



2008 | 09

# BUDGET STATEMENT

## BUDGET PAPER 3

Presented by the Honourable Kevin Foley MP  
Deputy Premier and Treasurer of South Australia  
on the Occasion of the Budget for 2008–09



Government  
of South Australia



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Glossary of Terms used in the Budget Papers

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# **CHAPTER 1: FISCAL STRATEGY AND BUDGET PRIORITIES**

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## **Overview**

The 2008-09 Budget continues the government's record of strong economic and fiscal performance. Responsible financial management has allowed the government to increase expenditure in priority areas and make once in a generation investments to improve and rebuild the state's infrastructure.

At the same time the budget provides a fiscal outlook that supports the state's triple-A credit rating through operating surpluses of \$160 million in 2008-09, rising to \$424 million in 2011-12. This maintains a stable financial environment in which to invest and plan for the state's future.

The 2008-09 Budget contains additional expenditure of \$2.6 billion (net of operating savings) in the general government sector over the next four years. This expenditure is mainly in the priority areas of transport, health, family and community services and justice.

Significant investment in infrastructure is critical to South Australia's future growth and prosperity. The government is committed to ensuring quality infrastructure in priority service areas, including:

- the upgrade, extension and electrification of the rail system;
- health initiatives, including investments in hospital and ambulance infrastructure; and
- continued investment in families and communities, law and order and community safety.

In total, the Budget includes 10.3 billion of investment expenditure by the non-financial public sector over the next four years. This includes \$6.7 billion spent on the purchase of non-financial assets in the general government sector, which represents, on average, 66 per cent more each year than is estimated for the 2007-08 financial year.

In particular, the government is committed to spending \$1.2 billion on transport infrastructure initiatives. This will connect South Australia and deliver a modern and safe transport system for the state.

Over the forward estimate period, general government sector net infrastructure investment will exceed estimated depreciation on average by around \$900 million per year.

In addition, the budget provides tax relief for employers and first homebuyers as follows:

- The payroll tax threshold will be increased to \$552 000 from 1 July 2008 and will be further increased to \$600 000 from 1 July 2009. The payroll tax rate will also be reduced to 4.95 per cent from 1 July 2009; and
- The first homebuyer concession scheme will be replaced with a first home bonus grant of \$4000, which will be available for first home purchases valued up to \$400 000 and will phase out for first home purchases valued between \$400 000 and \$450 000.

## **Fiscal strategy**

The government's primary fiscal targets are to achieve:

- at least a net operating balance in the general government sector in every year; and

- net lending outcomes that ensure the ratio of net financial liabilities to revenue continues to decline towards that of other triple-A rated states.

Table 1.1 sets out the expected budget outcomes for 2008-09 and across the forward estimates.

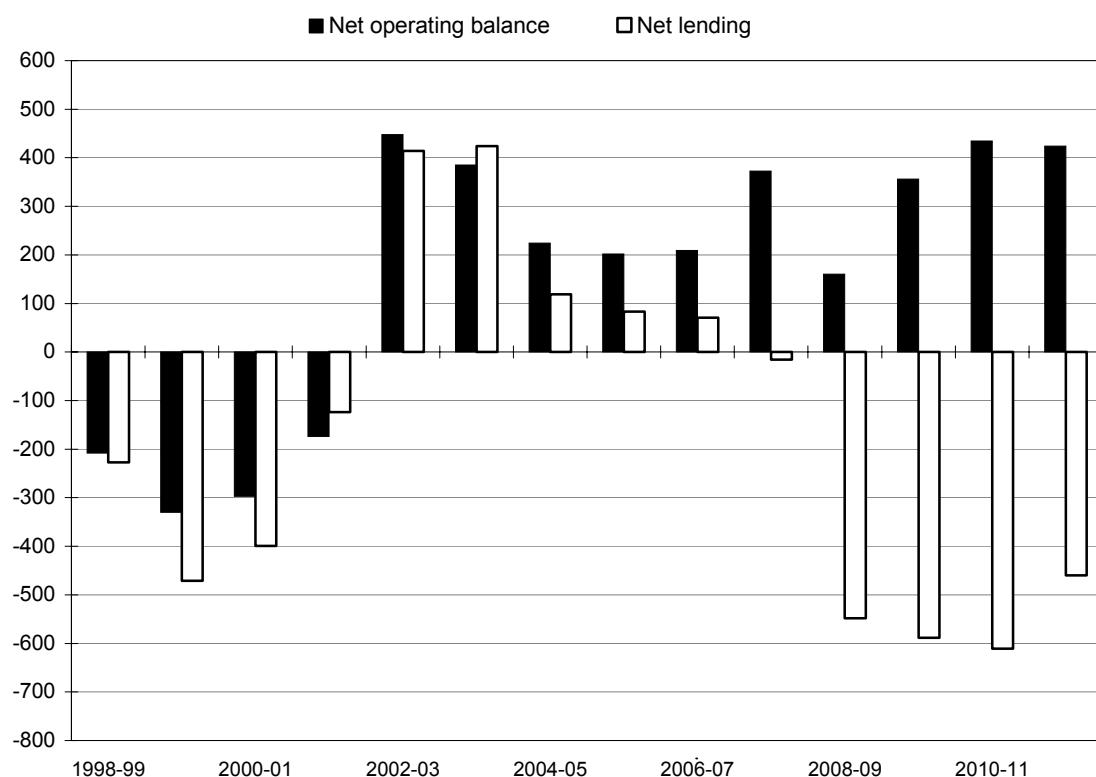
**Table 1.1: General government sector budget estimates**

		2007-08 Estimated result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Net operating balance	\$m	373	160	356	434	424
Net lending	\$m	- 15	- 548	- 589	- 611	- 460
Net financial liabilities to revenue	%	67.9	70.4	72.8	75.0	75.8

The net operating balance is a measure of whether revenues are sufficient to meet the expenses incurred by the government in delivering current services to the public, including expenses for future obligations like long service leave for its workforce. It is necessary for the long-term financial stability of the state that positive net operating balances are achieved — this underpins the triple-A credit rating.

Figure 1.1 illustrates that the general government sector net operating balance has been in surplus since 2002-03, with an estimated strong surplus in 2008-09 and significant surpluses predicted until 2011-12. Net lending deficits are forecast in the budget year and the following three forward years, reflecting the significant investment in infrastructure over this period.

**Figure 1.1: General government sector net operating balance and net lending (\$ million)**



1998-99 to 2006-07 are actual outcomes; 2007-08 to 2011-12 are forecasts.

The net lending measure is an indication of whether revenues are sufficient to cover expenses and net capital investment. A net lending deficit means that operating and investment expenditure has been funded from sources other than revenues, resulting in increased liabilities.

The net lending deficits forecast in the 2008-09 Budget and across the forward estimates reflect the government's significant capital investment program.

An important justification for the strong net operating results across the forward estimates is that they reduce the extent to which infrastructure expenditure results in increased liabilities.

This reflects a balanced and prudent fiscal strategy where revenues are sufficient to meet operating costs of government, and strong surpluses accommodate large investments in infrastructure.

Net debt is expected to increase over the forward estimates, primarily reflecting the impact of projected net lending deficits due to the government's significant capital investment program. General government net debt is expected to increase by \$1.9 billion between June 2008 and June 2012. Net debt remains at responsible levels over the forward estimates.

Net financial liabilities include borrowings and other significant liabilities, such as unfunded superannuation and provisions for long service leave entitlements. The unfunded superannuation liability is steadily increasing in nominal terms over the forward estimates, however, this remains consistent with the government's commitment to fully fund the superannuation liability by 2034.

It is important to differentiate between movements in the net financial liabilities that are due to changes in interest rates or actuarial estimates of superannuation or long service leave liabilities, and movements reflecting the fiscal stance of the government's budget. The former are outside the control of the government, and their year to year impact on net financial liabilities can be quite large. Significant variability in the reported level of unfunded superannuation liabilities, primarily due to changes to the accounting treatment of superannuation, changes in the discount rate, and earnings on superannuation assets, has resulted in the volatility of net financial liabilities over a number of years.

The ratio of general government sector net financial liabilities to revenue is forecast to increase across the forward estimates reflecting the growth in net debt associated with high levels of investment in capital projects. Refer to Chapter 5 for further details.

The increase in the net financial liabilities to revenue ratio across the forward estimates is not consistent with the longer term fiscal target of reducing this ratio towards that of other triple-A rated states. As noted above, the increase in the ratio reflects the Government's major infrastructure program. The Government is expanding its physical assets, and in doing so increasing its financial liabilities.

The infrastructure investments are targeted to improving the social and economic efficiency of the state and will result in a stronger South Australia.

It is relevant to note that a number of other triple-A rated states are also investing heavily in infrastructure with consequent increases in their net financial liability to revenue ratios.

The government's performance to date against its broader fiscal targets is summarised in Table 1.2.

**Table 1.2: Progress in achieving the government's fiscal targets**

Target	Progress in achieving target
<i>To achieve at least a net operating balance in the general government sector in every year.</i>	The projected net operating surpluses across the forward estimates are consistent with this objective.
<i>To achieve net lending outcomes that ensure the ratio of net financial liabilities to revenue continues to decline towards that of other triple-A rated states.</i>	The ratio is forecast to increase across the forward estimates, however this reflects a major infrastructure program aimed at strengthening the state. Other triple-A rated jurisdictions are also increasing their ratios.
<i>To ensure the state has an effective tax regime having regard to the government's social and economic objectives.</i>	The 2008-09 Budget delivers further payroll tax reforms. An increase in the payroll tax threshold and a further payroll tax rate cut will assist in maintaining a competitive environment for doing business in South Australia. Previously announced payroll tax harmonisation reforms and IGA tax reform measures will be implemented during the forward estimates period.
<i>To provide value for money community services and economic infrastructure within available means.</i>	The 2008-09 Budget provides for a significant increase in infrastructure spending over the forward estimates in accordance with the <i>Strategic Infrastructure Plan for South Australia</i> , while maintaining net debt at prudent levels.
<i>To fully fund accruing superannuation liabilities and progressively fund past service superannuation liabilities.</i>	The government is on target to fully fund superannuation liabilities by 2034.
<i>To ensure that risks to state finances are managed prudently, to maintain a triple-A rating.</i>	Triple-A ratings were confirmed by both Standard and Poor's and Moody's Investor Services in 2008.
<i>To ensure public non-financial corporations (PNFC) will only be able to borrow where they can demonstrate that investment programs are consistent with commercial returns (including budget funding).</i>	The Department of Treasury and Finance advises on PNFC compliance with the government's target as part of the Cabinet project approval process. It is the government's policy that projects approved by the relevant PNFC boards should also comply with this target.

## Fiscal outlook

The 2008-09 Budget demonstrates the government's continued commitment to providing funding for priority areas, and investing in improving and rebuilding the state's infrastructure to provide social and economic benefits for South Australia. Table 1.3 illustrates a strong net operating balance for 2008-09 and significant net operating balances to 2011-12, with net lending deficits in the forward years reflecting the government's substantial capital investment program.

The full suite of accrual statements produced under the Uniform Presentation Framework is provided at Appendix A. Table 1.3 provides operating statement details for the general government sector for 2007-08, the budget year and the following three forward years.

**Table 1.3: General government sector operating statement — 2007-08 to 2011-12 (\$ million)**

	2007-08 Budget	2007-08 Estimated result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>GFS Revenue</b>						
Taxation revenue	3 243	3 566	3 615	3 699	3 839	4 026
Current grants	6 089	6 258	6 526	6 763	7 017	7 350
Capital grants	298	314	382	482	411	311
Sales of goods and services	1 505	1 561	1 601	1 660	1 729	1 798
Interest income	170	201	200	198	217	233
Other	835	925	930	920	1 032	1 022
<i>Total revenue</i>	<i>12 140</i>	<i>12 825</i>	<i>13 255</i>	<i>13 722</i>	<i>14 246</i>	<i>14 741</i>
<i>less</i>						
<b>GFS expenses</b>						
Gross operating expenses						
Employee expenses	5 702	5 861	6 116	6 320	6 496	6 671
Depreciation	497	531	593	637	678	725
Other operating expenses	3 107	3 142	3 281	3 348	3 538	3 718
Nominal superannuation interest expense	282	276	370	371	372	372
Other interest expenses	214	225	234	265	314	382
Other property expenses	—	—	—	—	—	—
Current transfers	2 216	2 293	2 372	2 295	2 282	2 317
Capital transfers	92	126	129	130	131	132
<i>Total expenses</i>	<i>12 110</i>	<i>12 452</i>	<i>13 094</i>	<i>13 366</i>	<i>13 812</i>	<i>14 317</i>
<i>equals</i>						
<b>GFS net operating balance</b>	<b>30</b>	<b>373</b>	<b>160</b>	<b>356</b>	<b>434</b>	<b>424</b>
<i>less</i>						
<b>Net acquisition of non-financial assets</b>						
Purchases of non-financial assets	1 021	1 007	1 396	1 694	1 860	1 730
<i>less</i> Sales of non-financial assets	66	88	94	113	137	121
<i>less</i> Depreciation	497	531	593	637	678	725
<i>plus</i> Change in inventories	—	—	—	—	—	—
<i>plus</i> Other movements in non-financial assets	—	—	—	—	—	—
<i>Total net acquisition of non-financial assets</i>	<i>458</i>	<i>388</i>	<i>709</i>	<i>945</i>	<i>1 045</i>	<i>884</i>
<i>equals</i>						
<b>GFS net lending</b>	<b>-428</b>	<b>-15</b>	<b>-548</b>	<b>-589</b>	<b>-611</b>	<b>-460</b>

Note: Totals may not add due to rounding.

The attachment to this chapter summarises the variations to the general government net operating and net lending estimates since the 2007-08 Budget and 2007-08 Mid-Year Budget Review (MYBR).

## Key budget aggregates and fiscal trends

Key budget indicators are summarised in Table 1.4.

**Table 1.4: Summary of key general government sector budget indicators**

		2006-07 Actual	2007-08 Estimated	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Budget balances</b>							
Net operating balance	\$m	209	373	160	356	434	424
Net lending	\$m	71	- 15	- 548	- 589	- 611	- 460
Cash surplus	\$m	- 26	70	- 530	- 545	- 527	- 363
<b>Revenue and expenses</b>							
Revenue real growth	%	1.9	5.7	-0.4	0.7	1.3	0.9
Expenses real growth	%	2.0	4.5	1.3	-0.7	0.8	1.1
<b>Interest ratios</b>							
Net interest to revenue <sup>(a)(b)</sup>	%	0.3	0.2	0.3	0.5	0.7	1.0
Net interest plus nominal superannuation interest to revenue <sup>(b)</sup>	%	3.0	2.4	3.1	3.2	3.3	3.6
<b>Balance sheet indicators<sup>(c)(d)(e)</sup></b>							
Net debt	\$m	- 24	82	610	1 154	1 677	1 983
Net debt to revenue	%	-0.2	0.6	4.6	8.4	11.8	13.5
Unfunded superannuation	\$m	5 075	6 910	6 992	7 062	7 120	7 164
Net financial liabilities	\$m	7 254	8 710	9 330	9 996	10 688	11 179
Net financial liabilities to revenue	%	61.7	67.9	70.4	72.8	75.0	75.8
Net worth	\$m	22 128	21 682	22 425	23 361	24 320	25 427

(a) Net interest does not include nominal superannuation interest expense.

(b) Revenue does not include interest income.

(c) There is a structural break in 2008 reflecting the transfer of rail assets from TransAdelaide to the general government sector. This results in an increase in net debt and net financial liabilities of \$80 million in 2007-08 and no impact on net worth.

(d) There is a structural break in 2008 reflecting the transfer of assets from the Adelaide Festival Centre Trust to the general government sector. This results in an increase in net debt and net financial liabilities of \$28 million in 2007-08, with no impact on net worth.

(e) South Australia's share of the net assets of the Murray-Darling Basin Commission has been recognised for the first time in 2008. The impact of this is to reduce net financial liabilities by \$615 million.

Note: Real terms calculations use the Adelaide Consumer Price Index.

A strong net operating surplus is expected for the budget year and significant net operating surpluses are expected across the three forward years.

The net operating balance for 2007-08 is significantly higher than for 2008-09 as a result of a combination of factors including:

- the effect of lower than expected returns on superannuation assets and changes to actuarial assumptions impacting the nominal superannuation interest expense by approximately \$100 million per annum from 2008-09;
- operating carryovers of \$82 million from 2007-08 into later years, predominantly 2008-09; and
- the impact of new spending measures commencing in 2008-09.

The increase in reported net operating balance between 2008-09 and 2009-10 is attributable to:

- a \$100 million increase in capital grants between 2008-09 and 2009-10, predominantly AusLink grants;

- operating carryovers from 2007-08 result in a \$65 million increase in expenditure in 2008-09 that does not continue into 2009-10; and
- impact of water restrictions on dividend receipts does not continue into 2009-10.

Net lending deficits from 2008-09 to 2011-12 reflect the record levels of capital expenditure made by the government to improve and rebuild the state's infrastructure. Chapter 2 provides further information on the government's capital investment program.

General government sector revenue growth is projected to moderate over the forward estimate period compared with 2007-08. This reflects:

- the impact of new and previously announced tax reforms that take effect over the next three years;
- an anticipated modest slowing of property market conditions in 2008-09 from the strong growth experienced in recent years. The forward estimates assume only modest growth in property prices with turnover gradually returning to long term trend levels; and
- lower growth in GST revenue grants compared with 2007-08 reflects moderating growth in the GST pool and anticipated changes to South Australia's share of the pool due to our declining population share and changes in South Australia's relative fiscal requirement as determined by the Commonwealth Grants Commission.

General government sector expenditure increases in real terms modestly over the forward estimates, with a slight dip in 2009-10 due, in part, to the absence of carryover expenditure from the previous year and a peak in savings announced in the 2006-07 Budget.

General government sector net debt, unfunded superannuation and net financial liabilities are forecast to increase across the forward estimates, including the ratio of net financial liabilities to revenue.

The largest component of net financial liabilities is the unfunded superannuation liability. The unfunded superannuation liability is an obligation to current and former members of the defined benefit superannuation schemes that will need to be met in future years. The unfunded superannuation liability at June 2008 is expected to be around \$6.9 billion. On current forecasts, the unfunded superannuation liability will grow in nominal terms until 2014 before reducing until the liability will be fully funded in 2034. Chapter 5 provides more information on superannuation assets and liabilities.

Net financial liabilities also includes other liabilities of the general government sector such as long service leave entitlements, offset by financial assets (excluding equity held in public non-financial corporations and public financial corporations) of the sector.

