporation of South Australia (Funds SA) holds significant funds on behalf of other government agencies, including PFCs and government superannuation funds. This includes funds of MAC and funds held to back SAFA's insurance liabilities.

The following table shows Funds SA's holdings of investment assets as at 30 June 2014 and 30 June 2015:

Table 9.4 – Funds SA's investments (actuals)[(a)(b)]

	Domestic equities $'million	International equities $'million	Fixed interest $'million	Other investments $'million	Total $'million
2014-15	5 352	5 643	2 374	12 428	25 797
2013-14	5 026	5 641	2 017	11 151	23 835

(a) Market values have been used in determining the above amounts.
(b) Excludes ReturnToWorkSA.

As shown above, a large proportion of the State's investment assets are placed in both domestic and international equities. Investments of this type and nature are managed through the development of agency specific investment strategies, which are ratified by the respective agency boards. International and domestic equity investments are subsequently managed by external fund managers on behalf of Funds SA.

Funds SA incurred a net gain from investing activities in 2014-15 of $2195 million reflecting reasonably stable growth in financial markets during the year. As the majority of managed funds are superannuation assets, much of this gain is reflected in an improvement in the unfunded superannuation liability.

As at 30 June 2015 MAC had net assets of $823.3 million ($1252 million in 2013-14). The assets of the CTP Fund as at 30 June 2015 were 121% of the statutory target solvency level, compared to 132.1% in 2013-14 and 111.9% in 2012-13. As evidenced, over recent years there have been fluctuations in MAC's statutory target solvency level which demonstrates the potential volatility of the CTP and its dependence on strong market investment returns to achieve and maintain required target levels.

ReturnToWorkSA reported a total comprehensive result (profit) of $1501 million in 2014-15 ($235 million in 2013-14). The $1266 million improvement in comprehensive result was mainly attributable to reductions in the cost of claims of $1393 million.

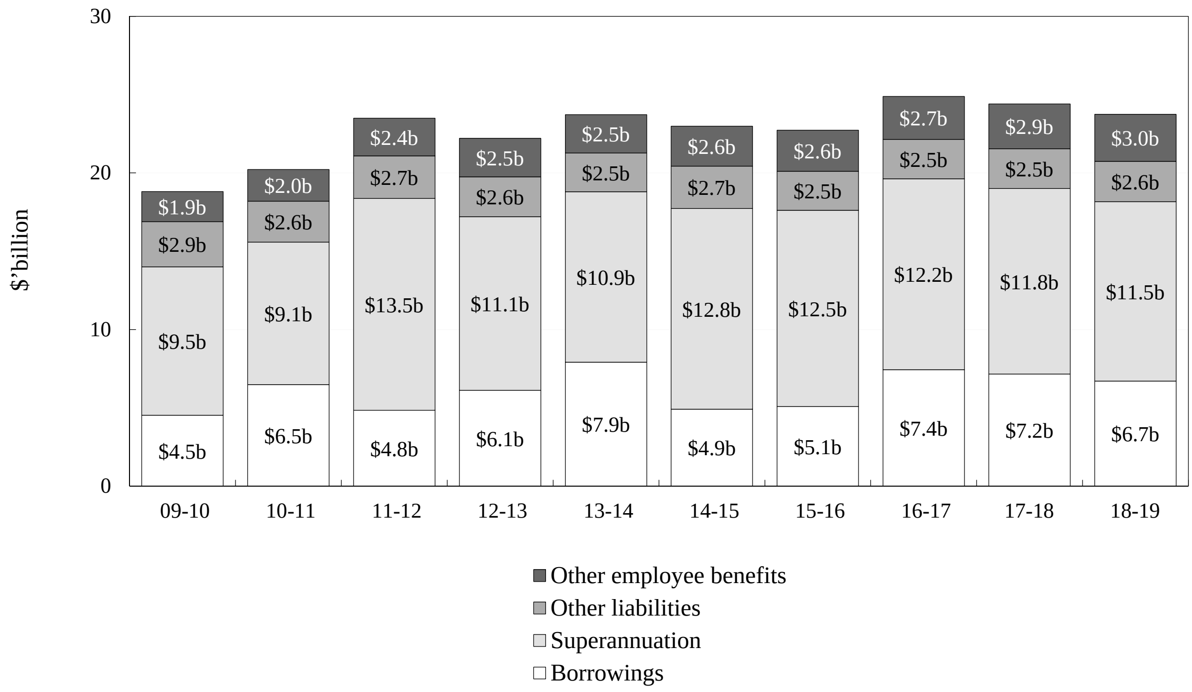
Further commentary is included in the sections titled 'Motor Accident Commission', 'South Australian Government Financing Authority', 'Superannuation Funds Management Corporation of South Australia' and 'Return to Work Corporation of South Australia' in Part B of the 2014-15 Annual Report.

9.4 Liabilities

9.4.1 General government sector liabilities

The following chart shows trends in the main elements of total liabilities for the 10 years to 2018-19.

Chart 9.1 – General government sector liabilities (nominal terms)



There was a structural break in 2011-12 whereby borrowings are presented net of the Treasurer's deposits with SAFA.

Total liabilities are estimated to decrease by $741 million to $22.982 billion in 2014-15, which is reflective of the Government's decision to vary SA Water's debt to asset gearing ratio which shifted debt from the general government balance sheet. This reduction in borrowing liabilities is partially offset by an increase in the unfunded superannuation liability. The variability in the unfunded superannuation liability in the five years to 2014-15 is mainly due to movements in earnings, actuarial assumptions and the discount rate used to estimate the value of the liability.

Total liabilities are expected to increase by $756 million or 3.3% to $23.738 billion over the forward estimate period. This is mainly due to anticipated increases in both other employee benefits, up $447 million, and borrowings increasing by $1793 million. These gains have been offset by the anticipated reduction in the unfunded superannuation liability of $1360 million.

9.4.2 Non-financial public sector liabilities

Total liabilities are expected to increase by $1279 million or 4.2% to $31.611 billion over the forward estimate period. In 2014-15 an increase of $2123 million in total liabilities is estimated, which is mainly attributable to the Government's debt restructuring initiatives for SA Water.

9.5 Unfunded superannuation

9.5.1 Background to the unfunded superannuation liability

The unfunded superannuation liability is calculated in accordance with AASs as the net difference between the estimated value of accrued defined benefit superannuation obligations and the value of assets set aside to meet these obligations. Superannuation liabilities are determined on long-term estimates of total liabilities. This is a liability to current and past members of closed defined benefit superannuation schemes. They are not liabilities that will be called on in total in the immediate future meaning the ability to fund them over many years exists. The State has a long-term funding strategy in place.

In estimating the unfunded superannuation liability, a range of variable factors and assumptions are taken into account including scheduled past service contributions by the Government. The superannuation liability may change periodically as assumptions and earnings experience change and, because of discounting, as the Government bond rate changes and the period of settlement approaches. This is an accepted fact for this type of liability.

9.5.2 Estimated unfunded superannuation liability at 30 June 2015

The unfunded superannuation liability is estimated to increase by $2307 million from the estimated 30 June 2014 figure recorded in the 2014-15 Budget. The following table sets out the major elements comprising the movement from the estimated unfunded superannuation liability as at 30 June 2014 to 30 June 2015.

Table 9.5 – Estimated unfunded superannuation liability as at 30 June 2015

	$'million	$'million
Estimated unfunded liability as at 30 June 2014 (2014-15 Budget)		10 506
Add: Difference between actual and expected returns	(62)	
Movement in discount rate	427	
Adjustments to align with AASB 119	6	
Total changes		371
Actual as at 30 June 2014		10 877
Add: Higher than expected returns on investments	(524)	
Movement in discount rate	2 714	
Other movements	(254)	
Total changes		1 936
Estimated closing balance 30 June 2015 (2015-16 Budget)		12 813

Note: Totals may not add due to rounding

9.5.2.1 Superannuation discount rate

As required by AASs, the unfunded superannuation liability is estimated at a point in time by discounting future superannuation benefit payments by a discount rate that reflects the risk-free interest rate. The reference rate used is the rate that reflects the average maturity on the liability. Due to the high value of the expected payments to beneficiaries and the long-term nature of the liabilities, valuation of the superannuation liability is sensitive to movements in the discount rate. A discount rate of 3% (effective annual rate) has been used for the 2015-16 Budget, compared with 4.3% used in the 2014-15 Budget and 3.8% used in the 2014-15 MYBR. The following table demonstrates the impact of varying the discount rate upwards from the current rate of 3%.

Table 9.6 – Sensitivity analysis of unfunded superannuation liabilities to discount rate movements as at 30 June 2015

Discount rate (%)	Unfunded superannuation liability $'million	Increase (Decrease) $'million
3.0	12 813	-
6.0	6 928	(5 885)
7.5	5 042	(7 771)

Table 9.6 shows how significantly the value of the liability can change with movements in interest rates alone. For example, should the longest dated Commonwealth Government nominal bond rate increase to 7.5%, the value of the unfunded liability will reduce by $7771 million. The Budget records that while financial market volatility in the recent past has resulted in multi-billion dollar revisions to the value of the liability recorded on the balance sheet, there has been no material change in the actual expected payments to beneficiaries underlying the liability.

9.5.2.2 Superannuation funding

DTF advised that total superannuation funding (including the fully funded Southern State Superannuation Scheme) is expected to be $1525 million in 2015-16, and then rising to $1683 million to the four years to 2018-19. Payments comprise amounts paid from agencies as contributions to current employees for new service and contributions. This reflects a catch-up for the lack of funding for employment in previous years (past service contributions) prior to the full funding policy.

The past service superannuation liability cash payments are affected by a number of factors including the long-term earnings rate on superannuation assets. Where investment performance exceeds the assumed rate, it is possible to reduce the level of past service payments required to fully fund superannuation liabilities by 2034. Additional funding contributions are, however, required to compensate for reduced earnings to remain on target.

The past service superannuation liability cash payment for 2015-16 is estimated to be $414 million.[28]

9.5.2.3 Earnings

Funds SA is responsible for managing the investment of superannuation assets. Investment earnings on superannuation assets are highly susceptible to economic conditions, financial

[28] 2015-16 Budget Paper 3 'Budget Statement', table 4.4.

markets and Funds SA's investment strategy. Further detail on Funds SA's investment performance is provided under 'Superannuation Funds Management Corporation of South Australia' in Part B of the 2014-15 Annual Report.

An earnings rate of 11.2% was estimated for 2014-15 at the time of the 2015-16 Budget.

9.5.3 Long-term funding of superannuation liabilities

The commitment to fully fund unfunded liabilities was again reaffirmed by the Government in the 2015-16 Budget, with the position as at 30 June 2015 remaining consistent with the plan to eliminate unfunded superannuation liabilities by 2034.

Past service superannuation liability cash payments are estimated to increase over that period in line with the Government's expectations of salary inflation. Assuming no change in the discount rate and a return to long-term earnings, unfunded liabilities are estimated to have already peaked (2011-12). It is estimated that benefit payments will peak in 2024-25 ($888 million).

The Government's target to fully fund superannuation liabilities by 2034 is plausible based on these estimates. Based on current data and estimates, in 2034 the liability will be fully funded by equivalent assets of $11.238 billion.

9.6 Net debt

The Government's decision to restructure its balance sheet in 2014-15 by transferring debt to the PNFC sector (SA Water) from the general government sector, had a significant impact on the general government net debt position in 2014-15. There was no impact from this change on total NFPS net debt, however general government sector net debt reduced by $2.7 billion.

9.6.1 Definition of net debt

Net debt[29] comprises the stock of selected gross financial liabilities less financial assets. Net debt is reported in the balance sheet and is the sum of deposits held, advances received and borrowing, less the sum of cash and deposits, advances paid, investments, loans and placements.

9.6.2 Longer term trends in the level of debt

The following chart shows data on a long-term basis to the end of the forward estimates. Total NFPS net debt increased by $6477 million to $10.964 billion (11.3% of South Australia's GSP) in the period 2009-10 to 2013-14, with general government net debt increasing by $5669 million to $7071 million over the same period.

In 2014-15 total NFPS net debt is expected to decrease by $73 million to $10.891 billion (11% of South Australia's GSP). Forward estimates show that net debt is projected to rise to $13.076 billion by 30 June 2019 (11.2% of South Australia's GSP).

[29] The indebtedness of the Treasurer, published in the Treasurer's Statements, represents the amount the Treasurer has borrowed from SAFA. This amount may be linked with the GFS accrual numbers, but a change in the GFS net lending position is not necessarily reflected by a change in the indebtedness of the Treasurer.

Chart 9.2 – South Australian NFPS net indebtedness 20019-10 to 2018-19

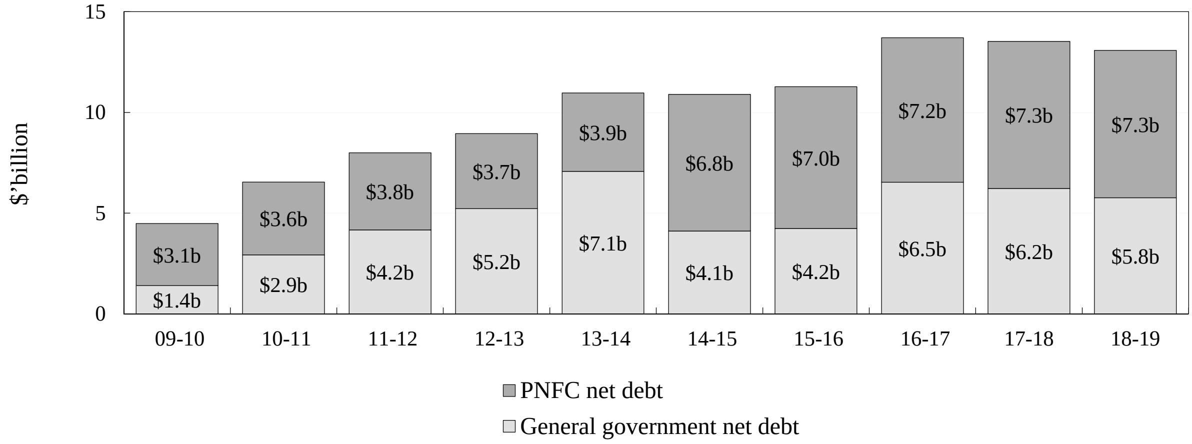


Chart 9.3 clearly demonstrates the 2014-15 reduction in general government debt, as well as the converse rise in PNFC debt, as a consequence of the Government's decision to vary SA Water's debt to asset gearing ratio. The main holder of debt in the PNFC sector is SA Water – approximately 94%. SA Water is a commercial business servicing its debt from business revenues.