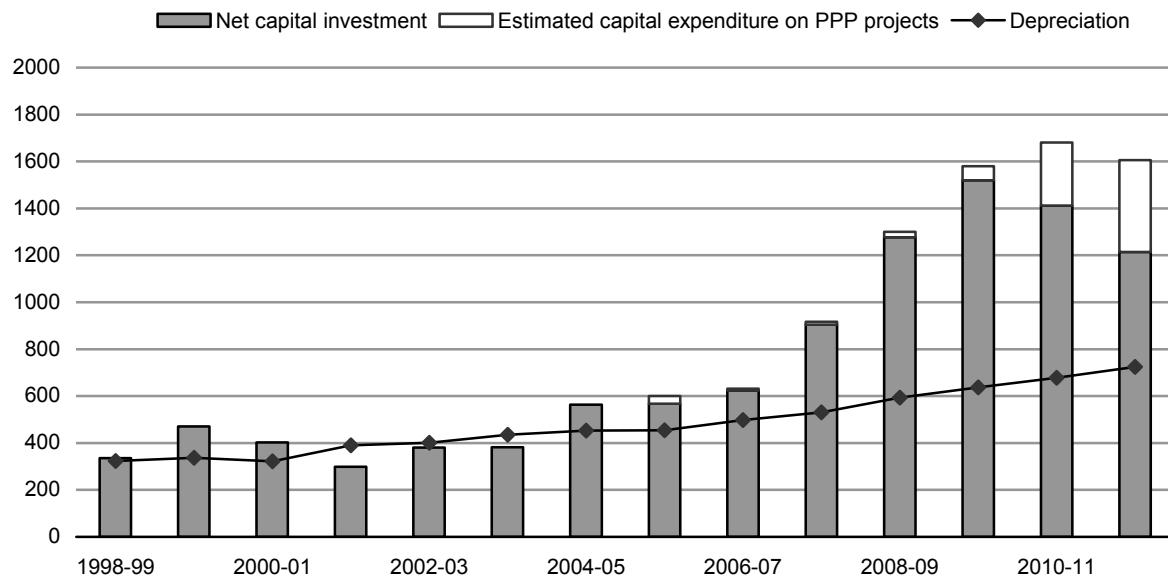
Net worth is the total value of physical and financial assets, including the net assets of the public non-financial corporations and public financial corporations, less the value of liabilities.

Table 1.4 shows a \$3.7 billion improvement in the net worth of the general government sector from June 2008 to June 2012. The net assets of public non-financial corporations and public financial corporations controlled by the government are also forecast to increase across the forward estimates, primarily as a result of operating surpluses and revaluation of assets. Chapter 5 provides further information on changes in net worth.

Figure 1.2 shows historically high levels of net capital investment across the forward estimates. The annual average net capital investment (including Public Private Partnerships) exceeds \$1.5 billion over this period. Gross capital investment spending is expected to average \$1.7 billion per annum from 2008-09 to 2011-12.

General government sector net infrastructure investment is expected to be over twice the level of depreciation over the forward estimate period, reflecting the significant ongoing investment in the state's underlying infrastructure.

**Figure 1.2: General government sector capital investment (\$ million)**



1998-99 to 2006-07 are actual outcomes. 2007-08 to 2011-12 are forecasts.

Note: Net capital investment is purchases of assets less asset sale proceeds. There is a break in the series due to changed arrangements for reporting of the state's vehicle fleet. In 2003-04 and 2004-05 the government transitioned from lease to ownership. In addition, Public private partnerships (PPPs) arrangements for secure facilities and schools have been included, as they are recognised as finance leases in the balance sheet.

Capital expenditure can only be funded from operating surpluses, sales of assets or through increases in net debt. By delivering operating surpluses, the need for new borrowings, and increased debt, has been constrained.

Table 1.5 compares key general government sector aggregates across jurisdictions.

**Table 1.5: Interstate comparison of key general government aggregates (figures for 2008-09)**

Indicators	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Net operating balance (\$m)	664	828	156	1 855	160	179	-6	111
Net lending (borrowing) (\$m)	-1 472	-442	-3 227	125	-548	147	-105	-81
Net debt to revenue (%)	10.4	9.9	-66.4	-13.8	4.6	-28.7	-97.5	27.7
Net financial liabilities to revenue (%) <sup>(a)(b)</sup>	60.2	60.0	12.2	20.2	70.4	54.2	26.0	101.4
Credit rating <sup>(d)</sup>	AAA	AAA	AAA	AAA	AAA	AA+	AAA	Aa1

Source: Data has been sourced from jurisdictions' 2008-09 Budget Papers (Victoria, Western Australia, Australian Capital Territory and the Northern Territory) and 2007-08 Mid-Year Budget Reviews (New South Wales, Queensland and Tasmania for which 2008-09 Budget information was not available at the time of publication).

- (a) Comparisons between jurisdictions' net financial liabilities to revenue ratio need to be interpreted with care given accounting and other differences that can affect the estimated size of assets and liabilities.
- (b) NSW and Tasmania's net financial liabilities to revenue include deferred tax benefit assets recognised on those states' balance sheets. This treatment is not followed by other states and not supported by the ABS. Removal of these assets is conservatively estimated to result in an increase in the ratio to 71.8% for NSW and 78.3% for Tasmania.
- (c) Credit rating as assigned by Standard & Poor's, other than for the Northern Territory, where the Moody's rating is shown.

Table 1.5 shows that in 2008-09, most jurisdictions are forecasting general government sector net operating surpluses. In contrast, all jurisdictions, with the exception of Western Australia and Tasmania, are forecasting net lending deficits. This highlights that most jurisdictions are investing

substantial funds into infrastructure projects, funded, in part, by operating surpluses and, in part, by debt or other liabilities.

South Australia's ratio of net financial liabilities to revenue is the highest of all the triple-A rated states.

## Budget priorities

The 2008-09 Budget contains new operating and investing initiatives totalling \$2.9 billion in the general government sector over the next four years. Funding has been provided to address growing demands in health services and to improve a wide variety of transport and community services. New expenditure initiatives are concentrated within the portfolios of Transport, Energy and Infrastructure, Health, Families and Communities and Justice. Initiatives include:

- \$1.4 billion for transport, energy and infrastructure initiatives, including \$648.4 million to upgrade, extend and electrify the rail system;
- \$462.4 million for health initiatives, including additional support for growing hospital activity and demand for ambulance services;
- \$316.1 million for Families and Communities to provide for the growing number of children in care, including foster care, support services and an early intervention case management program; and
- \$172.8 million for new initiatives to uphold law and order and community safety.

The additional investment in these portfolios will be partially offset by operating savings measures totalling \$290.4 million across government.

## **Attachment — Variations in the net operating balance and net lending estimates since the 2007-08 Budget and the 2007-08 Mid-Year Budget Review**

**Table 1.6: Net operating balance – policy and parameter variations since the 2007-08 Budget (\$ million)**

	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
<b>Estimate at 2007-08 Budget</b>	<b>30</b>	<b>205</b>	<b>336</b>	<b>278</b>
<b>Parameter and other variations</b>				
Revenue - taxation	173	152	159	170
Revenue - other	79	324	424	418
Operating expenses	-207	-351	-391	-496
<b>Net effect of parameter and other variations</b>	<b>45</b>	<b>126</b>	<b>193</b>	<b>92</b>
<b>Policy measures</b>				
Revenue - taxation	—	-4	-5	-6
Revenue - other	1	1	1	1
Operating expenses	-24	-39	-31	-34
<b>Net effect of policy measures</b>	<b>-23</b>	<b>-41</b>	<b>-35</b>	<b>-39</b>
<b>Use of provisions set aside in the 2007-08 Budget</b>				
Operating expenses	31	19	24	25
<b>Estimate at 2007-08 Mid Year Budget Review</b>	<b>83</b>	<b>308</b>	<b>517</b>	<b>356</b>
<b>Parameter and other variations</b>				
Revenue - taxation	150	151	130	138
Revenue - other	252	103	82	168
Operating expenses	20	-259	-189	-172
<b>Net effect of parameter and other variations</b>	<b>421</b>	<b>-5</b>	<b>24</b>	<b>134</b>
<b>Policy measures up to the Budget</b>				
Revenue - taxation	—	-1	-1	-1
Revenue - other	1	4	4	4
Revenue offsets - taxation	1	1	1	1
Revenue offsets	8	5	1	—
Operating expenses	-29	-24	-26	-26
<b>Net effect of policy measures up to the 2008-09 Budget</b>	<b>-18</b>	<b>-15</b>	<b>-21</b>	<b>-21</b>
<b>Policy measures in the Budget</b>				
Revenue - taxation	—	-12	-29	-33
Revenue - other	—	-1	—	—
Revenue offsets - taxation	—	4	9	11
Revenue offsets	21	38	77	134
Operating expenses	-221	-274	-325	-253
<b>Net effect of policy measures in the 2008-09 Budget</b>	<b>-200</b>	<b>-246</b>	<b>-268</b>	<b>-141</b>
<b>Use of provisions set aside in the 2007-08 Budget and the 2007-08 Mid Year Budget Review</b>				
Operating expenses	88	117	104	106
<b>Estimate at 2008-09 Budget</b>	<b>373</b>	<b>160</b>	<b>356</b>	<b>434</b>

Note: Totals may not add due to rounding.

**Table 1.7: Net lending – policy and parameter variations since the 2007-08 Budget (\$ million)**

	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
<b>Estimate at 2007-08 Budget</b>	<b>-428</b>	<b>-383</b>	<b>-167</b>	<b>-314</b>
<b>Net effect of operating variations to 2007-08 MYBR</b>	53	103	181	78
<b>Investing variations<sup>(a)</sup></b>				
Parameter variations	-30	-124	-219	-294
Policy variations	-7	28	-40	-9
Use of provisions set aside in the 2007-08 Budget	15	7	6	—
<b>Total investing variations</b>	<b>-23</b>	<b>-89</b>	<b>-253</b>	<b>-304</b>
<b>Estimate at 2007-08 MYBR</b>	<b>-398</b>	<b>-369</b>	<b>-239</b>	<b>-540</b>
<b>Net effect of operating variations</b>	290	-148	-161	78
<b>Investing variations<sup>(a)</sup></b>				
Parameter variations	79	59	48	158
Policy variations up to the 2008-09 Budget	4	-17	-30	-9
Policy variations in the 2008-09 Budget	-1	-154	-320	-465
<b>Total investing variations</b>	<b>82</b>	<b>-112</b>	<b>-302</b>	<b>-316</b>
<b>Use of provisions set aside in the 2007-08 Budget and the 2007-08 Mid Year Budget Review</b>				
Net capital investment expenditure	10	80	113	166
<b>Estimate at 2008-09 Budget</b>	<b>-15</b>	<b>-548</b>	<b>-589</b>	<b>-611</b>

Note: Totals may not add due to rounding

(a) Investing variations relate to the movements in the net acquisition of non-financial assets.

**Table 1.8: Revenue, expense and capital investment expenditure variations (parameter and other) since the 2007-08 Mid-Year Budget Review (\$ million)**

	2007-08	2008-09	2009-10	2010-11
<b>Revenue-Taxation</b>				
Payroll tax	22	22	19	21
Conveyances	112	54	40	43
Land tax - private	-1	48	49	52
Land tax - public	-5	3	2	2
Other property tax	3	3	—	—
Insurance taxes	8	9	9	10
Gambling tax	—	2	-1	-1
Motor vehicle taxes	12	11	11	11
<b>Total taxation revenue</b>	<b>150</b>	<b>151</b>	<b>130</b>	<b>138</b>
<b>Revenue-Other</b>				
GST revenue grants	39	-41	8	23
Specific purpose Commonwealth grants	89	114	49	20
Royalties	9	16	33	50
Interest income	2	2	-7	-1
Distributions from PNFCs	48	-11	-41	-4
Distributions from PFCs	-1	—	-1	49
Other agency revenues	66	22	42	32
<b>Total other revenue</b>	<b>252</b>	<b>103</b>	<b>82</b>	<b>168</b>
<b>Operating Expenses</b>				
Nominal superannuation interest expense	—	-97	-98	-99
Interest Expense	1	21	21	1
Carryovers	82	-65	-11	-4
Depreciation	-36	-49	-59	-62
Other Variations	-28	-69	-42	-8
<b>Total expenses</b>	<b>20</b>	<b>-259</b>	<b>-189</b>	<b>-172</b>
<b>Net Capital Investment Expenditure</b>				
Carryovers	152	-79	-57	-7
Provision for project slippage	-90	120	—	—
Depreciation	36	49	59	62
Other Variations	-19	-31	46	103
<b>Total net capital investment expenditure</b>	<b>79</b>	<b>59</b>	<b>48</b>	<b>158</b>

Note: Totals may not add due to rounding

### ***Variations in revenue estimates (parameter and other)***

Since the 2007-08 Mid-Year Budget Review (MYBR), taxation revenues have been revised up mainly in respect of property taxes and, to a lesser extent, payroll tax. Upward revisions to property tax revenues mainly reflect continuing strong growth in property values, impacting on conveyance duty and land tax estimates. Activity levels have also been revised up since MYBR, but mainly in 2007-08. As a result, revisions to conveyance duty estimates are larger in 2007-08.

Land tax estimates have been revised up from 2008-09 onwards. Continued growth in land values during calendar year 2007 will be reflected in updated land valuations used for 2008-09 land tax assessments. Higher land valuations for 2008-09 flow through as a base effect to future years.

Upward revisions to payroll tax revenue reflect stronger than expected economic conditions in 2007-08 impacting on employment and earnings growth. Upward revisions to payroll tax estimates for 2007-08 flow through as a base effect to future years.

Revenue from insurance duty and motor vehicle taxes has also exceeded expectations in 2007-08 and this also flows through as a base effect to future years.

The upward revision to GST revenue grants in 2007-08 reflects revisions to the GST pool available for distribution to the state. Upward revisions have also been made by the Commonwealth to GST pool estimates for future years. Revisions are smaller in 2008-09 reflecting lower growth assumptions for taxable expenditures and large GST refunds expected to be paid following the Federal Court decision in *KAP Motors v Commissioner of Taxation [2008] FCA IS9 (KAP Motors)*.

Upward pool revisions are partially offset by downward revisions to South Australia's estimated share of the pool having regard to the lower than anticipated increase from the Commonwealth Grants Commission's 2008 relativity update, anticipated changes in future relativity assessments and South Australia's declining population share.

Commonwealth specific purpose recurrent grants have been significantly revised up since MYBR due mainly to recurrent grants for health including Australian Health Care Agreement funding, and grants for non-government schools.

Since the MYBR royalty revenue has been revised up reflecting upward revisions to oil prices and production levels in the Cooper Basin. Royalty revisions are larger in the later years of the forward estimate period reflecting royalty revenue from new mines.

Distributions from PNFCs have been revised up in 2007-08 due mainly to Land Management Corporation (LMC) distributions reflecting continued high levels of demand for land. In subsequent years, the increase in distributions from LMC is more than offset by downward revisions to distributions from SA Water as a result of decreasing water sales in 2008-09 due to the continuation of water restrictions and increased operating expenses associated with SA Water's additional capital investment.

A large upward revision in 2010-11 to distributions from PFCs relates to the return of funds from SAFA reflecting a return of excess capital by SAFA in that year.

### ***Variations in expense and capital investment expenditure estimates (parameter and other)***

The nominal superannuation interest expense in 2007-08 is expected to be \$276 million, consistent with forecasts in the 2007-08 Mid-Year Budget Review. In 2008-09 and across the forward estimates, nominal superannuation interest expense is expected to be higher than estimated in the 2007-08 Mid-Year Budget Review (by approximately \$100 million per annum). This reflects the impact of upward revisions to the unfunded superannuation liability across the forward estimates, primarily as a result of significantly lower than expected earnings on superannuation assets in 2007-08; and changes in demographic and economic factors as a result of the independent triennial actuarial review.

Table 1.9 shows that the net interest expense across the forward estimate period has decreased slightly since the 2007-08 Mid-Year Budget Review. This reflects the impact on net interest expense of a lower estimate of net debt for 2007-08 than previously published, more than offsetting the impacts on net interest expense of upward revisions of net debt in the later years of the forward estimates.

**Table 1.9: Net interest expense (\$ million)<sup>(a)</sup>**

	<b>2007-08 Estimated result</b>	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>
2007-08 MYBR	27	58	81	98
2008-09 Budget	24	34	67	97
<b>Increase in net interest expense since MYBR</b>	<b>-3</b>	<b>-24</b>	<b>-14</b>	<b>-1</b>

(a) Net interest expense is interest expense less interest income.

Carryover expenditure reflects under expenditure by agencies in 2007-08, which will now be incurred in later years, partially offset by carryovers from 2006-07.

The carryover of capital expenditure in 2007-08 reflects delays in project expenditure. Where appropriate, an estimate of expenditure by agencies for these projects has been carried forward into future years. Investing carryovers from 2007-08 to 2008-09 and future years are \$154 million, in part reflecting the size of the capital program. A \$120 million provision for capital slippage is included in 2008-09, based on the established tendency for projects to slip behind schedule.

# CHAPTER 2: EXPENDITURE

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## Overview

This chapter describes the government's expenditure decisions and trends in aggregate general government expenditure. The decisions reflect the government's overall priorities and have been guided by *South Australia's Strategic Plan*. The 2008-09 Budget contains additional expenditure of \$2561.6 million (net of operating savings) in the general government sector over the next four years. This includes new operating and investing initiatives totalling \$2851.9 million over the next four years, and operating savings of \$290.4 million. Revenue offsets of \$447.0 million and asset sales of \$78.7 million over the same period are not included in these figures but are shown separately in Tables 2.3–2.15.

Table 2.1 shows the value of operating and investing initiatives across the forward estimates.

**Table 2.1: General government expenditure initiatives (\$ million)<sup>(a)</sup>**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
Operating initiatives <sup>(b)</sup>	-282.5	-360.4	-338.3	-397.1
Operating savings	8.2	35.6	85.7	160.9
Revenue offsets <sup>(c)</sup>	41.3	86.0	144.7	175.0
<b>Net Operating Balance Impact</b>	<b>-233.0</b>	<b>-238.8</b>	<b>-107.8</b>	<b>-61.3</b>
Investing initiatives	-157.9	-339.1	-491.8	-484.9
Asset sales	3.8	18.9	26.5	29.5
<b>Net Lending Impact</b>	<b>-387.2</b>	<b>-559.0</b>	<b>-573.1</b>	<b>-516.7</b>

(a) Table may not add due to rounding.

(b) Excludes depreciation on investing initiatives.

(c) Revenues received from external parties for the specific purpose of, and incidental to, an expenditure measure contained in this chapter. This includes contributions received from the Commonwealth Government totalling \$351.0 million.

New expenditure initiatives are concentrated within the portfolios of Transport, Energy and Infrastructure; Health; Families and Communities; and Justice.

The Transport, Energy and Infrastructure portfolio will receive an additional \$1422.4 million for new initiatives (\$1249.7 million investing and \$172.6 million operating) over the next four years, partially offset by savings of \$31.7 million and asset sales of \$41.6 million.