The increase in net debt in 2016-17 reflects the recognition of the financial obligations for the nRAH which is predicted to add $2.8 billion to net debt. The recognition of the lease obligation for the nRAH in 2016-17 reflects independent advice on expected commercial acceptance dates.[30] This increase is offset by an expected contribution of $300 million from MAC in 2016-17. Net debt is then projected to reduce over the 2017-18 and 2018-19 estimates reflecting net lending surpluses.

Table 9.7 explains the expected movements in net debt for the general government sector at the time of the 2014-15 Budget.

Table 9.7 – Reconciliation of movements in general government net debt as at the 2014-15 Budget

	2014-15 Estimated result $'million	2015-16 Budget $'million	2016-17 Budget $'million	2017-18 Budget $'million	2018-19 Budget $'million
Opening general government net debt	7 071	4 108	4 238	6 533	6 227
General government cash surplus/deficit	[31](90)	(124)	250	334	487
Add: Net cash flows from equity transactions	[32]3 054	(7)	273	(28)	(18)
Less:					
Assets acquisition under finance leases and similar arrangements			2 819		
Other movements	1	(2)	(1)	0	2
Improvement/deterioration to general government net debt	2 965	(130)	(2 295)	306	466
Closing general government net debt	4 108	4 238	6 533	6227	5 761

Note: Table may not add due to rounding.

30 2015-16 Budget Paper 3 'Budget Statement', page 8.
31 Includes MAC dividend receipt of $459.2 million.
32 Amount includes return of equity contributions – SA Water, $2.7 billion, and MAC, $393.7 million.

9.6.3 Debt affordability and servicing

At the end of 2014-15 total NFPS net debt is estimated to represent 11% of GSP, rising to an estimated 11.2% in 2018-19.

The Budget records that the net debt increase includes the financial obligations for the nRAH lease liability which will appear on the general government balance sheet for the first time in 2016-17.

9.6.4 Debt management policy

SAFA has been delegated the responsibility for managing the debt of the South Australian Treasurer. A portion of this debt is actively managed within limits authorised by the Treasurer, while other debt is managed on a passive basis (neutral interest rate view) and does not have a target duration. Any losses or gains made on the settlement of these transactions is to the Treasurer's account, resulting in either an increase or decrease in the amount owed by the Treasurer.

SAFA's debt management performance is measured against benchmarks approved by the Treasurer. The Treasurer's approved policy for managed benchmark duration in 2014-15 was 1 to 1.5 years. Lower duration benchmarks offer lower average interest costs over the long-term but with possible higher short-term budget volatility.

SAFA's 2014-15 funding task outcome, after the Budget and MYBR, was forecast at $5.8 billion, comprising:[33]

- $400 million for the South Australian public sector
- $5.4 billion to refinance existing debt.

SAFA is projecting a gross 2015-16 funding requirement of $4.2 billion. Anticipated drivers for this requirement are forecast to be the Treasurer, PNFCs and PFCs including SA Water, HomeStart Finance, the Urban Renewal Authority and the Adelaide Convention Centre Corporation. SAFA expects to issue circa $2 billion of Select Lines (term debt) to refinance debt maturing within 2015-16. SAFA anticipates this funding will primarily be sourced from domestic markets and most notably Authorised Deposit-taking Institutions operating in Australia who are required to hold semi-government assets to comply with APRA Prudential Standard 210.

Additional commentary on the maturity profile of SAFA's Select Lines is included under the heading 'Further commentary on operations' in the section titled 'South Australian Government Financing Authority' in Part B of the 2014-15 Annual Report.

9.7 Other non-financial public sector liabilities

Other NFPS liabilities estimated as at 30 June 2015 comprise superannuation liabilities ($12.813 billion), other employee benefits ($2626 million), other liabilities ($1138 million), payables ($1205 million), advances received ($252 million) and deposits ($171 million).

Other employee benefits include long service leave provisions ($1786 million estimated result for 2014-15), annual leave liabilities ($575 million estimated result for 2014-15), salaries and

[33] SAFA Advisory Board Paper # 1363 – Funding Strategy – Annual Funding Task (May 2015).

wages liability ($185 million estimated result for 2014-15) and retention leave ($38 million estimated result for 2014-15).

Significant individual balances in liabilities include amounts that are subject to estimation processes similar to those applied to the estimation of superannuation liabilities. They include:

- estimated long service leave provisions amounting to $1786 million as at 30 June 2015 and budgeted to increase to $1893 million by 30 June 2016. Long service leave is calculated by an estimation process in accordance with AASs
- workers compensation provisions totalling $545 million are estimated as at 30 June 2015, decreasing to $330 million by 30 June 2016. The estimated reduction is mainly attributable to the new Return to Work Scheme (and associated arrangements) that came into affect from 1 July 2015. The new scheme is estimated to save South Australian businesses approximately $180 million per year.[34]

9.8 Contingent liabilities

As reported in the Budget Papers[35] contingent liabilities are those that have not been recognised in the balance sheet, but rather are disclosed in notes to the accounts.

Reasons for this are:

- there is significant uncertainty as to whether a sacrifice of future economic benefits will be required
- the amount of the liability cannot be reliably measured
- there is significant uncertainty as to whether an obligation presently exists.

Contingent liabilities of the Government can arise from:

- legislative provisions requiring the Government to guarantee the liabilities of public sector organisations, eg financial institutions
- the ordinary activities of the Government, which might give rise to disputes and litigation that remain unresolved at any given balance date.

Guarantees and contingent liabilities of the Government of South Australia as at 30 June 2014 were valued at $1241 million ($951 million as at 30 June 2013). Guarantees are valued at nominal values without adjustment for the probability of actual liabilities occurring.

[34] 2015-16 Budget Paper 3 ‘Budget Statement’, page 73.
[35] 2015-16 Budget Paper 3 ‘Budget Statement’, pp. 97-98.

10 Comparison with other States

10.1 Observations

This Chapter highlights trends for this State over the forward estimates to 2018-19 as well as relative differences between jurisdictions. Whilst no suggestions are made regarding what is considered optimal, significant variations or negative trends would warrant consideration as to the related implications.

Across jurisdictions economic indicators are influenced by varying valuation approaches for assets and liabilities, differences in the type and level of infrastructure, as well as higher State debt levels. Infrastructure can also be provided through private sector investment and therefore be excluded from government data.

Prior to forming conclusions it is critical that any assessment made incorporates a sound understanding of the prevailing, specific circumstances in each State. We have not sought to provide all of the relevant information in this Report. Rather the opportunity is taken to show what each State is forecasting over the next four financial years.