The budget includes \$648.4 million over four years for urban rail revitalisation, including:

- \$245.0 million to extend the tram network to the Adelaide Entertainment Centre, including additional light rail vehicles, and to commence electrification of the Outer Harbor rail line;
- \$209.7 million for the electrification of the Noarlunga Line; and
- \$193.7 million for the upgrade of rail infrastructure, including resleepering on the Gawler Line, the upgrade of railcars and the purchase of new trams.

The budget also provides for the following major investments in the transport system:

- \$377.9 million (of which the Commonwealth Government will contribute \$252.9 million) for the design, construction and maintenance of road infrastructure on the state's AusLink transport network;

- \$64.4 million over four years to add 80 new buses to the public transport fleet and \$48.4 million for the provision of train and light rail services;
- \$51.4 million over four years for road/rail safety initiatives, including road shoulder sealing, level crossing upgrades, removal of rural road hazards, the purchase of drug driver testing equipment, and additional speed cameras;
- \$29.0 million over three years from 2009-10 for a new public transport ticketing system;
- \$24.9 million over three years to upgrade two major road intersections (South Road/Victor Harbor Road and Diagonal Road/Morphett Road); and
- \$10.5 million over four years for the repair and replacement of road bridges, ferries and road pavement.

The Health portfolio budget will contain additional new initiatives of \$462.4 million over the next four years, partially offset by savings of \$81.0 million. Major initiatives include:

- \$357.1 million over four years for growth in hospital activity and goods and services;
- \$56.0 million to redevelop the Berri and Whyalla Hospitals, to expand capacity and increase the range of services provided;
- \$26.6 million over four years for the SA Ambulance Service to meet the increased demand for ambulance services, including for additional vehicles and equipment; and
- \$15.0 million (fully funded by the Commonwealth) to build a Children's Cancer Centre at the Women's and Children's Hospital.

Families and Communities will receive \$316.1 million for new initiatives over the next four years, partially offset by savings of \$50.4 million. Major initiatives include:

- \$142.1 million for growth in the number of children in care, including the cost of foster care payments and support services;
- \$72.9 million (fully funded by the Commonwealth) for an expansion in disability services under the Commonwealth State Territory Disability Agreement (CSTDA);
- \$48.4 million for initiatives to reduce the number of children requiring care, including an early intervention case management program, and providing additional support to carers and families; and
- \$26.6 million for on-going support to supported residential facilities in the disability sector.

The Justice portfolio will receive an additional \$172.8 million over the next four years demonstrating the government's on-going commitment to law and order and community safety. Savings of \$9.7 million are also included in the budget. Major initiatives include (over the next four years):

- \$35.9 million for 209 additional prison bed spaces to provide for growth in prisoner numbers;
- \$19.6 million for the Country Fire Service to respond to the Wangary bushfire coronial inquest findings, including a dedicated South Australian airplane during the fire season; and
- \$18.9 million to address criminal case backlogs through the reopening of District Court facilities in Sturt Street.

The budget includes a package of \$11.5 million (over four years) to address the recommendations made in the *To Break The Cycle* report including:

- \$5.7 million for the Department of the Premier and Cabinet to establish a community protection panel to provide intensive monitoring and intervention strategies for serious repeat offenders; and for cultural programs encouraging at risk Aboriginal youth to enter and stay with education, training and employment pathways;
- \$5.0 million in Families and Communities for multidisciplinary youth justice teams, providing case management, programs and services to young offenders; and for the continuation of the Tirkandi school retention program aimed at Aboriginal youth attending Warriappendi School; and
- \$829 000 to implement the ‘David Kennedy model’, a preventative approach that discourages repeat offending by youth in disadvantaged areas.

A number of Commonwealth Government election commitments are being progressed as part of the Council of Australian Governments (COAG) process, including initiatives in health, education, training and housing. While it is anticipated that the Commonwealth Government will fund these proposals a provision is contained in the budget for possible implications on relevant state operations.

The 2008-09 Budget includes operating savings measures totalling \$290.4 million over the next four years. This includes a savings target allocated across portfolios that will save \$25 million in 2009-10, \$75 million in 2010-11 and \$150 million in 2011-12. These savings have been removed from agency overall budgets in amounts shown in Tables 2.3–2.15. Details of the specific measures that will achieve the first tranche of \$25 million from 2009-10 will be presented in the 2009-10 Budget. Specific savings measures of \$40.4 million over the next four years in the Families and Communities portfolio include a range of administrative efficiencies and rationalisation of service delivery arrangements that have been implemented to partially address overspending in that portfolio.

Saving measures announced in the 2006-07 Budget and the 2007-08 Budget are proceeding. Agency and whole of government savings are regularly monitored and are progressing well. Since the 2007-08 Budget, the government has decided not to proceed with the whole of government community grants saving (\$1.8 million in 2008-09), workers compensation school management saving (\$7.0 million in 2008-09) and the Senior Secondary Assessment Board of South Australia efficiencies (\$1.3 million in 2008-09).

Revenue offsets in this chapter include revenues received from external parties for the specific purpose of, and incidental to, an expenditure measure contained in this chapter. This includes contributions from the Commonwealth Government of \$351.0 million, including \$252.9 million under the AusLink program and \$72.9 million under the Commonwealth State Territory Disability Agreement (CSTDA). General revenue initiatives and agency revenue measures are detailed in Chapter 3.

Portfolio details on operating, investing and savings initiatives of this budget are provided in Tables 2.3–2.15.

In addition to the new budget measures summarised in Table 2.1 a number of measures were approved in the period following the *2007-08 Mid-Year Budget Review*. These measures are shown as Memorandum items in Tables 2.3–2.15 and include:

- \$43.0 million over four years, commencing in 2007-08 for the construction of a Film and Screen Hub within the Glenside Cultural Precinct;
- \$25.1 million over four years for additional accommodation and staffing costs for 150 prisoners. An additional \$6.4 million was provided in 2007-08; and

- \$10.0 million state contribution, over three years, as part of a \$50.0 million package that also included \$35.0 million from the Commonwealth and a proposed \$5.0 million contribution from Mitsubishi, to support workers affected by the closure of Mitsubishi Motors' Tonsley Park manufacturing facility. In addition, following the \$35.0 million loan repayment by Mitsubishi Corporation to the government, Land Management Corporation received an equity injection of \$35.0 million in 2007-08, to facilitate a potential joint development with the private sector. If not required, the equity injection will be repayable to the government.

Table 2.22 shows a number of new expenditures that have occurred in or are planned for 2007-08. These initiatives include:

- \$70.3 million to allow for growth in volume and cost of health services across the sector;
- \$50.0 million to the Adelaide Entertainment Centre to undertake major facility enhancements including construction of a new small live entertainment venue for up to 2500 people, an expansion of patron service areas, development of a Port Road Drop-off/Pick-up point, and street scaping on Port Road;
- \$18.9 million to the Royal Zoological Society of SA to undertake redevelopment of facilities that will include a new entrance facility, including retail shops, interpretive area, offices and café, new perimeter fencing and a fairy penguin pool and viewing facility;
- \$18.8 million to provide for growth in the number of children in care, including the cost of foster care payments and support services;
- \$8.0 million to the Royal Agricultural and Horticultural Society to facilitate the installation of solar power as part of the soon to be completed Goyder Pavilion at the Wayville Showground;
- \$6.8 million for homelessness initiatives including \$4.0 million for the Foyer Plus Partnership Project in Metropolitan Adelaide and \$2.8 million to facilitate the Port Augusta Regional Common Ground Project;
- \$6.0 million to Thoroughbred Racing SA to facilitate redevelopment of the Gawler racetrack;
- \$5.0 million to the South Australian Jockey Club to facilitate development of a second track at Morphettville racecourse;
- \$5.0 million for the purchase of additional disability equipment in a number of non-government organisations; and
- \$2.5 million to both the Adelaide Football Club and the Port Adelaide Football Club to facilitate redevelopment of the clubs' sporting facilities.

The government anticipates that further expenditure, both operating and investing, will be required in future years to support major mining developments, including Olympic Dam at Roxby Downs. These expenditures are not included in the 2008-09 Budget because considerable uncertainty exists about both the amount and timing of expenditure.

## General government expenditure

Forward estimates of general government expenses by type are shown in Table 2.2.

In 2007-08 expenses are estimated to be \$342 million (2.8 per cent) higher than estimated at the 2007-08 Budget. This increase reflects the net impact of decisions to increase spending in priority areas such as health, families and communities and justice.

General government expenses are estimated to be \$642 million (5.2 per cent) higher in 2008-09 than in 2007-08. These movements reflect the net impact of decisions to increase spending in priority areas as well as the effect of economic and financial parameters that influence the budget outlook. Detailed explanations of trends in expenditure appear later in this chapter.

The key drivers of the movements in expenditure are demand for services in a range of portfolios including Health, Families and Communities, Justice and Education and growth in employment costs.

Purchases of property, plant and equipment are expected to be \$1394 million in 2008-09, which is \$389 million more than in 2007-08. The forward estimates contain a major infrastructure investment program, including public private partnership projects, of \$6.7 billion over four years that will see the state's strategic economic and social infrastructure rebuilt and expanded to accommodate future needs.

Significant progress has been achieved in the South Australian public private partnerships (PPP) infrastructure program, since the government first announced the expanded program in 2006-07.

In December 2007 the government issued an Expression of Interest (EOI) for the New Prisons and Secure Facilities (NPSF) and Education Works New Schools PPP projects.

The NPSF project involves the development of new men's and women's prisons and a forensic mental health centre at Mobilong. It also provides for a pre-release facility and a secure youth centre at Cavan. Submissions were received from Secure Australian Facilities Environment (SAFE), Secure Partnerships SA (SPSA) and Torrens Corrections Partnership (TCP) consortia through the EOI. Shortlisted proponents will be invited to develop detailed proposals for government by late 2008. On current timeframes, contractual close will be achieved by the middle of 2009 and facilities will be commissioned across 2010 and 2011.

The Education Works New Schools PPP project comprises the development of six new schools across the northern and western suburbs of Adelaide. Three consortia, Axiom Education SA, Pinnacle Education and Plenary Education were shortlisted in April 2008 and have received invitations to develop detailed proposals for government by September 2008. On current timeframes, contractual close will be achieved in February 2009 with two schools opening in the 2010 school year and the remaining four in 2011.

In December 2007, the government announced that the new Marjorie Jackson-Nelson Hospital would be delivered under a public private partnership procurement model. The PPP procurement process is currently being implemented in accordance with the Partnerships SA guidelines.

**Table 2.2: General government expenditure — forward estimates (\$ million)<sup>(a)</sup>**

	2007-08	2007-08	2008-09	2009-10	2010-11	2011-12
	Budget	Estimated result	Budget	Estimate	Estimate	Estimate
Employee expenses	5 702	5 861	6 116	6 320	6 496	6 671
Depreciation	497	531	593	637	678	725
Other operating expenses	3 107	3 142	3 281	3 348	3 538	3 718
Nominal superannuation interest expense	282	276	370	371	372	372
Other interest expenses	214	225	234	265	314	382
Current transfers	2 216	2 293	2 372	2 295	2 282	2 317
Capital transfers	92	126	129	130	131	132
<b>Total expenses</b>	<b>12 110</b>	<b>12 452</b>	<b>13 094</b>	<b>13 366</b>	<b>13 812</b>	<b>14 317</b>
<i>less</i>						
Depreciation expense	- 497	- 531	- 593	- 637	- 678	- 725
<i>plus</i>						
Purchases of property, plant and equipment	1 018	1 005	1 394	1 678	1 605	1 353
Assets acquired under finance lease	—	—	—	14	253	374
<b>Total expenditure on net lending basis</b>	<b>12 631</b>	<b>12 926</b>	<b>13 895</b>	<b>14 421</b>	<b>14 991</b>	<b>15 320</b>

(a) Table may not add due to rounding.

## Budget initiatives by portfolio and agency

This section reports 2008-09 Budget spending and savings initiatives by portfolio — that is, classified according to the operational and administrative structure of the government.

Tables 2.3–2.15 detail the 2008-09 Budget initiatives for each portfolio over the forward estimates period. Initiatives are shown on a gross basis, that is including any expenditure of revenues received for the specific purpose. Individual initiatives within the tables are presented as operating or investing initiatives, or both. Where an initiative has components of both it is listed twice, once showing the operating expenditure and once showing the investing expenditure. The tables show the summary budget impacts of all of each portfolio's initiatives on net lending and the net operating balance (not including depreciation).

Expenditures are recorded as negative (-) items while savings and revenues are recorded as positive (+) items.

### Premier and Cabinet

The government is continuing to support the upgrade of major sport facilities through a \$100.0 million commitment over three years for the redevelopment of AAMI Stadium. The redevelopment will provide for a vastly improved experience for the patrons of the state's largest multi-purpose sport and entertainment stadium and will include roof and stadium entrance enhancements and works to improve movement and safety in the immediate vicinity of the stadium.

The government has responded to the key recommendations of the *To Break the Cycle* report on prevention and rehabilitation responses to serious repeat offending by young people. An amount of \$5.6 million over four years will establish a Community Protection Panel to provide intensive monitoring and intervention strategies for serious repeat offenders who pose a risk to the public. Further initiatives are shown in the Families and Communities and Justice portfolios.

Additional resources of \$4.7 million have been provided for the continued development of Adelaide as a University City through the creation of an international university precinct in Victoria Square. The budget also provides assistance for the establishment of specialist centres of learning, being the International Centre for Minerals and Energy Resources and Hellenic Languages and Cultural Centre and a research partnership with the Apulia Regional Government in Italy.

The government is continuing to provide leadership in the area of climate change with additional support for public awareness and energy, water and waste efficiency in buildings. The successful Thinkers in Residence program will also benefit from additional resources to address the key issue of sustainable design and construction. As part of the government's strategy to achieve carbon neutrality by 2020, additional resources of \$7.7 million over two years from 2010-11 were provided prior to the budget for the purchase of green power and carbon offsets. In addition, an \$8.0 million grant to the Royal Agricultural and Horticultural Society to facilitate the installation of solar power as part of the soon to be completed Goyder Pavilion at the Wayville Showground will be provided in 2007-08.

The budget provides \$4.2 million over four years to support the next generation of South Australian based screen writers, directors and film producers. Additional resources of \$1.5 million over four years have been provided for the State Opera and State Theatre Company. Regional arts activities are also supported through the establishment of a third Regional Centre of Culture, thereby extending the 2006-07 Budget commitment. Additional resources are also provided to promote indigenous arts through a cultural exchange program with Manitoba, Canada and for the staging of arts events including additional support for the Adelaide Cabaret festival.

The government is committed to broadening the state's economic base through support for the digital industry in South Australia. An amount of \$4.0 million has been allocated over four years to assist in

workforce development and the generation of start-up companies. These new companies will meet the demand for simulation and visualisation products from expanding state industries such as mining, defence and construction.

Additional resources have also been provided for a review of the *Aboriginal Heritage Act 1988* to ensure that the impact of the mining expansion in the mid-north of the State on aboriginal sites is managed appropriately.

The budget includes \$1.5 million in 2008-09 to enable the construction of a permanent video replay screen at Hindmarsh Stadium. Support for a range of sporting and recreational facilities is also provided in 2007-08 including \$6.0 million to Thoroughbred Racing SA to facilitate redevelopment of the Gawler racetrack, \$5.0 million to the South Australian Jockey Club to facilitate development of a second track at Morphettville racecourse and \$2.5 million to both the Adelaide Football Club and the Port Adelaide Football Club to facilitate the redevelopment of the clubs' sporting facilities.

Further details of initiatives are presented in the following table.

**Table 2.3: Premier and Cabinet — expenditure and savings initiatives (\$000)**

	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Operating initiatives	-8 473	-68 110	-27 793	-27 451
Investing initiatives	-5 320	—	—	—
Asset sales	—	—	—	—
Savings initiatives	—	1 500	4 500	9 000
Revenue offsets	—	—	—	—
<b>Impact on net operating balance</b>	<b>-8 473</b>	<b>-66 610</b>	<b>-23 293</b>	<b>-18 451</b>
<b>Impact on net lending</b>	<b>-13 793</b>	<b>-66 610</b>	<b>-23 293</b>	<b>-18 451</b>
<b>Department of the Premier and Cabinet</b>				
Operating initiatives				
AAMI Stadium redevelopment — grant	—	-60 000	-20 000	-20 000
Aboriginal Heritage Legislation — review	- 300	- 300	—	—
Agent General's Office — additional support	- 66	- 68	- 69	- 70
Apulia Regional Government — research partnership	- 400	- 400	- 400	—
Arts sector — additional support for festivals and events	- 380	- 474	- 579	- 484
Climate Change — awareness campaign	- 500	—	—	—
Climate Change — building efficiency grant scheme	- 592	- 594	- 596	- 598
Council for the Australian Federation Secretariat and COAG Reform Council — state contribution	- 375	- 384	- 394	- 404
Government House — upgrade and maintenance	- 340	—	—	—
Hellenic Languages and Cultural Centre — operational support	- 150	- 150	- 150	- 150
Indigenous arts — cultural exchange	—	-1 050	—	—
International Centre for Minerals and Energy Resources — support for establishment	- 250	- 250	- 250	—
Regional Arts — infrastructure and events	—	—	- 800	-1 000
SA Film Corporation — additional support	- 567	- 995	-1 104	-1 492
SA Great — additional support	- 625	- 625	- 625	- 625
South Australian digital content industry — additional support	-1 032	-1 029	- 976	- 919

**Table 2.3: Premier and Cabinet — expenditure and savings initiatives (\$'000) continued**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
State Opera/State Theatre — additional support	- 564	- 381	- 385	- 194
Thinkers in Residence — additional support	- 101	—	—	—
To Break the Cycle — community protection panel	-1 321	-1 367	-1 415	-1 465
To Break the Cycle — cultural program for at risk aboriginal youth	—	- 43	- 50	- 50
University City Project — additional support	- 910	—	—	—
 Investing initiatives				
Hindmarsh Stadium — permanent replay screen	-1 500	—	—	—
University City Project — increased investment	-3 820	—	—	—
 Savings initiatives				
Savings target	—	1 500	4 500	9 000

**Memorandum Items - measures prior to the 2008-09 Budget**

Operating initiatives				
Aboriginal engagement — advisory council and Commissioner	- 377	- 384	- 394	- 403
Adelaide Festival Centre Trust — additional support	- 700	- 700	- 700	- 700
Adelaide Film and Screen Hub — operational support	- 100	- 320	-1 810	-1 080
Climate Change — carbon neutral state government by 2020	—	—	-3 824	-3 920
Industrial Relations Commission — additional Commissioner	- 390	- 397	- 407	- 415
Public Sector Performance Commission — establishment	-3 000	-1 533	—	—
Solar power station (Coober Pedy) — grant	- 635	—	—	—
 Investing initiatives				
Adelaide Film and Screen Hub — construction	-5 810	-27 920	-8 720	—
 Asset sales				
Adelaide Film and Screen Hub — land sales forgone	-3 220	—	—	—
 Revenue offsets				
Adelaide Film and Screen Hub — hire of facilities	—	—	100	470

## Trade and Economic Development / Defence SA

The 2008-09 Budget reflects the government's continued commitment to the Air Warfare Destroyer (AWD) program. Resources have been provided for the operation and maintenance of the Techport Australia Common User Facility. A number of other Defence SA projects have also been supported with resources to commence the implementation of the Northern Lefevre Peninsula Masterplan, to undertake site preparation works for stages 3 and 4 of the Techport Australia Supplier Precinct and for other land holdings within the Techport Australia site.

Defence SA has also been provided with additional resources to continue the government's support for the Defence Teaming Centre, and to ensure that South Australia receives maximum benefit from the Army's presence.

The Department of Trade and Economic Development has been provided with resources to continue to attract and retain skilled migrants and to extend and expand the role of the Olympic Dam Taskforce.

Prior to the budget, the government contributed \$2.5 million to a Labour Adjustment Package and \$7.5 million to a South Australian Innovation and Investment Fund to support workers affected by the closure of Mitsubishi Motors' Tonsley Park manufacturing facility.

Further details of initiatives are presented in the following table.

**Table 2.4: Trade and Economic Development / Defence SA — expenditure and savings initiatives (\$000)**

	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Operating initiatives	-6 270	-5 476	-2 787	-6 924
Investing initiatives	-11 225	-18 781	—	—
Asset sales	—	8 373	13 940	13 290
Savings initiatives	—	800	2 400	4 900
Revenue offsets	591	2 718	1 146	4 516
<b>Impact on net operating balance</b>	<b>-5 679</b>	<b>-1 958</b>	<b>759</b>	<b>2 492</b>
<b>Impact on net lending</b>	<b>-16 904</b>	<b>-12 366</b>	<b>14 699</b>	<b>15 782</b>
<b>Department of Trade and Economic Development</b>				
Operating initiatives				
Olympic Dam Taskforce — extension	- 700	-1 000	—	—
Skilled migrants — attraction and retention	-1 267	-1 307	-1 349	-1 383
Savings initiatives				
Savings target	—	700	2 000	4 000
<b>Defence SA</b>				
Operating initiatives				
Army presence in South Australia — coordination of support	- 500	—	—	—
Defence Teaming Centre — support	- 700	- 598	- 485	- 402
Techport Australia Common User Facility — operations	-3 103	-2 571	- 953	-5 139

**Table 2.4: Trade and Economic Development / Defence SA — expenditure and savings initiatives (\$000)  
continued**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
Investing initiatives				
Northern Lefevre Peninsula Masterplan — commencement	-1 025	-6 281	—	—
Techport Australia Supplier Precinct North — site preparation	-7 200	-7 750	—	—
Techport Australia Supplier Precinct — stages 3 and 4 site preparation	-3 000	-4 750	—	—
Asset sales				
Lefevre Peninsula — land sales	—	8 373	—	—
Techport Australia Supplier Precinct North — land sales	—	—	13 940	13 290
Savings initiatives				
Savings target	—	100	400	900
Revenue offsets				
Techport Australia Common User Facility — operating revenue	591	2 447	60	3 396
Techport Australia Supplier Precinct — lease revenue	—	271	1 086	1 120
<b>Memorandum Items - measures prior to the 2008-09 Budget</b>				
<b>Department of Trade and Economic Development</b>				
Operating initiatives				
Employee assistance package — motor vehicle industry	-4 800	-3 000	-2 200	—
<b>Defence SA</b>				
Savings initiatives				
Rationalisation of boards	61	72	54	64

## Treasury and Finance

The budget includes a new first home bonus grant scheme that replaces the current first homebuyer stamp duty concession. First home purchases valued up to \$400 000 will attract a grant of \$4000. The grant will phase out for first home purchases valued between \$400 000 and \$450 000. The \$4000 grant will be in addition to the existing \$7000 first home owner grant. Eligibility conditions for the first home bonus grant will be the same as those applying to the first home owner grant.

The first home bonus grant will provide substantial additional assistance to the majority of first home buyers in recognition of recent increases in housing prices in South Australia. About 9200 first home buyers (or over 90 per cent of all first home buyers) are estimated to be eligible for the full \$4000 first home bonus grant in 2008-09. An additional 360 first home buyers are estimated to receive a partial grant. Around 95 per cent of first home buyers are expected to receive assistance under this scheme.

It is estimated that around 50 per cent of first home buyers would have received assistance under the first homebuyer stamp duty concession scheme in 2008-09. Under the old first homebuyer stamp duty concession scheme, first home buyers received a full stamp duty concession for purchases up to \$80 000. Between \$80 000 and \$100 000, the concession reduced from 100 per cent to 50 per cent and remained at 50 per cent for property values up to \$150 000. At \$150 000, the concession reached a maximum value of \$2415 and then tapered to nil over the property value range of \$150 000 to \$250 000.

Based on First Home Owner Grant data, the median value of first home purchases in December quarter 2007 was \$260 000.

The table below compares the first home bonus grant with benefits to first home buyers under the stamp duty concession scheme, which the bonus will replace.

**Table 2.5: First home buyer relief (\$)**

Property value	Value of existing stamp duty concession	Value of first home bonus grant <sup>(a)</sup>	Additional relief to first homebuyers
50 000	1 080	4 000	2 920
80 000	2 130	4 000	1 870
100 000	1 415	4 000	2 585
150 000	2 415	4 000	1 585
200 000	1 215	4 000	2 785
250 000	15	4 000	3 985
300 000	—	4 000	4 000
350 000	—	4 000	4 000
400 000	—	4 000	4 000
410 000	—	3 200	3 200
420 000	—	2 400	2 400
430 000	—	1 600	1 600
440 000	—	800	800
450 000	—	—	—
500 000	—	—	—

(a) Grant of \$4000 to first home purchases valued up to \$400 000. The grant will phase out for property values between \$400 000 and \$450 000.

The replacement of the existing first homebuyer stamp duty concession with the grant will take effect in respect of first home contracts taken out on and from 5 June 2008.

The government has provided additional resources of \$20.5 million over five years for the replacement of the existing tax revenue management system (RISTEC). The improved capabilities of the new tax system will enable the existing Emergency Services Levy system to be replaced and will generate additional revenue and cost reductions from 2010-11.

Additional staffing and project management resources have been provided to assist in the management of major investing projects that are being delivered via Public Private Partnerships (PPPs). Further details on the government's PPP program are provided earlier in this chapter.

Additional resources have been provided for the lease of office accommodation for Shared Services SA including fitout costs.

Prior to the budget, \$2.0 million over four years was provided to administer the new Residential Energy Efficiency Scheme. This continues the government's commitment to cut greenhouse gas emissions and improve residential energy efficiency.

Further details of initiatives are presented in the following table.

**Table 2.6: Treasury and Finance — expenditure and savings initiatives (\$000)**

	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Operating initiatives	-46 410	-56 174	-44 128	-42 281
Investing initiatives	-11 529	-15 358	-5 121	—
Asset sales	—	—	—	—
Savings initiatives	—	1 000	3 000	6 100
Revenue offsets	5 400	5 100	6 774	18 482
<b>Impact on net operating balance</b>	<b>-41 010</b>	<b>-50 074</b>	<b>-34 354</b>	<b>-17 699</b>
<b>Impact on net lending</b>	<b>-52 539</b>	<b>-65 432</b>	<b>-39 475</b>	<b>-17 699</b>
<b>Department of Treasury and Finance</b>				
Operating initiatives				
PPP Project Management — additional staffing	- 401	- 415	- 430	- 263
Project management — additional resources	- 550	—	—	—
Shared Services accommodation	-5 335	-11 221	-5 763	-6 052
Taxation Revenue Management System (RISTEC) — additional support <sup>(a)</sup>	-1 823	-2 908	- 358	1 514
Investing initiatives				
Shared Services accommodation	-4 540	-4 540	—	—
Taxation Revenue Management System (RISTEC) — additional investment	-6 989	-10 818	-5 121	—
Savings initiatives				
Savings target	—	1 000	3 000	6 100
Revenue offsets				
Taxation Revenue Management System (RISTEC) — improved revenue collection	—	—	1 974	13 982

**Table 2.6: Treasury and Finance — expenditure and savings initiatives (\$000) continued**

	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Administered Items for the Department of Treasury and Finance</b>				
Operating initiatives				
Air Warfare Destroyer Systems Centre Campus — support	—	-2 710	—	—
First home owner bonus scheme	-37 450	-37 400	-37 400	-37 300
RESI Corporation — asbestos claims	- 681	-1 347	—	—
Support Services to Parliamentarians — additional resources	- 170	- 173	- 177	- 180
Revenue offsets				
Stamp duty — cessation of first home owner concessions	5 400	5 100	4 800	4 500
<b>Memorandum Items - measures prior to the 2008-09 Budget</b>				
<b>Administered Items for the Department of Treasury and Finance</b>				
Operating initiatives				
Residential Energy Efficiency Scheme — support for compliance activity	- 530	- 530	- 530	- 450

(a) Includes savings from 2010-11.

## Justice

The 2008-09 Budget provides resources to support improved law and order outcomes and for the efficient delivery of services across the justice system.

South Australia Police (SAPOL) initiatives focus on ensuring that infrastructure and support services facilitate efficient delivery of front line services against a background of growing police numbers. Resources have been provided for an information technology system to support the outlaw motorcycle gang taskforce and associated legal reforms and to enable replacement of fingerprint scanning equipment, closed circuit television and red light/speed cameras. Provision has also been made for the fitout and additional rent costs for a new Police Headquarters building.

The budget provides resources for a number of measures to address the backlog and improve efficiency in the courts system. These include:

- Reopening the former Sturt Street court facility to provide two additional courtrooms in the District Court and three additional judges with all related operational services;
- Increased capacity for DNA testing and pathology services;
- Increased number of Aboriginal interpreters; and
- An expansion of the asset replacement program (\$4.2 million over four years), which initially will enable the introduction of digital audio equipment for court reporting.

The budget provides resources of \$5.3 million over four years to the Office of the Director of Public Prosecutions (ODPP) to address workload issues. This is in addition to the resources provided prior to the budget as part of the initial response to the Children in State Care Commission of Inquiry. Combined, this will enable one full additional work team in the Office to assist to manage caseloads.

An additional \$8.3 million over four years will be provided to the Legal Services Commission to support an increased workload. That is a 17 per cent increase in the state contribution to the Commission and continues the increased support provided in 2007-08.

Resources are provided in the Attorney-General's Department for a community awareness program on women's safety relating to new legislation on physical, sexual and family violence; support for managed taxi ranks at key locations; and a response to the *To Break the Cycle* report based on the 'David Kennedy model', which is a preventative approach that discourages repeat offending by youth in disadvantaged areas. Resources are also provided for updating the associations register and ensuring compliance with the requirements of the *Associations Incorporation Act 1985*.

The State Electoral Office will receive additional ongoing staffing as well as support to provide increased polling staff numbers and computers for returning officers at the 2010 State election.

The number of prisoners in the state continues to increase at a significant rate. Prior to the budget the Department for Correctional Services received \$25.1 million over four years for accommodation and staffing for 150 prisoners and \$6.4 million was provided in 2007-08. The budget provides for a further growth of 209 prisoners by 2010-11 at a cost of \$35.9 million over four years. Additional resources of \$2.7 million over four years will be provided for administration of probation orders supervised through the community corrections system, which over the last 18 months grew by 17 per cent.

The Wangary bushfire coronial inquest findings were handed down in December 2007. The budget provides \$19.6 million over four years, in additional resourcing to the Country Fire Service, to address the recommendations of the report. Those resources include additional aerial firefighting capacity for a dedicated South Australian aircraft and associated support during the fire season. Additional resources are also provided to enable a range of education and training initiatives as well as ongoing State support for the research of the national Bushfire Cooperative Research Council.

The budget provides for an additional 22 firefighters for the Paradise Station and \$160,000 has been provided for replacement of the SA Sea Rescue Squadron vessel located at O'Sullivan's Beach.

Further details of initiatives are presented in the following table.

**Table 2.7: Justice — expenditure and savings initiatives (\$000)**

	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Operating initiatives	-17 183	-23 179	-27 414	-33 593
Investing initiatives	-7 928	-16 892	-24 728	-21 868
Asset sales	—	—	—	—
Savings initiatives	—	1 000	2 900	5 800
Revenue offsets	270	760	1 163	1 792
<b>Impact on net operating balance</b>	<b>-16 913</b>	<b>-21 419</b>	<b>-23 351</b>	<b>-26 001</b>
<b>Impact on net lending</b>	<b>-24 841</b>	<b>-38 311</b>	<b>-48 079</b>	<b>-47 869</b>
<b>South Australia Police</b>				
Operating initiatives				
Fingerprint scanning equipment — operations	—	—	—	- 12
Outlaw Motorcycle Gang Taskforce — ongoing support	—	- 60	- 105	- 530
Police — increased fuel expenses	- 429	—	—	—
Police Headquarters relocation — additional lease cost	—	—	—	-1 309
Speed detection cameras — operational support	—	—	- 197	- 410
Investing initiatives				
Closed Circuit Television — replacement	-2 675	-2 976	—	—
Fingerprint scanning equipment — replacement	—	—	-1 220	—

**Table 2.7: Justice — expenditure and savings initiatives (\$000) continued**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
Outlaw Motorcycle Gang Taskforce — information technology system	- 328	-2 230	-1 365	- 628
Police Headquarters relocation — fitout	—	—	-18 522	-20 163
Speed detection cameras — replacement	—	-1 680	—	—
Revenue offsets				
Speed detection cameras — increased expiation revenue	—	—	316	914
<b>Attorney-General's Department</b>				
Operating initiatives				
Aboriginal interpreters — increased resources	- 124	- 128	- 132	- 136
Criminal Case Backlog Reduction Program — operations	- 837	-4 038	-5 342	-5 494
DNA testing — increased resources	-1 316	-1 776	- 979	-1 000
Fine revenue collection — additional resources	- 29	- 92	- 92	- 93
Incorporated Associations register — increased compliance activity	- 68	- 70	- 71	- 72
Managed taxi ranks — establishment and ongoing support	- 80	- 82	- 84	- 86
Office of the Director of Public Prosecutions — increased resources	-1 000	-1 100	-1 200	-2 000
Pathology services — increased resources	- 625	- 854	- 815	- 833
To Break the Cycle — David Kennedy Model Program	- 271	- 222	- 168	- 168
Women's safety strategy — community awareness program	- 233	- 207	- 212	- 216
Investing initiatives				
DNA testing — equipment	- 184	—	—	—
Pathology services — equipment	- 15	—	—	—
Revenue offsets				
Additional offences subject to expiation	210	653	707	734
Incorporated Associations register — increased compliance	60	107	140	144
Savings initiatives				
Savings target	—	700	2 000	4 000
<b>Administered Items for the Attorney-General's Department</b>				
Operating initiatives				
Legal Services Commission — additional support	-2 000	-2 050	-2 101	-2 154
Investing initiatives				
Criminal Case Backlog Reduction Program — refurbishment of Sturt Street facility	- 361	-2 845	—	—

**Table 2.7: Justice — expenditure and savings initiatives (\$000) continued**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
<b>Courts Administration Authority</b>				
Investing initiatives				
Operational asset replacement program — expansion	-1 000	-1 025	-1 051	-1 077
<b>State Electoral Office</b>				
Operating initiatives				
Staffing — additional resources	- 198	- 212	- 219	- 225
State Election 2010 — additional resources	—	- 744	—	—
<b>Department for Correctional Services</b>				
Operating initiatives				
Community corrections — additional resources	- 650	- 663	- 676	- 690
Prison infrastructure — additional accommodation and staffing costs	-2 113	-3 929	-7 857	-10 814
Investing initiatives				
Prison infrastructure — additional accommodation	-3 030	-5 820	-2 300	—
Prison infrastructure project team — additional support	- 335	- 316	- 270	—
Savings initiatives				
Savings target	—	300	900	1 800
<b>South Australia Fire and Emergency Services Commission</b>				
Operating initiatives				
Emergency Services — increased fuel expenses	- 378	—	—	—
<b>Administered Items for the South Australian Fire and Emergency Services Commission</b>				
Operating initiatives				
Rescue Vessel (O'Sullivan's Beach) — replacement	- 160	—	—	—
<b>South Australian Metropolitan Fire Service</b>				
Operating initiatives				
Staffing — additional support	-2 151	-2 090	-2 133	-2 176
<b>Country Fire Service</b>				
Operating initiatives				
Aerial firefighting — large capacity helicopter and associated support	-3 747	-3 923	-4 070	-4 190
Bushfire Cooperative Research Council — ongoing support	—	- 263	- 269	- 276
Wangary Coronial Inquest response — additional education, training and staffing	- 774	- 676	- 692	- 709

**Table 2.7: Justice — expenditure and savings initiatives (\$000) continued**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
<b>Memorandum Items - measures prior to the 2008-09 Budget</b>				
<b>Attorney-General's Department</b>				
Operating initiatives				
Office of the Director of Public Prosecutions — Children in State Care response	- 483	- 993	- 764	—
<b>Administered Items for the Attorney-General's Department</b>				
Operating initiatives				
Firearms reform — additional compliance activity	- 766	- 780	- 796	- 813
<b>Department for Correctional Services</b>				
Operating initiatives				
Prison infrastructure — additional accommodation and staffing costs	-6 059	-6 197	-6 338	-6 483

## Primary Industries and Resources

The 2008-09 Budget provides additional resources of \$11.0 million (over four years) to support the significant growth of minerals exploration and mining in South Australia. The resources will facilitate the efficient processing of exploration and mining approvals and allow for increased monitoring and regulation of the mining industry.

Resources have been provided to address the recommendations of a major review of South Australia's planning and development system. Implementation of the key reforms will result in:

- a streamlined development assessment process;
- improved management of land supply; and
- a closer partnership with Local Government.

Resources have been provided for the Fisheries Division to fitout and lease alternative accommodation as the current site at Birkenhead is being demolished as part of Stage 2 of the Port Adelaide Redevelopment project.

Support has been provided for the investigation of options for a replacement Marine Research vessel to support fishery and marine environment research in South Australian gulf waters. Resources have also been provided for the implementation of a national system for the prevention and management of marine pest incursions.

Further details of initiatives are presented in the following table.