The following table shows 2015-16 budgeted total revenue for each State.

Table 10.1 – 2015-16 budgeted general government total revenue by State

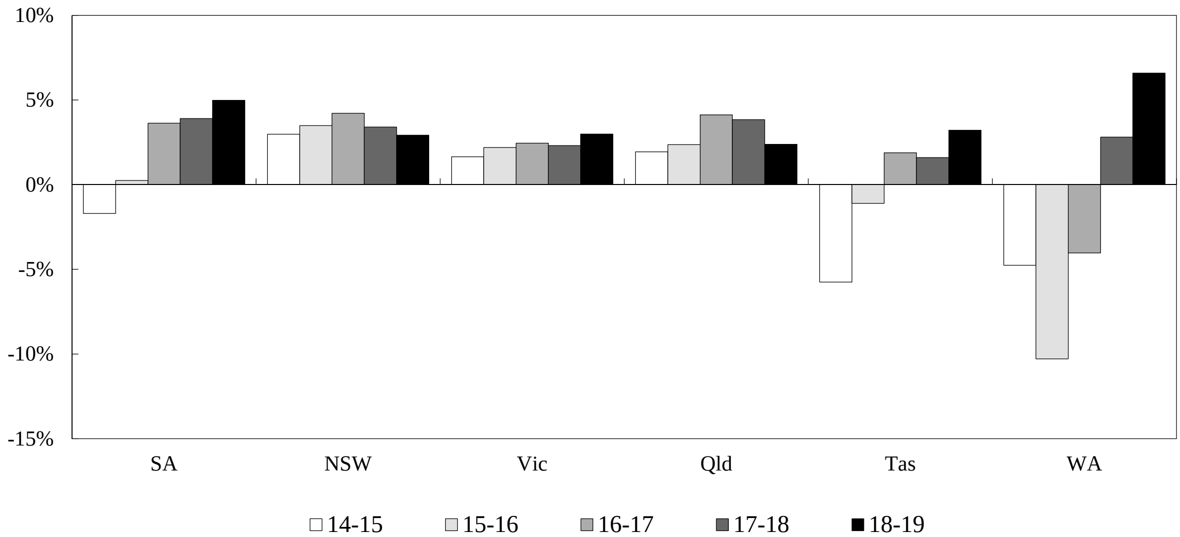
	NSW	Vic	Qld	WA	SA	Tas
	$’million	$’million	$’million	$’million	$’million	$’million
Total revenue	72 143	55 529	51 186	26 325	17 097	5 308

Given the relative differences in State size and financial activity levels, the following comparisons are given as proportions of total revenue in each State.

10.2 Operating statement

The following charts compare trends in the GFS information with other States using 2015-16 Budget data.

Chart 10.1 – General government sector net operating balance as a proportion of total revenue



All States except Tasmania and Western Australia have projected positive ratios for the 2015-16 financial year.

Chart 10.2 – General government sector net lending (borrowing) as a proportion of total revenue

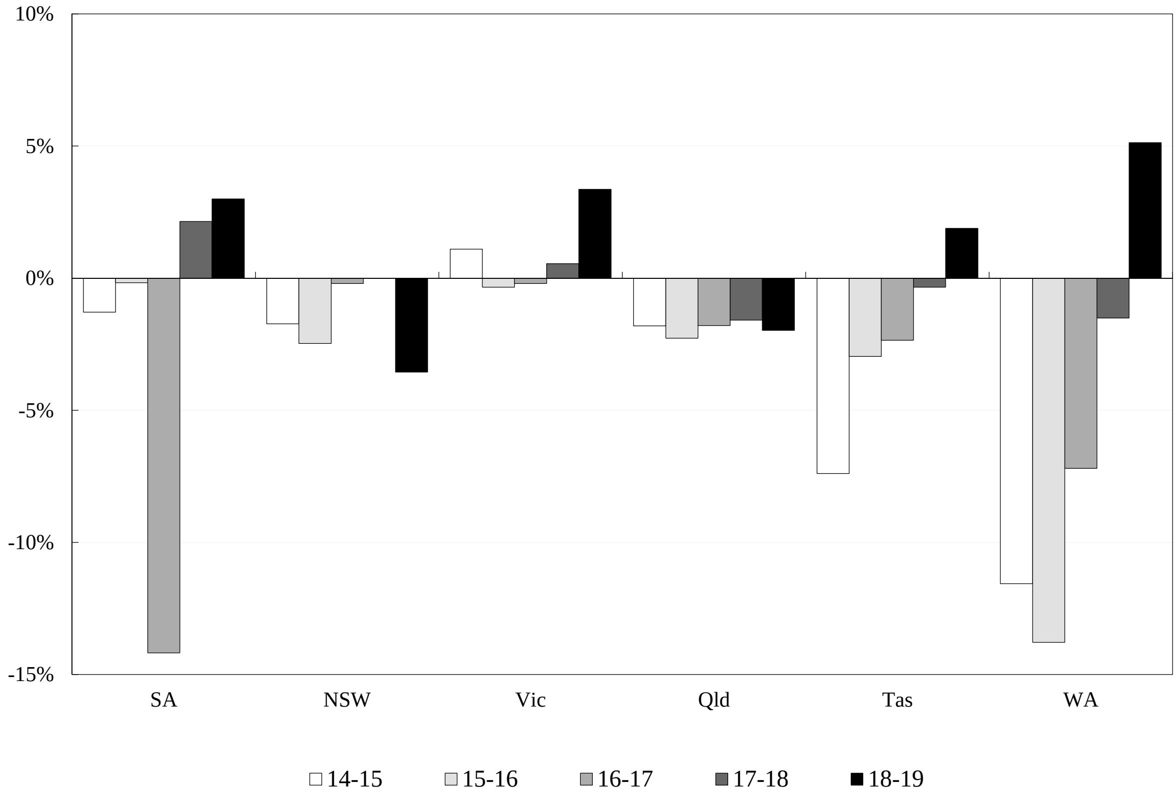


Chart 10.2 indicates that all States except South Australia and Victoria are estimating net lending deficits up to and including 2017-18, with New South Wales and Queensland showing deficits continuing to 2018-19. South Australia's 2016-17 forecast net lending deficit of $2556 million mainly reflects the recognition of financial obligations associated with the nRAH.

Chart 10.2 also shows that for the period 2014-15 to 2016-17, the negative trend in South Australia's net borrowing as a proportion of total revenues is reasonably consistent with other States over the same time frame except for Victoria, which shows a positive net lending result as a proportion of total revenue for 2014-15.

10.3 Balance sheet

10.3.1 Ratio of net financial liabilities to revenue

Net financial liabilities include the present value of the unfunded superannuation liability, which can fluctuate significantly year-to-year depending on the discount rate used to calculate the liability. The rate used by each State in presenting their Budget varies, making direct comparisons problematic.

The following chart plots the ratio of net financial liabilities to revenue for each of the States.

Chart 10.3 – Ratio of net financial liabilities to revenue

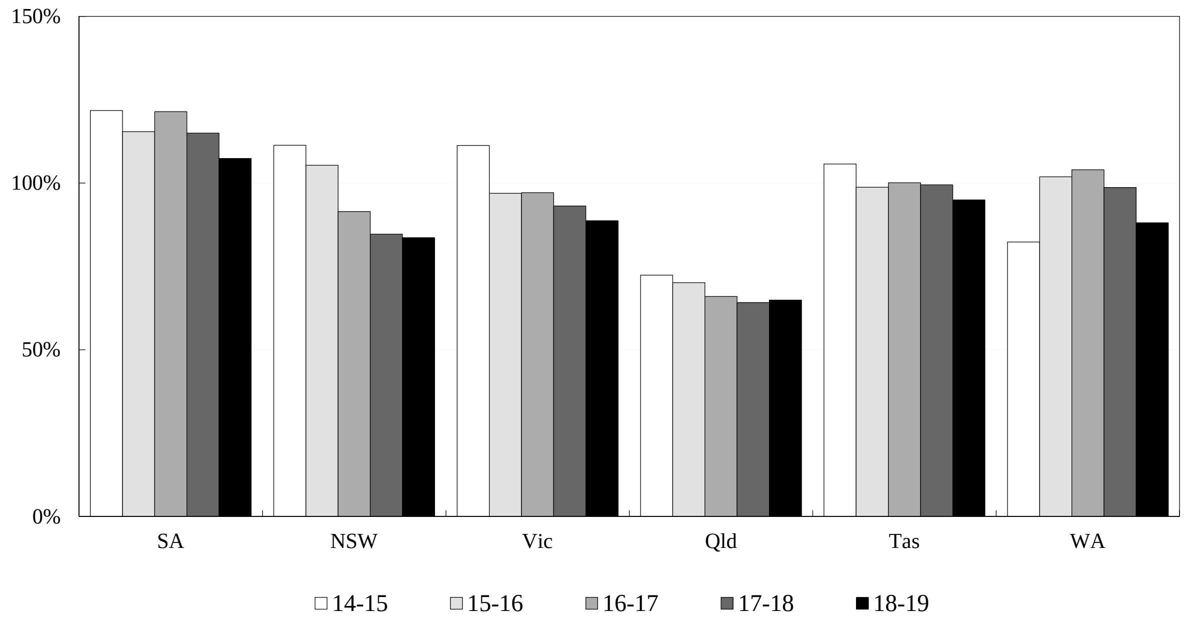


Chart 10.3 shows the 2014-15 Budget settings result in the ratio for South Australia generally declining over the forward estimates to 2018-19. This is consistent with New South Wales, Victoria, Queensland and Tasmania which are also predicting general declines over the same time period.

11 Treasurer’s Statements

11.1 Treasurer’s Statements – *Public Finance and Audit Act 1987*

The Treasurer’s Statements are prepared pursuant to the PFAA to report on transactions and balances in the public accounts.

The main public accounts are the Consolidated Account, special deposit accounts and deposit accounts established pursuant to the PFAA.

A large proportion of public monies are received and expended through the Consolidated Account. The main receipts to the Consolidated Account are State taxation and Commonwealth general purpose grants to the State.

Special deposit accounts and deposit accounts are used by almost all agencies as their main operating account. The Treasurer’s Statements only report the closing balances of these accounts. Detail of agency transactions are reported in the individual general purpose financial reports of agencies.

The Treasurer’s Financial Statements set out the appropriation authority available from various sources for the financial year including the annual *Appropriation Act*, the Governor’s Appropriation Fund, and specific appropriations authorised under various Acts. Also set out are the purpose and amount of payments from the Consolidated Account (that is, the use of that appropriation).

The Treasurer’s Financial Statements are reported, in full, in the Appendix – Volume 1 of the 2014-15 Annual Report.

11.2 Audit scope of the Treasurer’s Statements

We reviewed the controls exercised by the Government Accounting, Reporting and Procurement Branch surrounding the appropriation and disbursement of monies through the public accounts. This included the:

- testing of appropriation disbursements pursuant to the annual *Appropriation Act*, the Governor’s Appropriation Fund, contingency funds and other Acts
- establishment and changes to Treasurer’s special deposit accounts, imprest accounts and deposit accounts
- updating and recording of the Treasurer’s loans and guarantees
- maintenance of the central general ledger.

The audit work identified some areas where improvements could be made. Review findings are provided under the ‘Audit findings and comments’ heading in the section titled ‘Department of Treasury and Finance’ in Part B of the 2014-15 Annual Report.

11.3 The Consolidated Account outcome

The following table sets out total appropriation authority and actual payments for the Consolidated Account in 2014-15.

Table 11.1 – 2014-15 appropriation authority and payments

	Appropriation authority $'million	Actual payments $'million
Appropriation Act 2014	11 496.3	11 395.5
PFAA, section 15	14.4	14.4
Governor's Appropriation Fund	367.3	209.2
Specific appropriations authorised in various Acts	110.2	107.6
Total	11 988.2	11 726.7

The result on the Consolidated Account and variations from the Budget for 2014-15 were as follows.

Table 11.2 – 2014-15 Consolidated Account result

	2014-15 Budget $'million	2014-15 Actual $'million	Variation $'million
Total receipts	13 181.0	13 372.4	191.4
Total payments	11 606.5	11 726.7	120.2
Consolidated Account surplus	1 574.5	1 645.7	71.2

The surplus of $1645.7 million ($1540.5 million deficit in 2013-14) is reflected as a decrease in net debt serviced from the Consolidated Account as shown in Statement J of the Treasurer's Statements.

The key differences between actual and budgeted amounts were as follows:

- ***Receipts*** – main items exceeding budgetary expectations (increase against budget) included the greater than anticipated sale of land and buildings (increase of $101 million), the return of cash to the Consolidated Account – cash alignment policy ($147.2 million from a zero estimate), SA Water dividend (increase of $49.1 million). These increases were principally off-set by decreases in anticipated gross State taxation (decrease of $113.9 million).

- ***Payments*** – main agencies exceeding budgetary expectations included the Department of Planning, Transport and Infrastructure ($44.6 million) and the Department for Communities and Social Inclusion ($47.2 million).

Consistent with the previous year, in 2014-15 significant amounts were appropriated to agencies as equity. The main equity contributions were to the Department of Planning, Transport and Infrastructure ($188.1 million) and the Department for Correctional Services ($28.4 million). Equity funding is credited directly to an agency's Statement of Financial Position, not through the Statement of Comprehensive Income. For further commentary refer to section 11.6 of this Report. Details of the budget and actual data are presented in Statement A – Comparative Statement of the Estimated and Actual Payments from the Consolidated Account of the Government of South Australia.

11.4 Appropriation flexibility

Appropriation authority flexibility arises from the provision of fund sources for additional/ new initiatives or unforeseen cost pressures that can be used without a requirement to return to Parliament for additional appropriation authority. This flexibility is provided through a combination of legislative provisions and budget practices.

The following table sets out relevant items for 2014-15.