**Table 2.8: Primary Industries and Resources — expenditure and savings initiatives (\$000)**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
Operating initiatives	-5 935	-6 299	-5 681	-4 797
Investing initiatives	-2 948	—	—	—
Asset sales	—	—	—	—
Savings initiatives	—	1 600	5 000	9 900
Revenue offsets	—	—	—	—
<b>Impact on net operating balance</b>	<b>-5 935</b>	<b>-4 699</b>	<b>- 681</b>	<b>5 103</b>
<b>Impact on net lending</b>	<b>-8 883</b>	<b>-4 699</b>	<b>- 681</b>	<b>5 103</b>
<b>Department of Primary Industries and Resources</b>				
Operating initiatives				
Fisheries accommodation — additional lease costs	- 177	- 293	- 300	- 308
Marine pest incursions — implementation of national system	- 458	- 786	- 641	- 739
Marine Science Research Vessel — business case development	- 100	—	—	—
Mining exploration and regulation — additional support	-2 000	-3 000	-3 000	-3 000
Planning and Development System — implementation of reforms	-3 200	-2 220	-1 740	- 750
Investing initiatives				
Fisheries accommodation — fitout costs	-2 948	—	—	—
Savings initiatives				
Savings target	—	1 600	5 000	9 900
<b>Memorandum Items - measures prior to the 2008-09 Budget</b>				
Operating initiatives				
Petroleum and Geothermal Industry Regulation — additional support	- 740	- 756	- 773	- 790

## Transport, Energy and Infrastructure

The budget provides for a major redevelopment and extension to the metropolitan rail system to cater for increasing demand for public transport and to ensure sustainable service delivery into the future. Planned system developments will provide significantly improved services in terms of both quantity and quality and allow for closer integration of public transport with future urban development.

The budget provides \$245.0 million over four years to extend tram services from North Terrace to the Adelaide Entertainment Centre, including additional light rail vehicles, and to commence electrification of the Outer Harbor rail line. The future combined light/heavy Outer Harbor rail corridor will enable planned future light rail extensions to West Lakes and to Port Adelaide/Semaphore.

The budget also includes the electrification of the Noarlunga rail line at a cost of \$209.7 million over four years. The Noarlunga and Outer Harbor lines are the initial stages of a major program of rail electrification in metropolitan Adelaide. Electrification will allow for faster travel times and improved air quality. An investment of \$193.7 million over four years will provide for the concrete resleepering of the Gawler rail line; for the upgrade of existing railcars, delivering both faster and safer train

running; and the purchase of new trams. An additional \$48.4 million has also been provided over four years for the operation of metropolitan rail services.

Metropolitan bus services will receive an immediate increase in capacity to address growing demand for public transport. The budget provides for the leasing of 20 additional buses from 2008-09 and the purchase of a further 20 buses in each of the following three years.

The entire metropolitan public transport system will benefit from the implementation of a new public transport ticketing system at a cost of \$29.0 million over three years commencing in 2009-10, as well as \$9.3 million over four years to further improve disability access.

The budget reaffirms the government's commitment to improving the state's road network for transport efficiency and improved road safety. Major investments include:

- \$377.9 million over four years for projects on the state's arterial road network, of which \$252.9 million will be received from the Commonwealth Government through the AusLink program;
- \$51.4 million over four years for road and rail safety initiatives, including additional shoulder sealing, upgrades to level crossings, the removal of rural road hazards by shielding fixed hazards such as trees, the purchase of drug driver testing equipment, and the installation of additional red light and speed cameras;
- \$26.8 million over four years for improvements to the rural freight network, including intersection improvements and additional overtaking lanes;
- \$24.9 million over three years to upgrade the Victor Harbor Road/South Road and Diagonal Road/Morphett Road intersections to improve safety and traffic flow; and
- \$10.5 million over four years for increased maintenance on roads bridges, and ferries.

The budget also provides \$7.9 million over four years to support marine safety through a variety of measures including improvements to navigational facilities and navigational markers, the establishment of a 24 hour/7 day a week marine radio service, and the replacement of patrol vessels.

Further details of initiatives are presented in the following table.

**Table 2.9: Transport, Energy and Infrastructure — expenditure and savings initiatives (\$000)**

	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Operating initiatives	-34 015	-30 684	-40 685	-67 264
Investing initiatives	-99 550	-249 536	-437 571	-463 048
Asset sales	2 250	10 507	12 601	16 202
Savings initiatives	—	3 200	9 500	19 000
Revenue offsets	14 860	49 885	111 207	115 321
<b>Impact on net operating balance</b>	<b>-19 155</b>	<b>22 401</b>	<b>80 022</b>	<b>67 057</b>
<b>Impact on net lending</b>	<b>-116 455</b>	<b>-216 628</b>	<b>-344 948</b>	<b>-379 789</b>

**Department for Transport, Energy and Infrastructure**

Operating initiatives				
Additional red light and speed cameras — operational support	- 649	-1 490	-2 394	-3 212
AusLink roads — planning and maintenance	-3 000	-7 000	-7 000	-6 000
Customer Service Centre — accommodation	—	- 320	- 328	- 336
Diagonal Road/Morphett Road intersection — maintenance	—	—	- 16	- 18
Disability Discrimination Act — additional support	- 300	- 318	- 337	- 357

**Table 2.9: Transport, Energy and Infrastructure — expenditure and savings initiatives (\$000) continued**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
Government telecommunication infrastructure — system maintenance	- 426	- 632	- 816	- 898
Heavy Vehicles Chain of Responsibility Legislation — implementation	- 726	- 773	- 272	- 272
Intelligent Access Program — additional support	- 205	- 257	- 264	- 270
Land Titles System — support for implementation	- 83	- 85	- 87	- 89
Level Crossings — safety enhancements	- 500	- 715	- 906	-1 319
Light rail — operations	—	- 400	- 800	-1 000
Light rail extension — operations	—	—	-3 791	-15 475
Marine infrastructure — additional maintenance	- 588	- 879	- 604	- 749
Plant and vehicles — increased fuel expenses	-3 252	—	—	—
Point to point speed cameras — operational support	—	- 223	- 127	- 98
Public transport — additional capacity	-4 430	-7 109	-9 793	-12 516
Public transport — ticketing system maintenance	—	- 205	- 242	- 285
Public transport rail services — increased fuel expenses	-2 965	—	—	—
Public transport rail services — operational support	-5 000	-5 125	-5 253	-5 384
Rail revitalisation — Gawler line upgrade	-2 072	- 825	-2 908	-17 682
Rail revitalisation — upgrade infrastructure and equipment	-2 773	-3 072	-3 396	—
Records Management storage facility — operational support	- 450	—	—	—
Remote power generation — increased fuel expenses	-2 176	—	—	—
Road safety — driver drug testing	-1 120	- 913	- 952	-1 005
Rural Freight network — maintenance	—	- 36	- 73	- 167
Traffic signals system — optimisation	- 300	- 307	- 315	- 108
Transport sustainability — urban congestion study	-3 000	—	—	—
Victor Harbor Road/South Road intersection — maintenance	—	—	- 11	- 24
<b>Investing initiatives</b>				
AusLink roads — design and construction	-7 000	-65 000	-123 000	-156 000
Customer Service Centre — fitout	- 800	- 600	—	—
Diagonal Road/Morphett Road intersection — upgrade	—	—	-1 710	-10 846
Disability Discrimination Act — compliance	-2 000	-2 000	-2 000	-2 000
Driver drug testing — equipment	- 49	—	—	- 650
Government buildings — upgrade program	-3 300	-2 100	-2 100	-2 200
Government employee housing — upgrade and replacement	—	-5 000	-5 500	-5 800
Government telecommunication infrastructure — system upgrade	-3 330	-2 613	-2 235	- 897
Heavy Vehicles Chain of Responsibility Legislation — system upgrade	- 424	- 135	—	—
Intelligent Access Program — system upgrade	-1 069	—	—	—
Land Titles System — security upgrade	- 397	—	—	—
Level Crossings — safety enhancements	-2 700	-2 818	-2 837	-2 908
Light rail — purchase of new trams	—	- 7 000	- 7 000	—
Light rail extension — City West to Adelaide Entertainment Centre	-30 000	-70 000	-62 000	—
Marine infrastructure — upgrades	-1 412	-1 498	- 972	-1 244
National Blackspot program — increased investment	-3 900	—	—	—
Plant and Equipment — replacement	—	-4 667	-5 491	-6 822
Public transport — bus fleet expansion	—	-10 850	-11 230	-11 620

**Table 2.9: Transport, Energy and Infrastructure — expenditure and savings initiatives (\$000) continued**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
Public transport — new ticketing system	—	-1 000	-11 000	-17 000
Rail corridor — land purchase	-2 250	-8 340	-10 110	-13 380
Rail revitalisation — Gawler line upgrade	-10 000	-10 000	-20 000	-76 000
Rail revitalisation — Noarlunga line electrification	-5 000	-21 200	-99 700	-83 800
Rail revitalisation — Outer Harbor line electrification	—	—	-39 000	-44 000
Rail revitalisation — upgrade infrastructure and equipment	-8 000	-10 000	-5 000	-8 000
Records Management storage facility — upgrade	-130	—	—	—
Road safety — purchase of additional red light and speed cameras	-821	-874	-927	-981
Road safety — shoulder sealing	-7 200	-7 200	-7 500	-7 500
Road, bridges and ferries — increased investment <sup>(a)</sup>	1 900	-4 100	-3 900	-4 400
Rural Freight network — improvements	-6 800	-6 800	-6 200	-7 000
Rural road safety — increased investment	-4 200	—	—	—
Rural road safety — purchase of point to point speed cameras	-668	-1 582	—	—
Victor Harbor Road/South Road intersection — upgrade	—	-4 159	-8 159	—
<b>Asset sales</b>				
Plant and Equipment — sale of used equipment	—	2 167	2 491	2 822
Surplus land — sales	2 250	8 340	10 110	13 380
<b>Savings initiatives</b>				
Savings target	—	3 200	9 500	19 000
<b>Revenue offsets</b>				
AusLink roads — Commonwealth contribution	10 000	37 000	100 000	102 000
Drug driver testing — additional expiations	197	203	209	215
Government telecommunications infrastructure — user charges	191	345	450	552
Heavy Vehicle registration — Commonwealth scheme <sup>(a)</sup>	-1 900	4 100	3 900	4 400
Marine facilities — user charges	1 867	1 960	2 028	2 091
National Blackspot program — Commonwealth contribution	3 900	—	—	—
Road safety — additional expiations	605	2 057	3 631	5 306
Rural road safety — additional expiations	—	720	989	757
Victor Harbor Road/South Road intersection — Commonwealth contribution	—	3 500	—	—

**Memorandum Items - measures prior to the 2008-09 Budget****Operating initiatives**

One and All (Training Vessel) — increased maintenance	-134	-157	-197	-208
Road safety — introduction of mandatory Alcohol Interlock Scheme	-255	-235	-242	-302

**Investing initiatives**

Alcohol Interlock Scheme — systems upgrade	-45	—	—	—
One and All (Training Vessel) — refurbishment	-2 250	—	—	—

**Table 2.9: Transport, Energy and Infrastructure — expenditure and savings initiatives (\$000) continued**

	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Asset sales				
Walkerville Building Carpark — land sale	4 700	—	—	—
Revenue offsets				
Alcohol Interlock Scheme — user charges	—	122	250	362

- (a) Revenue estimates were revised down in 2008-09 due to delays in Commonwealth legislation to implement new registration charges under the Federal Interstate Registration Scheme. Investing expenditure was also reduced to offset the lower revenues.

## Health

The 2008-09 Budget provides for substantial new expenditure of \$462.4 million over four years in the Health portfolio.

The budget includes \$297.1 million over four years to provide improved and increased health services across the state. A further \$70.3 million was provided to Health in 2007-08 for the same purpose. The budget also provides additional resources of \$60.0 million over four years for the purchase of medical goods and services (eg prostheses, medical stents and drugs). This additional expenditure will provide the Health portfolio with the capacity to meet both volume growth and price increases in line with recent experience.

The budget provides additional resources to the SA Ambulance Service to meet increased demand for ambulance services, which has increased in line with the growth in hospital activity. Support has also been provided to purchase additional vehicles and equipment.

Berri and Whyalla Hospitals will be expanded and their capacity increased so they can provide a more comprehensive range of services. The redevelopments will include upgrades to operating theatres, emergency, rehabilitation, palliative care and mental health services. These redevelopments are in addition to the upgrades in Ceduna and Port Pirie contained in the 2007-08 Budget.

The budget also includes additional expenditure and Commonwealth funding to build a Children's Cancer Centre at the Women's and Children's Hospital. The new centre will provide state-of-the-art care and treatment facilities. This redevelopment will be in addition to the significant capital works program for metropolitan hospitals announced in the 2007-08 Budget.

The budget includes additional resources from the Commonwealth for elective surgery in 2007-08 and 2008-09 to ensure that people needing surgery in the public system receive their treatment within clinically acceptable time periods.

BreastScreen SA will replace its two country mobile units to support its breast cancer screening program in rural and remote areas of South Australia. The support includes the purchase and installation of digital x-ray equipment.

The government is continuing to participate in the Council of Australian Governments (COAG) process. Initiatives being negotiated in the Health area include additional support to prevent and treat postnatal depression, improve health services for indigenous children, increase the number of transition care places for older Australians and improve public dental services. The Commonwealth has announced support for GP Super Clinics in Modbury and Noarlunga. It is expected that these negotiations will be resolved in the second half of 2008.

Negotiations for a new enterprise bargaining agreement with salaried medical officers are continuing.

Further details of initiatives are presented in the following table.

**Table 2.10: Health — expenditure and savings initiatives (\$000)**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
Operating initiatives	-86 795	-92 200	-100 040	-107 924
Investing initiatives	-13 489	-37 560	-24 351	—
Asset sales	—	—	—	—
Savings initiatives	—	8 100	24 300	48 600
Revenue offsets	9 123	14 166	3 443	4 861
<b>Impact on net operating balance</b>	<b>-77 672</b>	<b>-69 934</b>	<b>-72 297</b>	<b>-54 463</b>
<b>Impact on net lending</b>	<b>-91 161</b>	<b>-107 494</b>	<b>-96 648</b>	<b>-54 463</b>
<b>Department of Health</b>				
Operating initiatives				
Elective surgery — support to reduce waiting times	-5 100	—	—	—
Health services — additional resources	-77 866	-85 447	-93 063	-100 714
Investing initiatives				
Berri Hospital — redevelopment	-1 000	-20 000	-20 000	—
BreastScreen SA — replacement of country mobile units	-2 591	—	—	—
Whyalla Hospital — redevelopment	-7 500	-7 500	—	—
Women's and Children's Hospital — Children's Cancer Centre	- 807	-9 942	-4 251	—
Savings initiative				
Savings target	—	8 100	24 300	48 600
Revenue offsets				
Elective surgery — Commonwealth contribution	5 100	—	—	—
Women's and Children's Hospital Cancer Centre — Commonwealth contribution	3 000	12 000	—	—
<b>South Australian Ambulance Service</b>				
Operating initiatives				
SA Ambulance Service — additional resources	-3 829	-6 753	-6 977	-7 210
Investing initiatives				
SA Ambulance Service — additional vehicles and equipment	-1 591	- 118	- 100	—
Revenue offsets				
SA Ambulance Service — additional transport fees	1 023	2 166	3 443	4 861

## **Education and Children's Services**

Spending per government school student continues to grow in 2008-09 with, on average, an additional \$364 for every government school student when compared to the 2007-08 Budget, an increase of 3.2 per cent. Spending per student increases from \$7598 in 2001-02 to \$11 568 in 2008-09, an increase of 52 per cent.

The 2008-09 Budget provides additional resources to support the government's School Retention strategy including the continuation of four Innovative Community Action Networks (ICANs) in northern metropolitan, southern metropolitan, north western metropolitan and the Upper Spencer Gulf region. The program is designed to re-engage and retain young people in the education system. The ICANs are formal structures involving schools, community groups, businesses and government working together with young people and their families.

Additional resources have also been provided for the continuation of the Premier's Industry Awards for Teachers of Science and Mathematics. The program provides teachers an opportunity to update their knowledge of current applications of mathematics and science in business and industry.

A number of key activities within the *future SACE* initiative will commence in 2008-09 with associated expenditure increasing from \$8.5 million in 2007-08 to \$16.8 million in 2008-09.

The government's Education Works strategy continues in 2008-09. The strategy includes a New Schools PPP project comprising six new schools across the northern and western suburbs of Adelaide. Three consortia, Axiom Education SA, Pinnacle Education and Plenary Education have been selected to develop detailed proposals for government consideration by September 2008.

The Education Works strategy includes public investment of \$82 million which aims to deliver a more efficient and effective school buildings and education services. To date, 13 schools have been involved formally in phase 2 of the Education Works Strategy including Woodville high school, Elizabeth North primary school, Broadmeadows primary school, Brown's Well District area school, Spence and Heysen primary school and Aldinga primary and junior primary school. The government has approved \$6.4 million of new investment under this strategy, which will generate savings of \$1.5 million per annum and land sales of \$2.0 million.

The capital program for 2008-09 is \$70.7 million, this includes additional resources for investment in school buses and 10 new education projects in both metropolitan and regional areas. The details of these projects can be found in Budget Paper 5.

The government is continuing to participate in the Council of Australian Governments (COAG) process. Initiatives in the Education and Children's Services area include support for Trade Training Centres; Early Childhood education; the establishment of a National Curriculum Board; and the Commonwealth National Secondary School Computer Fund initiative.

Negotiations for a new enterprise bargaining agreement with teachers have begun.

Further details of initiatives are presented in the following table.

**Table 2.11: Education and Children's Services — expenditure and savings initiatives (\$'000)**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
Operating initiatives	-1 400	-1 430	-1 461	-1 492
Investing initiatives	-1 838	- 938	—	—
Asset sales	—	—	—	—
Savings initiatives	—	2 500	7 600	15 100
Revenue offsets	—	—	—	—
<b>Impact on net operating balance</b>	<b>-1 400</b>	<b>1 070</b>	<b>6 139</b>	<b>13 608</b>
<b>Impact on net lending</b>	<b>-3 238</b>	<b>132</b>	<b>6 139</b>	<b>13 608</b>
<b>Department of Education and Children's Services</b>				
Operating initiatives				
Premier's Industry Awards for Teachers of Science and Mathematics — continuation	- 200	- 200	- 200	- 200
School Retention Strategy — continuation of Innovative Community Action Networks	-1 200	-1 230	-1 261	-1 292
Investing initiatives				
Education Works — additional support for implementation	-1 038	- 938	—	—
School Pride Buses — additional resources	- 800	—	—	—
Saving initiatives				
Savings target	—	2 500	7 600	15 100

## Tourism

The 2008-09 Budget provides an additional \$14.6 million over four years for the Tour Down Under event to ensure that it continues to be a part of the Union Cycliste Internationale's ProTour circuit.

The budget also provides additional resources to the South Australian Tourism Commission (SATC) to:

- host the Australian Tourism Exchange in Adelaide in 2010;
- support the Great Australian Outback Cattle Drive; and
- increase support for WOMADelaide.

Increased resources have also been provided to the SATC to enable it to relocate to new premises during 2008-09 and support the 2008 Playtime Festival of Thoroughbred Racing, the World Tennis Challenge and the International Beach Volleyball World Tour event.

A \$50.0 million grant will be provided to the Adelaide Entertainment Centre in 2007-08 for major facility enhancements including construction of a new small live entertainment venue for up to 2500 people, an expansion of patron service areas, development of a Port Road Drop-off/Pick-up point, and street scaping on Port Road.

Further details of initiatives are presented in the following table.

**Table 2.12: Tourism — expenditure and savings initiatives (\$000)**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
Operating initiatives	-4 064	-5 872	-3 980	-4 088
Investing initiatives	-2 506	—	—	—
Asset sales	—	—	—	—
Savings initiatives	—	600	1 800	3 600
Revenue offsets	—	—	—	—
<b>Impact on net operating balance</b>	<b>-4 064</b>	<b>-5 272</b>	<b>-2 180</b>	<b>-488</b>
<b>Impact on net lending</b>	<b>-6 570</b>	<b>-5 272</b>	<b>-2 180</b>	<b>-488</b>
<b>South Australian Tourism Commission</b>				
Operating initiatives				
Accommodation — additional support	- 64	- 72	- 80	- 88
Australian Tourism Exchange — support	- 500	-1 500	—	—
The Great Australian Outback Cattle Drive — support	—	- 500	—	—
Tour Down Under — increased support	-3 500	-3 600	-3 700	-3 800
WOMADelaide — increased support	—	- 200	- 200	- 200
Investing initiatives				
Accommodation — fitout	-2 506	—	—	—
Savings initiatives				
Savings target	—	600	1 800	3 600
<b>Memorandum Items - measures prior to the 2008-09 Budget</b>				
Operating initiatives				
World Tennis Challenge and Beach Volleyball events — support	- 770	- 800	- 700	- 450

## Families and Communities

The 2008-09 Budget provides significant additional resources for alternative care places and services for children under the guardianship of the Minister. Additional resources of \$142.1 million over the next four years provide for growth in the number of children in care, including the cost of foster care payments and support services such as social workers in district offices.

The budget includes \$48.4 million for the implementation of specific measures to reduce the number of children coming into care and provide additional support to carers and families. These measures are:

- Early intervention case management and home visiting services to stabilise and support children in their families.
- Increased support to non-government organisations responsible for carer recruitment, assessment and training and referral for placement.
- Increased payments to attract and retain foster and relative carers. This increase is in addition to the increases provided in July 2007 and February 2008.
- Additional services to support foster and relative carers including new staff to improve the worker to carer support ratio.

- Increased specialised placement support and intensive family preservation and reunification services. This intensive support will include practical and therapeutic interventions.

These measures are in addition to the pre budget decision to construct two new community residential care facilities that will provide 24 additional places for children in need of care.

As part of the response to the *To Break the Cycle* report, \$4.0 million over four years will be provided for multidisciplinary youth justice teams for case management, programs and services to young offenders. Resources will also be provided for the Tirkandi school retention program for Aboriginal youth. Further initiatives are shown in the Department of the Premier and Cabinet and Justice portfolios.

Additional resources of \$72.9 million over four years (fully funded by the Commonwealth) are provided as an expansion in disability services under the Commonwealth State Territory Disability Agreement. A further \$5.0 million has been provided in 2007-08 for the purchase of additional disability equipment in a number of non-government organisations and \$2.0 million has been provided to Novita Children's Services to redevelop the hydrotherapy pool complex.

Specific savings measures in the portfolio include a range of administrative efficiencies and rationalisation of service delivery arrangements. This includes streamlining contract management, reducing staff numbers in corporate and head office functions and the transfer of injury management services to the whole of government provider in the Department of the Premier and Cabinet.

The reduction in grant payments to the SA Housing Trust is part of a restructure of HomeStart's financial arrangements to ensure its financial operations are transparent and its dividend payment arrangement is sustainable.

The budget includes a contribution to the SA Housing Trust in 2007-08 of \$6.8 million for homelessness initiatives including \$4.0 million for the Foyer Plus Partnership Project in Metropolitan Adelaide and \$2.8 million to facilitate the Port Augusta Regional Common Ground Project.

Further details of initiatives are presented in the following table.

**Table 2.13: Families and Communities — expenditure and savings initiatives (\$000)**

	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Operating initiatives	-61 831	-69 848	-83 120	-100 061
Investing initiatives	-1 246	—	—	—
Asset sales	1 500	—	—	—
Savings initiatives	8 153	11 620	13 736	16 852
Revenue offsets	11 032	13 361	21 001	29 981
<b>Impact on net operating balance</b>	<b>-42 646</b>	<b>-44 867</b>	<b>-48 383</b>	<b>-53 228</b>
<b>Impact on net lending</b>	<b>-42 392</b>	<b>-44 867</b>	<b>-48 383</b>	<b>-53 228</b>

**Department for Families and Communities**

Operating initiatives				
Children in care — additional subsidies to foster carers	-1 100	-1 130	-1 160	-1 190
Children in care — early intervention services	-2 000	-4 160	-4 325	-4 500
Children in care — intensive family support services	-3 100	-3 245	-3 371	-3 502
Children in care — recruitment of foster carers	-2 105	-1 670	-1 735	-1 805

**Table 2.13: Families and Communities — expenditure and savings initiatives (\$000) continued**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
Children in care — relative and kinship care support	-1 695	-2 160	-2 205	-2 250
Children in care — support for growth	-29 212	-32 517	-36 950	-43 465
Commonwealth State Territory Disability Agreement — additional resources	-10 070	-12 490	-20 440	-29 910
School Retention Strategy — continuation of the Guardianship Assertive Management Initiative	- 450	- 470	- 480	- 500
Strathmont Centre Redevelopment — additional resources	- 479	—	—	—
Supported Residential Facilities — ongoing support	-6 404	-6 564	-6 728	-6 896
To Break the Cycle — multidisciplinary youth justice teams	- 975	-1 005	- 997	-1 029
To Break the Cycle — Tirkandi School Retention Program	- 238	- 246	- 254	- 263
<b>Investing initiatives</b>				
Office accommodation — support for office fitout	- 450	—	—	—
Strathmont Centre Redevelopment — additional resources	- 796	—	—	—
<b>Asset sales</b>				
Strathmont Centre Redevelopment — additional property sales	1 500	—	—	—
<b>Savings initiatives</b>				
Anti-poverty services — reduction in growth	410	420	431	442
Contract management efficiencies	240	420	431	441
Families SA and Disabilities SA — reduction in rental payments	683	700	718	736
Head Office — administrative efficiencies	850	2 020	2 071	2 122
Housing — reduction in grants to SAHT	5 000	6 000	6 000	6 000
Injury and Claims Management — rationalisation	400	410	420	431
Office accommodation — rationalisation	—	66	66	66
Savings target	—	1 000	3 000	6 000
Special Programs for Youth — revised service delivery arrangements	570	584	599	614
<b>Revenue offsets</b>				
Commonwealth State Territory Disability Agreement — Commonwealth contribution	10 070	12 490	20 440	29 910
HomeStart — revised dividend framework	572	471	151	- 349
Training — support from Commonwealth	390	400	410	420
<b>Administered Items for the Department of Families and Communities</b>				
<b>Operating initiatives</b>				
HomeStart — introduction of community service obligation payments	-4 003	-4 191	-4 475	-4 751
<b>Memorandum Items - measures prior to the 2008-09 Budget</b>				
<b>Operating initiatives</b>				
Children in care — operating resources for community residential care facilities	—	-1 747	-3 567	-3 641
Supported Accommodation Assistance Program — additional support	- 265	- 409	- 561	- 721

**Table 2.13: Families and Communities — expenditure and savings initiatives (\$000) continued**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
<b>Investing initiatives</b>				
Children in care — construction of community residential care facilities	-2 888	-1 733	—	—

## Environment and Conservation and the River Murray

The 2008-09 Budget provides the Department of Water, Land and Biodiversity Conservation with additional resources for a range of initiatives to minimise the impacts of the current drought and ensure water supply to more than 90 per cent of South Australians who rely on the River Murray. Initiatives include:

- education and compliance programs to ensure the River Murray community are aware of and adhere to current water restrictions;
- monitoring and scientific investigations of water quality; and
- ongoing community engagement and communication.

Resources have been provided to enable additional grants to be made under the Rainwater Tank Rebate Scheme. The scheme provides a rebate of up to \$1000 to purchase and plumb rainwater tanks into homes built before 1 July 2006.

Zero Waste SA has been provided with additional resources to help inform consumers and retailers of the ban on single-use plastic shopping bags from 2009 and to provide information on alternatives.

In 2007-08 the Murray–Darling Basin Commission committed \$6.0 million to pump water to Lake Albert from Lake Alexandrina to prevent the development of acid sulphate soils.

The budget includes an \$18.9 million grant in 2007-08 to the Royal Zoological Society of SA to undertake redevelopment of facilities that will include a new safer entrance facility, with retail shops, interpretive centre, offices and café, new perimeter fencing and a fairy penguin pool and viewing facility.

Further details of initiatives are presented in the following table.

**Table 2.14: Environment and Conservation and the River Murray — expenditure and savings initiatives (\$'000)**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
Operating initiatives	-8 000	- 40	- 41	- 42
Investing initiatives	- 300	—	—	—
Asset sales	—	—	—	—
Savings initiatives	—	2 100	6 300	12 600
Revenue offsets	—	—	—	—
<b>Impact on net operating balance</b>	<b>-8 000</b>	<b>2 060</b>	<b>6 259</b>	<b>12 558</b>
<b>Impact on net lending</b>	<b>-8 300</b>	<b>2 060</b>	<b>6 259</b>	<b>12 558</b>
<b>Department of Water, Land and Biodiversity Conservation</b>				
Operating initiatives				
Financial Management Improvement Program — additional resources	- 190	- 40	- 41	- 42
Rainwater Tank Rebate Scheme — additional grants	- 500	—	—	—
River Murray Water Security — continued support	-6 810	—	—	—
Investing initiatives				
Financial Management Improvement Program — system upgrade	- 300	—	—	—
Savings initiatives				
Savings target	—	600	1 900	3 800
<b>Department for Environment and Heritage</b>				
Saving initiatives				
Savings target	—	1 300	3 800	7 700
<b>Environment Protection Authority</b>				
Saving initiatives				
Savings target	—	200	600	1 100
<b>Zero Waste South Australia</b>				
Operating initiatives				
Single use plastic shopping bags ban — public awareness campaign	- 500	—	—	—
<b>Memorandum Items - measures prior to the 2008-09 Budget</b>				
<b>Department of Water, Land and Biodiversity Conservation</b>				
Operating initiatives				
Electric Ants — national eradication program	- 69	- 70	—	—
National Water Initiative — water restoration projects in the Upper South East	-2 792	-6 683	-1 587	- 27

**Table 2.14: Environment and Conservation and the River Murray — expenditure and savings initiatives (\$000) continued**

	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Revenue offsets				
National Water Initiative — Commonwealth contribution	4 526	1 201	—	—
National Water Initiative — landowner levies	943	943	943	572
<b>Department for Environment and Heritage</b>				
Investing initiatives				
Annual Program — additional resources from crown land sales	-1 824	—	—	—
<b>Environment Protection Authority</b>				
Operating initiatives				
Accommodation — additional support	- 754	- 672	- 632	- 659
National Pollutant Inventory database — state contribution to staffing	- 23	- 23	- 23	- 23
Solaria Industry — regulation	—	- 90	- 92	- 94
Investing initiatives				
Accommodation — fitout	-5 256	—	—	—
Revenue offsets				
National Pollutant Inventory database — Commonwealth contribution	23	23	23	23

## Further Education, Employment, Science and Technology

The government has committed to a partnership with the Commonwealth through the Council of Australian Governments (COAG) process to negotiate South Australia's share of 630 000 additional skills training places for job seekers and existing workers. It is anticipated negotiations will be finalised in the second half of 2008.

In addition, construction of a new TAFE campus at Victor Harbor and the implementation of a new Student Information System to manage TAFE SA student information and related data and services are both commencing in 2008-09.

Continued support has also been provided for Constellation SA to enhance collaboration between research organisations and industry in South Australia. The major focus in 2008-09 will be to establish the Minerals and Energy Alliance and specific mining and energy clusters to support the rapid expansion of activity in the state's mining and mineral resources sector.

Additional resources have been provided to continue the South Australian Science Excellence Awards. These awards enhance the community's awareness and recognition of the science and research sector in South Australia.

The 2008-09 Budget provides additional resources to support the government's School Retention Strategy, including the continuation of the Alternative Learning Options Program in order to increase school retention rates.

Further details of initiatives are presented in the following table.

**Table 2.15: Further Education, Employment, Science and Technology — expenditure and savings initiatives (\$000)**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
Operating initiatives	-2 100	-1 130	-1 160	-1 190
Investing initiatives	—	—	—	—
Asset sales	—	—	—	—
Savings initiatives	—	1 600	4 700	9 400
Revenue offsets	—	—	—	—
<b>Impact on net operating balance</b>	<b>-2 100</b>	<b>470</b>	<b>3 540</b>	<b>8 210</b>
<b>Impact on net lending</b>	<b>-2 100</b>	<b>470</b>	<b>3 540</b>	<b>8 210</b>
<b>Department of Further Education, Employment, Science and Technology</b>				
Operating initiatives				
Constellation SA — operational support	-1 000	—	—	—
School Retention Strategy — continuation of the Alternative Learning Options Program	- 850	- 880	- 910	- 940
Science Excellence Awards — continuation	- 250	- 250	- 250	- 250
Savings initiatives				
Savings target	—	1 500	4 500	9 000
<b>Bio Innovation SA</b>				
Savings initiatives				
Savings target	—	100	200	400

## Key components of expenses

General government expenses by type were shown in Table 2.2. The following section provides further details on the key components of expenses including details of expenses by the Australian Bureau of Statistics' Government Purpose Classification.

### Employee expenses and public sector employment

General government sector employee expenses are estimated to be \$255 million (4.4 per cent) higher in 2008-09 than the 2007-08 estimated result.

In 2007-08 Enterprise Agreements were finalised for police, nurses, ambulance officers and Parliament House and electoral office employees. Combined, these groups account for approximately 20 per cent of the general government sector workforce and employee expenses.

Negotiations for new Agreements have begun with salaried medical officers, teachers and TAFE lecturers, and it is expected that agreements will be finalised for these groups during 2008-09. Agreements are also expected to be finalised during 2008-09 for metal, plumbing and building trade employees and Metropolitan Fire Service firefighters.

The 2008-09 Budget contains the expense implications of current enterprise bargaining agreements until they expire and provides for reasonable remuneration increases for all employee groups in the next round of enterprise bargaining.

The outcome of future wage negotiations will be crucial in determining whether the forward estimates of expenses in this budget can be achieved. They will also be an important factor in determining the level of government services that can be delivered.

Full Time Equivalent (FTE) employee number estimates for general government sector agencies are based on FTE caps applied to them. Other agencies provide estimates of future employment. The caps are consistent with the salaries and wages budget for each agency and are adjusted in line with changes to their budgets. Actual FTEs are monitored on a regular basis with agencies required to explain any significant variations from their FTE cap.

The net impact of 2008-09 Budget measures is 358 FTEs in the budget year. Overall FTE movements also depend on factors already included in the budget base. The estimated aggregate workforce levels in the public sector for the periods ending 30 June 2008 and 2009 are shown in Table 2.16. The estimated increase of 21 FTEs in the general government sector in 2008-09 primarily reflects planned increases in FTEs from new initiatives and delivery of services including in the Justice portfolio (199 FTEs), the Department of Education and Children's Services (35 FTEs) and the Department of Primary Industries and Resources (25 FTEs). The increase is partially offset by a planned reduction of 146 FTEs in the Department of Further Education, Employment, Science and Technology consistent with the strategy to transition to a lower cost structure by 2009-10 by the effective implementation of internal efficiencies, and completion of externally funded projects in the Department of Environment and Heritage (64 FTEs).

**Table 2.16: Public sector employment numbers<sup>(a)</sup>**

	Full time equivalent employees	
	30 June 2008	30 June 2009
	Estimate	Estimate
General government sector <sup>(b)</sup>	77 041	77 062
Public non-financial corporations sector	4 256	4 297
Financial corporations sector	479	483
<b>Estimated total public sector employment</b>	<b>81 775</b>	<b>81 841</b>

(a) Table may not add due to rounding.

(b) The FTE numbers in table 2.16 for the general government sector reflect the FTE cap.

## Transfers

Table 2.17 provides details of transfer expenses from the general government sector to other sectors of government and the private sector. These transfers include:

- grants to non-government schools;
- grants to local government;
- grants to industry;
- appropriations for the South Australian Housing Trust; and
- community service obligation payments to SA Water and ForestrySA.

**Table 2.17: General government current and capital transfer expenses (\$ million)<sup>(a)</sup>**

	2007-08 Estimated result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<i>Current transfers</i>					
Current grant expenses	809	955	855	880	896
Subsidy payments					
To public non-financial corporations <sup>(b)(c)</sup>	524	475	463	458	462
To public financial corporations <sup>(b)</sup>	4	4	4	4	5
To other	213	148	185	148	146
Other current transfer payments <sup>(d)</sup>	744	790	788	792	810
<b>Total</b>	<b>2 293</b>	<b>2 372</b>	<b>2 295</b>	<b>2 282</b>	<b>2 317</b>
<i>Capital transfers</i>					
Capital grant expenses	28	3	3	3	3
Other capital transfer payments	98	126	127	128	129
<b>Total</b>	<b>126</b>	<b>129</b>	<b>130</b>	<b>131</b>	<b>132</b>

(a) Table may not add due to rounding.

(b) Further information is available in Chapter 6 *Government Businesses*.

(c) Includes grants to South Australian Community Housing Authority previously shown as subsidy payments to public financial corporations.

(d) Includes transfers to non-government schools previously shown under subsidies to other.

Current transfers are estimated to be \$79 million higher in 2008-09 than 2007-08. This largely reflects the impact of additional expenditure in 2008-09 for drought assistance measures under the joint Commonwealth-State Exceptional Circumstances program, additional support to address the growth in the number of children in care and for supported residential facilities. Also contributing to the growth is the repayment, in 2007-08, of a \$35 million grant previously provided to Mitsubishi, reflected in current grant expenses.

A number of one off grants in 2007-08 contribute to subsidy payments being higher in 2007-08 than 2008-09. These include payments to the South Australian Housing Trust, Adelaide Entertainment Centre and various other sporting and recreation organisations.

Capital grants expenses are higher in 2007-08 primarily due to higher payments under the Investing in Our Schools Program, funded by the Commonwealth, and a one off capital grant to the Royal Zoological Society of South Australia.

The decrease in current transfers in 2009-10 primarily reflects the expected completion of the Exceptional Circumstances drought relief program, partially offset by grants to the South Australian National Football League for the redevelopment of AAMI Stadium, commencing in the same year.