Table 11.3 – Appropriation flexibility

	Authority/ Budget $’million	Actual payments $’million
Governor’s Appropriation Fund	367.3	209.2
Contingency provisions in administered items for DTF	228.4	93.7
PFAA, section 15	14.4	14.4
Total flexibility	610.1	317.3

Use of these provisions requires the Treasurer’s approval. Use of contingency provisions does not affect the Budget result as they are already included as a budgeted expense item in the administered items for DTF.

11.4.1 Governor’s Appropriation Fund and contingency provisions

Section 12 of the PFAA provides for the Governor’s Appropriation Fund. Generally the Governor’s Appropriation Fund is used to fund new Government initiatives or to meet unexpected expenditure needs.

Details of the purpose of appropriations from the Governor’s Appropriation Fund are provided in Statement K – Statement of Appropriation Authorities. The main items were as follows.

Table 11.4 – Main Governor’s Appropriation Fund payments

Agency	Purposes	Actual payments $’million
Department of Planning, Transport and Infrastructure	Primarily to ensure the Department’s Operating Account did not become overdrawn.	50.0
Department of Communities and Social Inclusion	Primarily linked to Housing Stimulus initiatives.	47.2
Department of State Development	Linked to several initiatives including addressing Skills for All cost pressures, capital program re-profiling and the transfer of the Jobs Acceleration Fund from the Department of the Premier and Cabinet.	36.3

11.4.2 Contingency provisions

Contingency provisions for employee entitlements, supplies and services and investing contingencies are included in the appropriation total of the ‘Administered Items for the Department of Treasury and Finance’ in Statement A of the Treasurer’s Statements. These amounts are included within the total appropriation (and budgeted expenses) but may not be committed to a specific purpose at the time of the Budget. They are provided for potential budget impacts or for expenditure that is subject to further Cabinet or Ministerial approval.

Details of payments from the contingency funds are provided in Statement L – Statement of Other Transfers from the Administered Items for the Department of Treasury and Finance. Payments are transfers of additional funding to agencies.

The main items were as follows.

Table 11.5 – Main contingency provision payments

Agency	Total payments $’million
Department of State Development	12.888
Department of Planning, Transport and Infrastructure	10.827
Department for Communities and Social Inclusion	10.693
Department of Treasury and Finance	9.589

11.4.3 Appropriation by the Treasurer for additional salaries, wages etc

Section 15 of the PFAA provides that the Treasurer may appropriate from the Consolidated Account an amount sufficient to cover increases in public sector salaries, wages, allowances, payroll tax or superannuation contributions arising by reason of the award, order or determination of a court, tribunal or other body empowered to fix salaries, wages or allowances.

As with the Governor’s Appropriation Fund, use of this provision adds to the amount appropriated by Parliament from the Consolidated Account annually and may affect the Budget result where there are unbudgeted expenses.

In 2014-15 $14.4 million was appropriated by the Treasurer pursuant to section 15 of the PFAA. This amount was added to the line ‘Administered Items for Department of Treasury and Finance’. Payments are reflected against that line. In 2013-14 the amount appropriated by the Treasurer was $71 million.

11.4.4 Appropriation transfers

In addition to the preceding provisions, appropriation can be transferred between agencies. Section 13 of the PFAA provides authority where excess funds exist for one agency and are necessary for another. Section 5 of the *Appropriation Act* provides authority where restructuring of an agency occurs so that appropriation related to transferring functions may in turn be transferred.

No section 13 or section 5 transfers occurred in 2014-15.

11.5 Special deposit accounts and deposit accounts

Most appropriation from the Consolidated Account is transferred to special deposit accounts and deposit accounts established pursuant to the PFAA. Under related provisions, monies credited to those accounts can be spent without further appropriation from Parliament. This is of significance in that monies appropriated in one year and transferred to a deposit account need not actually be expended in that year; that is, they may be carried over into the next year unless required by the Treasurer to be paid to the Consolidated Account.[36]

Table 11.6 shows that over $4731 million is held in special deposit accounts and deposit accounts as at 30 June 2015.

Table 11.6 – Special deposit accounts and deposit accounts

	2014-15 $'million	2013-14 $'million	Increase (Decrease) $'million
Special deposit accounts	3 862.0	2 406.2	1 455.8
Deposit accounts	868.9	655.3	213.6
Total	4 730.9	3 061.5	1 669.4

Such unspent balances do come under the scrutiny of Parliament as they are reported in the financial positions of agencies and in the Budget Papers, and the balances are also reported in Treasurer's Statements F and G.

Significant balances at 30 June 2015 were:

- ***Special deposit accounts*** – Highways Fund ($1.205 billion), Accrual Appropriation Excess Funds ($691 million), Victims of Crime Fund ($207 million) and the Treasury and Finance Administered Items ($173 million)

- ***Deposit accounts*** – SA Health Special Purpose Funds ($129 million), Agents Indemnity Fund ($66 million) and the Waste to Resources Fund ($68 million).[37]

Account balances are subject to the Treasurer's cash alignment policy that aims to minimise balances as discussed below.

11.5.1 Accrual Appropriation Excess Funds Account

The approved purpose of the Accrual Appropriation Excess Funds Account is to record all receipts and payments associated with surplus cash balances generated in agencies by the shift to accrual appropriations.

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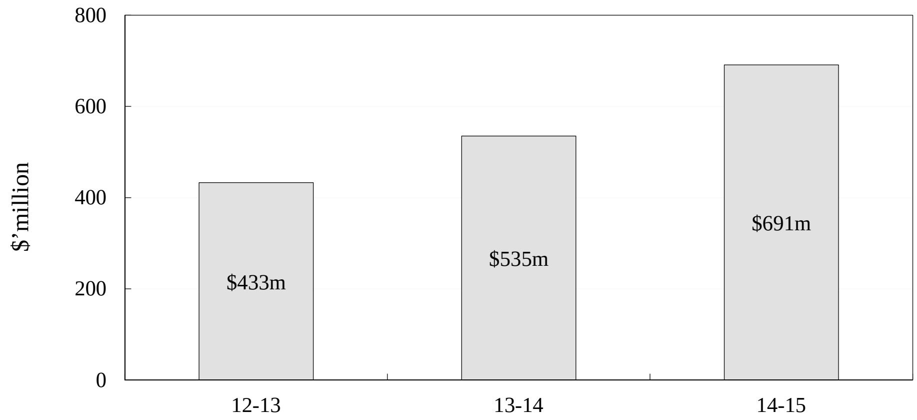
[36] PFAA section 8(5) – any surplus of income over expenditure standing to the credit of a special deposit account must, at the direction of the Treasurer, be credited to the Consolidated Account.

[37] Section 17(3)(a) of the *Zero Waste SA Act 2004* provides that the fund is to consist of at least 50% of the amount of levies collected from waste depot license holders by the Environment Protection Authority. This factor has partially contributed to the gradual increase in this deposit account's balance over the past several years.

Accrual appropriations are made to agencies for accruing leave liabilities (the value of the leave entitlement accruing to employees for the year rather than just the amount paid to employees taking leave in the year) and depreciation expenses.

Chart 11.1 – Accrual Appropriation Excess Funds Account



11.5.2 Treasury and Finance Administered Items – Intergovernmental Agreement on Federal Financial Relations Account (the Account)

The approved purpose of the Account is to receive and disburse money paid to the State pursuant to the Intergovernmental Agreement on Federal Financial Relations for the national SPP purposes listed in Schedule F of that agreement and for the National Partnership payments for the purposes listed in Schedule G of that agreement.