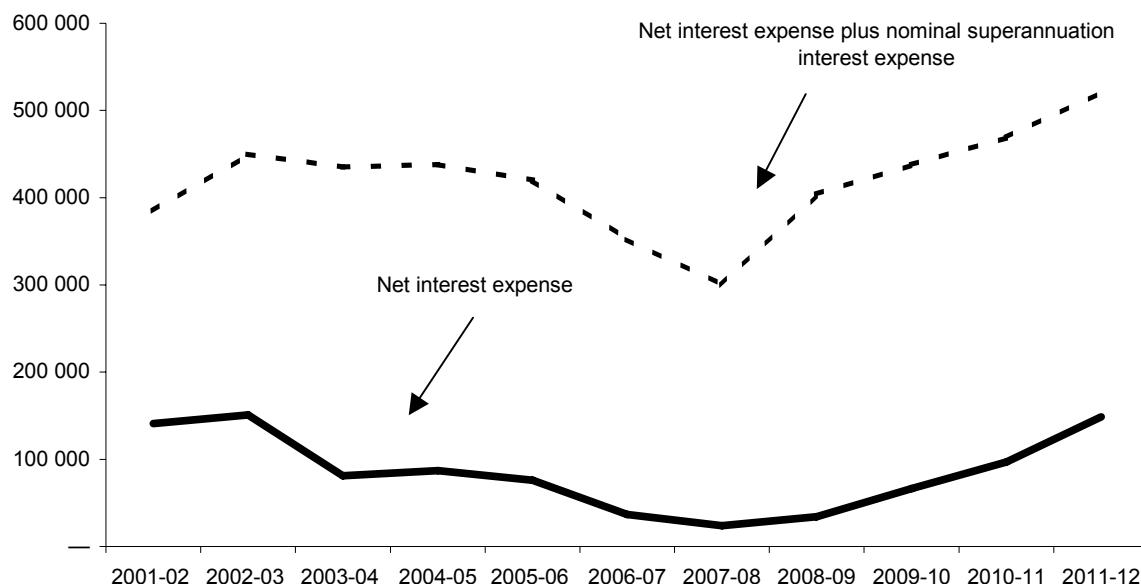
Other capital transfer payments increase from 2008-09 due to the commencement of first home bonus grants.

## Interest expenses

General government interest expenses are projected to increase across the forward estimates period reflecting higher levels of debt as a consequence of projected net lending deficits that support the government's significant capital expenditure program.

Figure 2.1 presents a time series of actual and forecast net interest expenses. The steady decline in net interest costs evident from 2002-03 to 2007-08 reflects lower levels of debt as a result of a sustained run of net lending surpluses over the period.

**Figure 2.1: General government sector net interest expenses: 2001-02 to 2011-12 (\$000)**



## Superannuation

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

The estimated unfunded superannuation liability at June 2008 has increased by \$1855 million since the *2007-08 Mid-Year Budget Review*. The increase is primarily due to changes in demographic and

economic factors as a result of the independent triennial actuarial review and significantly lower than expected earnings on superannuation assets during 2007-08 (forecast to be 8.0 per cent in the *2007-08 Mid-Year Budget Review* and now expected to be negative 4.0 per cent). The change in the unfunded superannuation liability is discussed further in Chapter 5.

The nominal superannuation interest expense for 2007-08 is \$276 million, consistent with estimates in the *2007-08 Mid-Year Budget Review*. In 2008-09, and across the forward estimates, nominal superannuation interest expense is expected to be higher than forecast in the *2007-08 Mid-Year Budget Review* (by approximately \$100 million per annum). This reflects the impact of the independent triennial actuarial review and lower than expected earnings on superannuation assets on the expected unfunded superannuation liability at 30 June 2008.

## **Other operating (non-employee) expenses**

The estimated growth in other operating expenses in 2008-09 (\$139 million) is mainly due to:

- the net effect of decisions taken during 2007-08 and in the 2008-09 Budget; and
- general growth in goods and services expenses in line with movements in the Consumer Price Index.

## **Purchases of property, plant and equipment**

General government purchases of property plant and equipment (investing expenditure) was \$753 million in 2006-07 and is estimated to be \$1005 million in 2007-08 and \$1394 million in 2008-09. The forward estimates contain a major infrastructure investment program, including public private partnership projects, of \$6.7 billion over four years that will see the state's strategic economic and social infrastructure rebuilt and expanded to accommodate future needs.

The main general government investing expenditure increases between 2007-08 and 2008-09 are in the following portfolios:

- Transport, Energy and Infrastructure — a number of projects have higher expenditure in 2008-09 than 2007-08. These include the Northern Expressway, relocation of the Adelaide rail yards, the Rail Revitalisation (Belair/Noarlunga lines) project and the Sturt Highway Upgrade
- Health — a number of projects have higher expenditure in 2008-09 than 2007-08 including the Flinders Medical Centre redevelopment.

## **Expenses by function (ABS Government Purpose Classifications)**

Expenses by function are shown in Table 2.18 according to the Australian Bureau of Statistics' Government Purpose Classification.

Health (29 per cent) and Education (25 per cent) each account for significant components of government expenses.

Expenses in 2008-09 are expected to increase compared to the 2007-08 Budget estimate in Housing and Community Amenities (11.7 per cent), Public Order and Safety (9.8 per cent), Health (9.6 per cent), Social Security and Welfare (8.3 per cent) and Education (6.1 per cent). These increases are primarily the result of the budget response to demand for services, a range of expenditure measures described earlier in the chapter, predicted growth in employee expenses and the effect of economic and financial parameters that influence the budget outlook. Variations to the accounting treatment of some transactions, for example reclassifications between operating and investing

expenditure, contribute to the variations in a number of categories, in particular Transport and Communications and Housing and Community Amenities.

The increase in Other Purposes of 10.4 per cent primarily reflects the effect of higher interest expense and nominal interest expense on superannuation previously described in this chapter.

**Table 2.18: Estimate of expenses by function<sup>(a)(b)</sup>**

	2006-07 Outcome	2007-08 Budget	2007-08 Estimate	2008-09 Estimate	2008-09 % change on 2007-08 Budget
	\$m	\$m	\$m	\$m	
General public services	184	214	216	236	10.3
Defence	—	—	—	—	—
Public order and safety	1 074	1 142	1 174	1 254	9.8
Education	2 940	3 129	3 216	3 321	6.1
Health	3 356	3 491	3 635	3 826	9.6
Social security and welfare	748	774	810	838	8.3
Housing and community amenities	969	1 039	1 048	1 161	11.7
Recreation and culture	291	277	373	287	3.6
Fuel and energy	40	40	43	42	5.0
Agriculture, forestry, fishing and hunting	193	207	215	218	5.3
Mining and mineral resources (other than fuels); manufacturing and construction	95	97	100	100	3.1
Transport and communications	745	737	741	752	2.1
Other economic affairs	178	210	200	228	8.6
Other purposes	734	752	681	830	10.4
<b>Total expenses</b>	<b>11 547</b>	<b>12 110</b>	<b>12 452</b>	<b>13 094</b>	<b>8.1</b>

(a) Table may not add due to rounding

(b) Expenses by function data are derived from information submitted by government departments and agencies. The processes for deriving these data are subject to ongoing refinements. Consequently the data may be subject to future revisions. Further to this revision policy, for the 2007-08 budget data, \$12 million has been reclassified from "Other purposes" to "Other economic affairs". The ABS Government Purpose Classification does not align neatly to the administrative structure of portfolios.

## Expenditure by portfolio

Tables 2.19–2.21 show, respectively, operating expenses, investing and budget initiatives by portfolio, that is classified accordingly to the operational and administrative structure of the government.

**Table 2.19: Operating expenses by portfolio<sup>(a)(b)</sup>**

<b>Portfolio</b>	<b>2007-08</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2008-09</b>
	<b>Budget</b>	<b>Estimated result</b>	<b>Budget</b>	<b>% change on 2007-08 Budget</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	
The Legislature	- 21	- 22	- 22	5.7
Premier and Cabinet	- 296	- 345	- 309	4.4
Trade and Economic Development / Defence SA <sup>(c)</sup>	- 80	- 78	- 85	5.7
Treasury and Finance	- 269	- 258	- 255	-5.3
Justice	-1 156	-1 194	-1 259	8.9
Primary Industries and Resources	- 381	- 317	- 372	-2.5
Transport, Energy and Infrastructure	-1 141	-1 127	-1 152	1.0
Health	-3 366	-3 542	-3 634	8.0
Education and Children's Services	-2 141	-2 182	-2 195	2.5
Tourism	- 54	- 57	- 59	8.7
Families and Communities <sup>(d)</sup>	-1 339	-1 391	-1 433	7.1
Environment and Conservation and the River Murray	- 368	- 392	- 382	3.9
Further Education, Employment, Science and Technology	- 481	- 499	- 494	2.6
Auditor-General	- 11	- 11	- 12	2.2
<b>Total Portfolio operating expenses</b>	<b>-11 106</b>	<b>-11 416</b>	<b>-11 663</b>	<b>5.0</b>

(a) Table may not add due to rounding.

(b) Includes all portfolios as described in Budget Paper 4 plus the Legislature. Excludes amounts administered on behalf of government. Will not add to total expenses due to the impact of inter agency transactions.

(c) Includes 2007-08 Budget of Port Adelaide Maritime Corporation.

(d) The 2007-08 Budget for Families and Communities is \$11 million lower than the amount published in the 2007-08 Budget papers due to the transfer of the South Australian Community Housing Authority (SACHA) into the South Australian Housing Trust (SAHT) and the corresponding elimination of payments from the Department for Families and Communities to SAHT that were previously paid to SACHA.

**Table 2.20: Investing by portfolio (\$ million)<sup>(a)(b)</sup>**

<b>Portfolio</b>	<b>2007-08 Budget</b>	<b>2007-08 Estimated result</b>	<b>2008-09 Budget</b>
The Legislature	—	- 2	—
Premier and Cabinet	- 17	- 10	- 29
Trade and Economic Development	- 156	- 163	- 120
Treasury and Finance	- 94	- 91	- 116
Justice	- 73	- 65	- 106
Primary Industries and Resources	- 11	- 9	- 16
Transport, Energy and Infrastructure	- 459	- 400	- 665
Health	- 170	- 143	- 279
Education and Children's Services	- 48	- 77	- 71
Tourism	—	—	- 3
Families and Communities	- 14	- 7	- 17
Environment and Conservation and the River Murray	- 15	- 18	- 23
Further Education, Employment, Science and Technology	- 16	- 13	- 17
Contingencies and Other	- 36	- 6	- 53
Provision for capital slippage	90	—	120
<b>Total investing payments general government sector</b>	<b>-1 018</b>	<b>-1 005</b>	<b>-1 394</b>
Total investing payments public non-financial corporations	- 469	- 475	- 763
Other	6	19	3
<b>Total investing</b>	<b>-1 482</b>	<b>-1 461</b>	<b>-2 153</b>

(a) Table may not add due to rounding.

(b) Does not include contributed assets which are included in net acquisition of non financial assets.

**Table 2.21: Budget initiatives by portfolio (\$ million)<sup>(a)(b)</sup>**

<b>Portfolio</b>	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
Premier and Cabinet	-13.8	-66.6	-23.3	-18.5
Trade and Economic Development / Defence SA	-16.9	-12.4	14.7	15.8
Treasury and Finance	-52.5	-65.4	-39.5	-17.7
Justice	-24.8	-38.3	-48.1	-47.9
Primary Industries and Resources	-8.9	-4.7	-0.7	5.1
Transport, Energy and Infrastructure	-116.5	-216.6	-344.9	-379.8
Health	-91.2	-107.5	-96.6	-54.5
Education and Children's Services	-3.2	0.1	6.1	13.6
Tourism	-6.6	-5.3	-2.2	-0.5
Families and Communities	-42.4	-44.9	-48.4	-53.2
Environment and Conservation and the River Murray	-8.3	2.1	6.3	12.6
Further Education, Employment, Science and Technology	-2.1	0.5	3.5	8.2
<b>Total initiatives (net of savings and revenue offsets)</b>	<b>-387.2</b>	<b>-559.0</b>	<b>-573.1</b>	<b>-516.7</b>

(a) Table may not add due to rounding.

(b) Includes asset sales of \$78.7 million.

## Expenditure decisions 2007-08

Table 2.22 shows the expenditure decisions of the government made following the *2007-08 Mid-Year Budget Review* affecting 2007-08.

**Table 2.22: Expenditure decisions since the 2007-08 MYBR impacting in 2007-08 (\$000)**

	2007-08 Estimated result
<b>Department of the Premier and Cabinet</b>	
Operating initiatives	
Aboriginal engagement — advisory council and Commissioner	- 163
Adelaide Festival Centre Trust — additional support	- 868
Adelaide Football Club — grant	-2 500
Adelaide Symphony Orchestra — additional support	-1 800
Agent General's Office — additional support	- 43
Australian Dance Theatre — additional support	- 500
Baseball SA — loan write off	- 70
Gawler Racecourse redevelopment — grant	-6 000
Industrial Relations Commission — additional Commissioner	- 95
Morphettville Racecourse redevelopment — grant	-5 000
Olympic, Commonwealth and Paralympic Games Appeal Committee — contribution	- 650
Port Adelaide Football Club — grant	-2 500
Public Sector Performance Commission — establishment	-1 000
Regional Arts — infrastructure and events	- 700
Royal Institution of Australia — additional support	-1 000
State Library — information technology upgrade	- 400
Wayville Showground redevelopment — grant	-8 000
Investing initiatives	
Adelaide Film and Screen Hub — construction	- 500
State Library — information technology upgrade	- 400
<b>Defence SA</b>	
Savings initiatives	
Rationalisation of boards	19
<b>Department of Treasury and Finance</b>	
Operating initiatives	
PPP Project Management — additional staffing	- 99
Taxation Revenue Management System (RISTEC) — additional support <sup>(a)</sup>	453
Investing initiatives	
Taxation Revenue Management System (RISTEC) — additional investment <sup>(a)</sup>	5 531

**Table 2.22: Expenditure decisions since the 2007-08 MYBR impacting in 2007-08 (\$000) continued**

	<b>2007-08 Estimated result</b>
<b>Administered Items for the Department of Treasury and Finance</b>	
Operating initiatives	
Air Warfare Destroyer Systems Centre Campus — support	-2 500
Burmese Red Cross Appeal — donation	- 200
Bushfire relief — grant to Greek Government	- 200
Foodbank of South Australia — grant	-1 850
RESI Corporation — asbestos claims	-1 080
Support Services to Parliamentarians — additional resources	- 118
<b>Administered Items for the Attorney-General's Department</b>	
Operating initiatives	
Crown Employees — legal cost reimbursement	- 21
Firearms reform — additional compliance activity	- 376
<b>Department for Correctional Services</b>	
Operating initiatives	
Prison infrastructure — additional accommodation and staffing costs	-5 344
Investing initiatives	
Prison infrastructure — additional accommodation	-1 084
Prison infrastructure project team — additional support	- 231
<b>South Australian Metropolitan Fire Service</b>	
Investing initiatives	
Annual program — additional resources	- 289
Asset Sales	
Former fire stations — property sales	505
<b>Country Fire Service</b>	
Operating initiatives	
Bushfire suppression — additional resources	-4 300
<b>Department of Primary Industries and Resources</b>	
Operating initiatives	
Petroleum and Geothermal Industry Regulation — additional support	- 266
Planning and Development System — implementation of reform	-1 600
<b>Department for Transport, Energy and Infrastructure</b>	
Operating initiatives	
Remote power generation — increased fuel expenses	- 396

**Table 2.22: Expenditure decisions since the 2007-08 MYBR impacting in 2007-08 (\$000) continued**

	<b>2007-08 Estimated result</b>
Investing initiatives	
Walkerville Building Carpark — upgrade and land sale	-1 300
Revenue offsets	
Transport sustainability — Commonwealth contribution for urban congestion study	3 000
<b>Department of Health</b>	
Operating initiatives	
Elective surgery — support to reduce waiting times	-8 500
Financial reporting — resources to improve financial management	-1 219
Health services — additional resources	-70 319
Medical research — additional resources	- 72
Investing initiatives	
Medical research — additional equipment	- 428
Revenue offsets	
Elective surgery — Commonwealth contribution	8 500
<b>Minister for Tourism</b>	
Operating initiatives	
Adelaide Entertainment Centre redevelopment — contribution	-50 000
<b>South Australian Tourism Commission</b>	
Operating initiatives	
2008 Playtime Festival of Thoroughbred Racing — support	- 513
World Tennis Challenge and Beach Volleyball events — support	-1 080
<b>Department for Families and Communities</b>	
Operating initiatives	
Children in care — support for growth	-18 847
Commonwealth State Territory Disability Agreement — supported accommodation	-8 090
Disability services — additional equipment	-5 000
Homelessness — Foyer Plus Partnership project	-4 000
Homelessness — Common Ground Port Augusta	-2 800
Novita Children's Services — contribution to hydrotherapy pool	-2 000
School Retention Strategy — continuation of the Guardianship Assertive Management Initiative	- 225
Strathmont Centre Redevelopment — additional resources	- 280
Supported Accommodation Assistance Program — additional support	- 128

**Table 2.22: Expenditure decisions since the 2007-08 MYBR impacting in 2007-08 (\$'000) continued**

	2007-08 Estimated result
<b>Investing initiatives</b>	
Children in care — construction of community residential care facilities	-2 855
Strathmont Centre Redevelopment — additional resources <sup>(a)</sup>	55
<b>Savings initiatives</b>	
Housing — reduction in grants to SAHT	5 000
<b>Revenue offsets</b>	
Commonwealth State Territory Disability Agreement — Commonwealth contribution	8 090
HomeStart — revised dividend framework	1 462
<b>Administered Items for the Department for Families and Communities</b>	
<b>Operating initiatives</b>	
Homestart — introduction of Community Service Obligations	-3 970
<b>Department of Water, Land and Biodiversity Conservation</b>	
<b>Operating initiatives</b>	
Electric Ants — national eradication program	- 134
National Water Initiative — water restoration projects in the Upper South East	-1 220
Reconnection of Lake Albert to Lake Alexandrina — water pumping	-6 000
<b>Revenue offsets</b>	
National Water Initiative — Commonwealth contribution	1 973
National Water Initiative — landowner levies	1 208
Reconnection of Lake Albert to Lake Alexandrina — Murray Darling Basin Commission contribution	6 000
<b>Department for Environment and Heritage</b>	
<b>Operating initiatives</b>	
Crown Land Sales — cost of sales	- 799
Fire Management — increased capacity	- 816
<b>Investing initiatives</b>	
Annual Program — additional resources from crown land sales	- 468
Fire Management — equipment	- 10
<b>Asset sales</b>	
Crown Land Sales — proceeds	4 578
<b>Administered Items of the Department for Environment and Heritage</b>	
<b>Operating initiatives</b>	
Adelaide Zoo redevelopment — grant	-18 900

**Table 2.22: Expenditure decisions since the 2007-08 MYBR impacting in 2007-08 (\$000) continued**

	2007-08 Estimated result
<b>Department of Further Education, Employment, Science and Technology</b>	
Operating initiatives	
School Retention Strategy — continuation of the Alternative Learning Options Program	- 425
<b>Total</b>	<b>-216 167</b>

(a) Reflects delay to future years.