The operations of the Account are included in the DTF administered financial statements, which are included in Part B of the 2014-15 Annual Report. The balance in the Account at 30 June 2015 was $43.3 million. This entire balance is committed to various SA Government agencies to fulfil requirements under the Intergovernmental Agreement on Federal Financial Relations agreements.

11.5.3 Cash alignment policy

The Government's cash alignment policy seeks to align agency cash balances with appropriation and expenditure authority. Pursuant to the policy, payments are required to be made to return surplus cash to the Consolidated Account. All special deposit accounts are reviewed at least annually to determine whether there is surplus cash in an account. The policy supports the Treasurer's discretionary power to require surplus funds in special deposit accounts to be paid to the Consolidated Account.

A total of $147.2 million ($303.2 million in 2013-14) of surplus cash was returned to the Consolidated Account during 2014-15. The main amounts were as follows.

Table 11.7 – Cash alignment policy repayments

Agency	Total payments $'million
Department of Treasury and Finance – Administered Items	108.5
Education and Child Development	17.2
Environment Protection Authority	7.3

11.6 Equity contributions

Equity contributions to agencies are provided based on a DTF policy that provides guidance on budgeting for employee entitlements, depreciation, investing payments and appropriation, and for the operation of the Accrual Appropriation Excess Funds Account. Under the policy, agencies are provided with sufficient operating appropriation to fund their net operating expenses, including depreciation and employee entitlements.

Most investing payments are funded out of the appropriation provided to agencies for depreciation. In cases where net investing payments are less than the appropriation provided for depreciation, the surplus appropriation will be deposited into the Accrual Appropriation Excess Funds Account for future use. If the net cash requirement for investing payments exceeds depreciation, the cash shortfall is funded from the Accrual Appropriation Excess Funds Account or via an equity contribution if the balance in the Accrual Appropriation Excess Funds Account is not sufficient.

Treasurer's Instruction 3 'Appropriation' provides that where Schedule 1 to the *Appropriation Act* requires that money be appropriated to a public authority as a contribution of equity, as a loan or for program funding, the Treasurer acquires a financial interest in the net assets of the public authority concerned. Monies issued or applied from the Consolidated Account pursuant to this instruction are not to be reported by the public authority as revenues in the period in which they are received, but are to be shown separately in the public authority's Statement of Financial Position, as a contribution of equity by the SA Government.

Total equity contributions as at 30 June 2015 were $5194 million. Details of equity contributions provided to agencies are set out in the Statement I – Indebtedness of the Treasurer.

12 Whole-of-government/General government consolidated financial report

AASB 1049 ‘Whole of Government and General Government Sector Financial Reporting’ requires the preparation of the whole-of-government (WhOG) and general government sector financial reports. Accordingly, the WhOG and general government sector financial reports form one CFR that is usually presented at the same time as the final budget outcome by DTF.

Presently there is no requirement under the PFAA or other South Australian legislation to provide an independent audit opinion on the preparation of WhOG or general government sector financial reports.

Due to the timing of the preparation of the CFR, the last completed report relates to the year ended 30 June 2014, therefore the following commentary has been kept purposely brief.

12.1 AASB 1049 key concepts

The South Australian CFR is prepared by DTF pursuant to AASB 1049.

The CFR is not a general purpose financial report. As such it is unique, and is influenced by two significant matters that affect the form and content of the report. Firstly, it is a requirement to prepare a financial report for the general government sector. Secondly, AASB 1049 requires the use of a different accounting framework than that used by agencies when preparing their general purpose financial reports.

AASB 1049 requires financial reports to be prepared consistent with the principles and rules in the ABS publication ‘Australian System of Government Financial Statistics: Concepts, Sources and Methods’.

12.2 AASB 1049 and the reporting entity concept

The reporting entity concept adopted by AASB 1049 is reflective of the ‘enterprise unit’ whereby a reporting entity is an enterprise unit which may comprise of one or more legal bodies. The WhOG reporting entity includes government departments (general government sector), PNFCs, PFCs and other government-controlled entities. The general government sector financial report reflects that sector’s transactions with PNFCs, PFCs and non-SA Government sector entities.

12.3 Scope of consolidated financial report audit

Consistent with previous years, there is presently no requirement under the PFAA or other legislation to provide an independent audit opinion on the preparation of the CFR. Therefore, unless relevant legislative provisions are passed, I will not issue a formal independent audit opinion on the CFR.

Although there is no mandate for the Auditor-General to issue a formal independent audit opinion, I consider it both valuable, and within the ambit of wider public expectation, that the credibility and validity of such financial information be subject to some form of independent review.

Consequently, sufficient work has been undertaken in order to provide observations to DTF on the CFR annually since 1999. The key features of the CFR audit include a review of:

- the principles adopted in defining the economic entity for CFR purposes
- controls and procedures within DTF for evaluating the reliability and validity of data forwarded by agencies
- processes for the preparation of the CFR
- compliance with appropriate legislation and accounting frameworks, in particular AASs, Urgent Issue Group Consensus Views, Treasurer's Instructions and other professional reporting requirements in Australia.

Limitations still exist with the current reporting process. Notwithstanding these limitations, the usefulness and importance of the report in providing an understanding of the broad structure of the State's financial position is recognised as a key reporting tool of the Government.

12.3.1 Audit findings and comments

Following our review of the financial report for 2013-14, a management letter was forwarded to DTF in December 2014 detailing reporting and operational improvements.

The matters raised included:

- non-compliance with AASB 1049 which requires explanations of major variances between general government sector results and corresponding original budget amounts
- DTF's valuation approach for land under roads acquired before 1 July 2008 is inconsistent with the approach adopted by the Department of Planning, Transport and Infrastructure for land under roads after this date
- some disclosure requirements of AASB 13 'Fair Value Measurement' were not met
- the CFR does not include a range of financial reporting disclosures required by AASB 1023 'General Insurance Contracts'
- users of the CFR are not provided with meaningful information on the disaggregated nature of components of reported expenditure
- the understatement of South Australian Forestry Corporation land
- the misclassification of property, plant and equipment – specifically, the Department of Planning, Transport and Infrastructure buildings and structures under construction
- the misstatement of Fleet SA lease commitments.

Departmental response

DTF responded that our report comments are noted and that officers from the Public Finance Branch are currently reviewing the comments to determine whether the disclosures required or process improvements suggested are able to be made for the preparation of the 2014-15 CFR.

12.4 Consolidated financial report financial performance

The following discusses the financial performance for the WhOG as detailed in the CFR as at 30 June 2014. As previously discussed, data for the current year (due to the time needed for preparation) is not available at the time of this Report. The data below provides the opportunity to observe the financial result of the Government using a full accrual accounting basis, and the consolidation of all sectors. The consolidation process means that all inter-sector transactions are eliminated.

The following table summarises the WhOG financial performance per the CFR for the year ended 30 June 2014, with comparative amounts included for the prior year only. This table reflects the reporting and presentation requirements of AASB 1049.

Table 12.1 – CFR financial performance

	2014 $'million	2013 $'million
Revenue from transactions		
Taxation revenues	3 868	3 712
Grant revenue	8 144	8 119
Charges for goods and services	4 870	5 049
Interest income	747	821
Dividends and income tax equivalents	47	47
Other revenues	815	1 100
Total revenues from transactions	18 492	18 849
Expenses from transactions		
Employee expenses	7 432	7 190
Superannuation interest cost	468	314
Other superannuation expenses	766	705
Depreciation and amortisation	1 284	1 216
Use of goods and services	4 642	4 609
Interest expenses	1 055	1 159
Grant expenses	2 300	2 315
Other operating expenses	1 402	1 478
Total expenses from transactions	19 349	18 985
Net result from transactions – Net operating balance	(857)	(136)
Other economic flows – included in net result		
Net foreign exchange gains (losses)	(279)	114
Net gain (loss) on sale of non-financial assets	7	(42)
Net gain on financial assets or liabilities at fair value	893	127
Net actuarial gains of superannuation defined benefit plans	254	2 314
Other net actuarial losses	(271)	(411)
Other economic flows	(138)	(65)
Total economic flows included in net result	465	2 036
Net result	(392)	1 900

Other economic flows – other non-owner movements in equity	2014 $'million	2013 $'million
Changes in property, plant and equipment asset revaluation reserve	680	258
Net gain on financial assets at fair value	11	10
Prior period adjustments	10	2
Total other economic flows – non-owner movements in equity	701	270
Comprehensive result – change in net worth	309	2 169
Total change in net worth	309	2 169
Key fiscal aggregates		
Net operating balance	(857)	(136)
Less: Net acquisition of non-financial assets	667	311
Net lending/borrowing	(1 525)	(447)

The main variations in revenues in 2013-14 were as follows:

- ***Other revenues*** – decreased by 25.9% or $285 million. This decrease was mainly driven by a decline in other revenues (general) of $462 million, which was partially offset by increases in royalties of $101 million and resources received free of charge of $62 million.
- ***Interest income*** – decreased by 9% or $74 million. This decrease was primarily attributable to a decline in SAFA interest earnings of $115 million, offset by an increase in other investment revenue of $35 million.

The main variations in expenses in 2013-14 were as follows:

- ***Employee expenses*** – increased by 3.4% or $242 million. This growth was due mainly to an increase in TVSP payments of $101 million, rising salary and wages expenses of $69 million and annual leave expenses of $66 million.
- ***Interest expenses*** – decreased by 9% or $104 million. This decrease was generally due to lower interest charges experienced over 2013-14.

12.5 Consolidated financial report financial position

The following table summarises the WhOG financial position result per the CFR for the year ended 30 June 2014, with a comparative amount included for the prior year only. This table reflects the reporting and presentation requirements of AASB 1049.

Table 12.2 – CFR financial position

	2014 $'million	2013 $'million
Assets		
Financial assets		
Cash and deposits	1 674	1 331
Receivables	1 408	1 267
Advances paid	2 589	2 584
Investments, loans and placements	11 841	8 082
Investments – other	17 976	18 422
Interest in joint venture	810	801
Total financial assets	36 297	32 486

	2014 $'million	2013 $'million
Non-financial assets		
Produced assets:		
Inventories	597	552
Machinery and equipment	2 688	3 968
Buildings and structures	47 449	45 025
Heritage assets	1 133	1 128
Biological assets	37	74
Intangibles	87	94
Non-financial assets held for sale or distribution	27	6
Other non-financial assets	74	86
Non-produced assets:		
Land	12 042	12 091
Intangibles	351	349
Non-financial assets held for sale or distribution	145	140
Total non-financial assets	64 629	63 512
Total assets	100 927	95 998
Liabilities		
Deposits held	201	183
Borrowing	18 006	16 022
Payables	1 369	1 225
Employee benefits	2 540	2 547
Superannuation	10 877	11 085
Superannuation fund deposits	20 742	17 867
Provisions (other than employee benefits)	6 793	6 888
Other liabilities	962	1 052
Total liabilities	61 489	56 869
Net assets	39 437	39 129
Equity		
Retained earnings	2 374	2 556
Reserves:		
Asset revaluation reserve	36 939	36 424
Other reserves	90	121
Financial assets available for sale reserve	35	27
Total equity (net worth)	39 437	39 129

The main variations in assets in 2013-14 were as follows:

- ***Cash and deposits*** – increased by 26% or $343 million. This was mainly driven by an increase in SAFA short-term money market deposits.

- ***Receivables*** – increased by 11% or $141 million. This was mainly due to an increase in derivatives receivable – SAFA foreign exchange swaps of $207 million, offset by a decrease in GST receivable of $21 million and other taxes collectable of $20 million.

- ***Investments, loans and placements*** – increased by 47% or $3759 million. This increase was primarily driven by a $3302 million rise in marketable debt securities held with SAFA.

- ***Investments – other*** – decreased by 2% or $446 million. This decrease was mainly due to a decline in Government equity investments held Funds SA, ReturnToWorkSA and MAC.

- ***Machinery and equipment*** – decreased by 32% or $1280 million. This decrease was primarily due to a decline of $1245 million in plant, equipment and machinery under construction.

The main variations in liabilities in 2013-14 were as follows:

- ***Borrowings*** – increased by 12% or $1984 million. This increase is due to a rise in debt security holdings of $2008 million, offset by a decrease in lease liabilities of $25 million.

- ***Payables*** – increased by 12% or $144 million. This increase is mainly due to a rise in derivatives payable – SAFA foreign exchange swaps of $212 million and other payables of $21 million. These increases have been offset by a decrease in accruals of $112 million.

- ***Superannuation*** – decreased by 2% or $208 million. Refer to section 9.5.1 of this Report for a detailed explanation outlining the nature of fluctuations associated with this unique liability.

- ***Superannuation fund deposit liabilities*** – increased by 16% or $2875 million. This reflects an increase in the liability of Funds SA to all superannuation plans.

Acronyms used in this Report

Acronym	Description
AAS	Australian Accounting Standard[38]
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
BRCC	Budget Review Cabinet Committee
CFR	Consolidated financial report
CPI	Consumer price index
DTF	Department of Treasury and Finance
FTE	Full-time equivalent
GFS	Government Financial Statistics
GSP	Gross state product
GST	Goods and services tax
ICT	Information and communications technology
MAC	Motor Accident Commission
MYBR	Mid-year budget review
NFPS	Non-financial public sector
nRAH	New Royal Adelaide Hospital
PFAA	*Public Finance and Audit Act 1987*
PFC	Public financial corporation
PNFC	Public non-financial corporation
PPP	Public Private Partnership
ReturnToWorkSA	Return to Work Corporation of South Australia
SAFA	South Australian Government Financing Authority
SBCC	Sustainable Budget Cabinet Committee
SPP	Specific purpose current and capital payment
TVSP	Targeted voluntary separation package

[38] 'Australian Accounting Standards' means accounting standards issued by the Australian Accounting Standards Board that are in force in relation to the reporting period to which the financial report relates.