# **CHAPTER 3: REVENUE**

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## **Overview**

The 2008-09 Budget continues the government's ongoing program of substantial tax relief. The measures in this budget, in addition to relief measures announced in previous years, will mean the government will have provided tax relief of almost \$3 billion by 2011-12.

The payroll tax threshold will be increased from \$504 000 to \$552 000 from 1 July 2008, and will be further increased to \$600 000 from 1 July 2009. The payroll tax rate will also be reduced to 4.95 per cent from 1 July 2009.

These measures are in addition to payroll tax cuts announced in the 2007-08 Budget. When all payroll tax measures that have been announced by the government in the last two budgets are fully implemented in 2009-10, the annual payroll tax savings to South Australian businesses will be around \$136 million compared to rates and thresholds that applied prior to 1 July 2007.

Forward projections of revenue reflect these tax measures and the impact of previously announced tax measures that are yet to come into effect. Previously announced measures include a reduction in the payroll tax rate from 5.25 per cent to 5 per cent from 1 July 2008, implementation of payroll tax harmonisation measures and various tax reforms committed to under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Arrangements* (IGA).

Total operating revenues are projected to grow, in nominal terms, at an annual average rate of 3.5 per cent over the forward estimates.

Projected growth in revenue is significantly lower than recent experience reflecting the impact of tax measures announced in this and previous budgets and an anticipated slowing in property market conditions from the strong growth experienced in recent years. Growth in GST revenue grants over the forward years is also expected to be lower than experienced in 2007-08 reflecting moderating growth in the GST pool and anticipated changes in South Australia's share of the GST pool due to a declining population share and changes in South Australia's relative fiscal requirement as determined by the Commonwealth Grants Commission.

## **Taxation measures**

Taxation measures are summarised in Table 3.1.

**Table 3.1: Taxation measures (\$ million)**

	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
<b>2008-09 Budget measures</b>				
<b>Payroll tax</b>				
From 1 July 2008				
<i>Increase threshold from \$504 000 to \$552 000</i>	- 9.4	- 10.8	- 11.4	- 12.1
From 1 July 2009				
<i>Increase threshold from \$552 000 to \$600 000</i>	—	- 9.4	- 10.9	- 11.5
<i>Rate reduction from 5.0% to 4.95%</i>	—	- 8.9	- 10.3	- 10.8
<b>Total 2008-09 taxation measures</b>	<b>- 9.4</b>	<b>- 29.1</b>	<b>- 32.6</b>	<b>- 34.4</b>
<b>Taxation impact of 2008-09 agency revenue measures</b>				
Natural Resource Management levy				
<i>Relief for levy payers in River Murray areas for 2008-09 only</i>	- 2.2	—	—	—
<b>Total taxation impact of 2008-09 agency revenue measures</b>	<b>- 2.2</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total 2008-09 taxation measures</b>	<b>- 11.6</b>	<b>- 29.1</b>	<b>- 32.6</b>	<b>- 34.4</b>
(including tax impact of agency revenue measures)				
<b>Policy measures approved during 2007-08</b>				
Comparable stamp duty treatment of transfers of subdivided trust property	- 0.5	- 0.5	- 0.5	- 0.5
Stamp duty exemption for transfers of gaming machine entitlements	- 0.2	- 0.1	—	—
Phase out of SA TAB wagering tax with full abolition from 1 July 2012	- 3.5	- 5.0	- 6.3	- 7.4
<b>Policy measures announced in prior budgets</b>				
Payroll tax - from 1 July 2008				
<i>Rate reduction from 5.25% to 5.0%</i>	- 42.1	- 48.7	- 51.5	- 54.4
<i>Implementation of harmonisation measures to improve consistency in payroll tax legislation and associated administrative arrangements between jurisdictions</i>	- 8.3	- 9.5	- 10.0	- 10.5
Land tax - from 30 June 2008				
<i>Introduction of measures to reduce avoidance of aggregation provisions contained in the Land Tax Act</i>	5.0	5.2	5.5	5.7
Phasing out stamp duty for:				
<i>Remaining mortgage duty</i>	- 25.0	- 52.8	- 55.7	- 58.7
<i>Rental duty</i>	- 2.8	- 11.3	- 12.4	- 13.1
<i>Non-real property transfers</i>	—	- 22.7	- 48.5	- 51.7
<i>Non-quoted marketable securities</i>	—	- 3.8	- 8.3	- 9.1
<b>Total policy measures prior to the 2008-09 Budget</b>	<b>- 77.4</b>	<b>- 149.1</b>	<b>- 187.7</b>	<b>- 199.6</b>
<b>Total revenue impact</b>	<b>- 89.0</b>	<b>- 178.2</b>	<b>- 220.3</b>	<b>- 234.0</b>

Note: Totals may not add due to rounding.

## Payroll tax – threshold increases and rate reductions

The payroll tax threshold will be increased from \$504 000 to \$552 000 from 1 July 2008 and will be further increased to \$600 000 from 1 July 2009. In addition, the payroll tax rate will be cut from 5.0 per cent to 4.95 per cent from 1 July 2009.

These measures are in addition to payroll tax cuts announced in the 2007-08 Budget and will provide further benefits to businesses in South Australia.

In the 2007-08 Budget, the government announced that the payroll tax rate would be reduced in two stages from 5.5 per cent to 5.25 per cent from 1 July 2007, with a further rate cut to 5.0 per cent from 1 July 2008.

About 6500 employers employing an estimated 380 000 South Australians are expected to benefit from these reforms, including an estimated 300 employers who will no longer be liable for payroll tax when the threshold increases to \$600 000.

## **Payroll tax – measures to improve inter-jurisdictional consistency**

At the March 2007 meeting of the States Only Ministerial Council for Commonwealth-State Financial Relations, all jurisdictions agreed to implement changes to payroll tax legislation and associated administrative arrangements to improve inter-jurisdictional consistency. As announced in the 2007-08 Budget, changes apply in South Australia, effective from 1 July 2008, in the following areas:

- exemption thresholds for motor vehicle and accommodation allowances will be increased and aligned with selected Australian Taxation Office rates, which are updated annually;
- the lower gross up factor (Type 2) in the Fringe Benefits Tax legislation will be applied when ‘grossing up’ the value of fringe benefits for payroll tax purposes;
- arrangements for administering the exemption for taxable wages paid or payable in respect of services performed wholly in another country for a continuous period of more than six months will permit the exemption to be claimed at the time overseas service commences;
- superannuation contributions for non-employee directors will be included in the payroll tax base;
- the control test for the grouping of commonly controlled businesses will change from ‘50 per cent or more’ to ‘greater than 50 per cent’; and
- specific legislative provisions will cover employee share acquisition arrangements. South Australia currently taxes employee share acquisition schemes through general provisions in the *Payroll Tax Act 1971* relating to the definition of wages.

In the 2007-08 Budget, the government also announced that, consistent with harmonised positions in New South Wales and Victoria, South Australia would from 1 July 2008 introduce exemptions for:

- wages paid in respect of maternity and adoption leave (not including other forms of leave taken in conjunction with maternity or adoption leave);
- wages paid to bushfire and emergency service workers while performing volunteer activities;
- wages paid by charities in respect of employees directly undertaking the charitable activities of the organisation; and
- wages paid under the Community Development Employment Projects programme.

With the adoption of measures outlined above, and in recognition that South Australia’s legislation is already consistent with a number of other harmonised positions adopted by New South Wales and Victoria, South Australia’s payroll tax arrangements will be largely consistent with the New South Wales/Victorian harmonised model.

Implementation of harmonisation measures is estimated to cost \$8.3 million in 2008-09.

## **Natural resource management levy**

Relief from the natural resource management levy will be provided to levy payers in drought affected River Murray areas for 2008-09 only.

## **Comparable stamp duty treatment of transfers of subdivided trust property**

A stamp duty exemption is currently available when Torrens title property held in trust is subdivided and subsequently transferred to the beneficiaries for whom the trust property was originally held.

The existing exemption will be expanded to cover situations where trust property is subdivided into community or community strata titles and subsequently transferred to the previously identified trust beneficiaries.

The exemption will take effect from the date of assent of the amended legislation.

### **Stamp duty exemption for transfers of gaming machine entitlements**

Transfers of gaming machine entitlements will be exempt from stamp duty. This removes possible constraints associated with the transfer of gaming machine entitlements and assists in accelerating the government's progress in reducing the total number of entitlements.

The exemption will take effect during 2008-09 when legislation is amended.

### **Phase out of SA TAB wagering tax**

On the basis of recommendations contained in the Bentley Report on the South Australian racing codes, the wagering tax on SA TAB race betting operations will be phased out and replaced with correspondingly higher distributions from the SA TAB to the racing codes.

SA TAB wagering tax on racing will be phased out over the next few years with the tax to be eliminated from 1 July 2012.

This measure is expected to cost \$3.5 million in 2008-09, increasing to \$7.4 million in 2011-12.

### **Land tax**

Consistent with announcements made in the 2007-08 Budget, legislative amendments were introduced in 2007-08 to address a practice where some owners of multiple land holdings avoid land tax aggregation provisions, and therefore higher marginal rates of land tax, by holding land in the name of apparently different ownerships involving minority interests. These new provisions take effect from the 2008-09 land tax assessment year.

The measure is expected to increase land tax revenue by \$5.0 million in 2008-09 increasing to \$5.7 million in 2011-12.

### **Abolition of IGA taxes**

As part of the 2005-06 Budget, the government announced a timetable for the abolition of remaining taxes listed for review in the IGA. Measures that will take effect over the forward estimates period are as follows:

- consistent with the government's announcement to phase out remaining mortgage duty and rental duty over a three year period commencing 1 July 2007, mortgage duty and rental duty rates will be further reduced from 1 July 2008, with full abolition of rental and mortgage duty from 1 July 2009; and
- stamp duty on the transfer of non-quoted marketable securities and non-real property transfers will be phased out over a two year period commencing on 1 July 2009 with full abolition from 1 July 2010.

## **Emergency services levy**

There will be no increase in 2008-09 in the effective emergency services levy (ESL) rates paid by property owners. For fixed property (land and buildings), these rates are summarised in the final column of Table 3.2. For mobile property (motor vehicles), the effective rates are provided in the second last column of Table 3.2.

The only factor causing ESL bills to rise in 2008-09 is underlying capital value growth impacting on the value of land and buildings. The increase in the ESL bill for a residential property in metropolitan Adelaide with a capital value of \$370 000 is estimated to be \$5. ESL bills for mobile property will not increase.

The ESL is expected to raise \$213.0 million in 2008-09, with private property owners to contribute \$111.0 million (\$117.2 million less pensioner concessions of \$6.2 million) and the remaining \$102.0 million to be contributed by the government. Tax relief is provided to property owners through ESL remissions. The Community Emergency Services Fund is compensated for the loss of this revenue by the government paying into the Fund amounts equivalent to the cost of remissions and pensioner concessions in addition to the government's ESL liability on its own property.

**Table 3.2: Emergency services levy rates for 2008-09**

	Prescribed rate <sup>(a)</sup> cents per \$ (applied to capital values discounted by land use and area factors)	Remission rate	Post-remission rate	Effective levy rate paid in Regional Area 4 <sup>(b)</sup> \$50 plus cents per \$ of non-discounted capital value
<b>Fixed property</b>				
Residential	0.1171	0.0911	0.0260	0.0104
Commercial	0.1171	0.0166	0.1005	0.1005
Industrial	0.1171	0.0005	0.1166	0.1749
Rural and vacant land	0.1171	0.0911	0.0260 <sup>(c)</sup>	0.0078
Special community use	0.1171	0.0746	0.0425	0.0043
Other	0.1171	0.0911	0.0260	0.0130
<b>Mobile property</b>				
Cars and larger motor cycles	\$ 32	\$ 8	\$ 24	\$ n.a.
Metropolitan primary production goods vehicles	32	20	12	n.a.
Recreational boats	12	12	-	n.a.
Trailers and caravans	8	8	-	n.a.
Historic vehicles	8	2	6	n.a.

- (a) The prescribed rate, which is the rate that would apply in the absence of remissions, will be 0.1171 cents in the dollar.
- (b) Incorporates the effect of land use weightings applied to capital values. Effective levy rates for each land use category differ depending on the regional location of the property. For ease of exposition, effective levy rates have been calculated only for Regional Area 4.
- |                 |   |
|-----------------|---|
| Regional Area 4 | metropolitan Adelaide                             |
| Regional Area 1 | major country towns                               |
| Regional Area 2 | incorporated areas outside Regional Areas 1 and 4 |
| Regional Area 3 | unincorporated areas of the state                 |
- (c) These are the rates that apply in Regional Area 4. In Regional Areas 1, 2 and 3 the remission rate for rural and vacant land is 0.1076 cents in the dollar and the post-remission rate is 0.0095 cents in the dollar.

## Agency revenue measures

Agency revenue measures introduced as part of the 2008-09 Budget are expected to cost \$1.9 million over the forward estimate period. The total impact of non-tax measures over the forward estimates (\$0.3 million) is offset by a \$2.2 million reduction in tax revenues from agency measures in 2008-09.

Agency revenue measures introduced during 2007-08 are expected to increase budget revenues by \$16.2 million over the forward estimates period, with the majority of this increase relating to an increase in health related compensable fees and non-Medicare patient fees.

Table 3.3 summarises non-tax impacts of agency revenue measures. Tax revenue impacts are provided in Table 3.1.

**Table 3.3: Agency revenue measures — non-taxation impact (\$000)**

	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>2008-09 Budget measures</b>				
<b>Department of Primary Industries and Resources</b>				
Introduction of a cost recovery levy on shipping for ballast water management	—	140	144	149
<b>Department for Transport, Energy and Infrastructure</b>				
Increase in expiation fee for a category 1 alcohol driving offence	573	590	609	628
<b>Department for Families and Communities</b>				
Abolition of client contributions in disability services programs	- 410	- 420	- 430	- 440
<b>Department of Water, Land and Biodiversity Conservation</b>				
Relief for River Murray irrigators from fees incurred to 'top up' water allocations <sup>(a)</sup>	- 800	—	—	—
<b>Total - 2008-09 Budget measures</b>	<b>- 637</b>	<b>310</b>	<b>323</b>	<b>337</b>
<b>Agency revenue measures approved during 2007-08</b>				
<b>Department of Treasury and Finance</b>				
Replacement of annual licence to sell petroleum products with biennial licence	—	- 180	—	- 191
<b>Courts Administration Authority</b>				
Increase in annual library levy for legal practitioners	64	66	68	70
<b>Department for Transport, Energy and Infrastructure</b>				
Introduction of expiation fees for drivers of public passenger vehicles who do not hold appropriate accreditation or who contravene a code of practice	11	11	11	11
<b>Department of Health</b>				
Increase in compensable and non-Medicare patient fees	3 806	3 923	4 045	4 171
<b>Environment Protection Authority</b>				
Introduction of a licensing regime for owners and operators of solaria	—	90	92	94
<b>Total - agency revenue measures approved during 2007-08</b>	<b>3 881</b>	<b>3 910</b>	<b>4 216</b>	<b>4 155</b>
<b>Total agency revenue impact</b>	<b>3 244</b>	<b>4 220</b>	<b>4 539</b>	<b>4 492</b>

Note: Totals may not add due to rounding.

(a) Natural resource management levy relief provided to the drought-affected River Murray region will also impact upon taxation revenue collections. See Table 3.1.

## Fees and charges

Table 3.4 sets out the increase in fees and charges in 2008-09 for major government services. These increases will take effect from 1 July 2008.

**Table 3.4: 2008-09 increase in selected agency fees and charges**

	2007-08	2008-09	Increase
	\$	\$	%
<b>Public transport</b>			
Single trip tickets – all times and zones	4.10	4.20	2.44
Multi trip tickets – all times and zones	26.90	27.80	3.35
<b>Motor vehicle charges</b>			
Registration fee – motor cars			
Four cylinder or less	92.00	95.00	3.26
Five or six cylinder	186.00	193.00	3.76
Seven or more cylinders	271.00	280.00	3.32
Registration fee – light commercial vehicles			
Mass between 1001kg and 1500kg	202.00	209.00	3.47
Mass greater than 1500kg	344.00	356.00	3.49
<b>Drivers' licence renewals</b>			
Five years	125.00	130.00	4.00
Ten years	250.00	260.00	4.00
<b>Speeding fines</b>			
Exceeding the speed limit by:			
Less than 15km/h	176.00	182.00	3.41
More than 15km/h but less than 30km/h	280.00	290.00	3.57
More than 30km/h	420.00	435.00	3.57
<b>Water – residential</b>			
Annual water service availability (supply) charge	157.40	157.40	0.0
Water rates per kilolitre supplied:			
2007-08 water rates <sup>(a)</sup>			
Up to and including 125 kilolitres	0.50	n.a.	n.a.
In excess of 125 kilolitres	1.16	n.a.	n.a.
2008-09 water rates			
Up to and including 120 kilolitres	n.a.	0.71	n.a.
In excess of 120 kilolitres but less than 520 kilolitres	n.a.	1.38	n.a.
In excess of 520 kilolitres	n.a.	1.65	n.a.
<b>Motor vehicle charges</b>			
Compulsory Third Party premium			
Passenger vehicles (metropolitan postcodes)			
Standard premium	382.00	410.00	7.20
Input tax credit entitled premium	416.00	447.00	7.50

(a) During 2007-08, the government announced new pricing arrangements for residential water use, to apply from 2008-09. The new pricing arrangements include three tiers for water usage rates compared with the previous two tier pricing structure.

The annual indexation factor for fees and charges has been set at 3.5 per cent for 2008-09 reflecting the average increase in the cost of providing the relevant services. Fees and charges are typically adjusted by the indexation factor and then rounded to an administratively convenient amount. This results in the increase of some fees and charges being smaller or greater than the indexation factor.

Not all fees and charges are increased through the annual adjustment process. Adjustments to certain fees and charges are determined as a consequence of specific policy decisions.

In December 2007, the government announced new water pricing arrangements to apply from 1 July 2008. The new pricing structure has regard to the large water infrastructure investment program as part of the government's strategy to address South Australia's water supply security challenges, including the proposed Adelaide desalination plant. The government has announced that there will be no net benefit to the budget (after taking into account the impact of the new enhanced pensioner concession scheme).

For residential users, the annual water supply charge in 2008-09 will not change from the 2007-08 level. However, the government has introduced a three-tiered water usage rate system for residential users, compared with a two-tiered system previously. The new three-tiered pricing structure is intended to provide a financial incentive for residential users to conserve water.

The new pricing structure is based on an average real increase in total water charges of 12.7 per cent to apply in 2008-09.

Compulsory Third Party premiums will increase by an average 7.2 per cent for 2008-09. The Class 1 (metropolitan) increase will also be 7.2 per cent. The increase in the Compulsory Third Party premiums this year is in response to a deterioration in investment earnings consistent with broader financial market trends. The increase in 2008-09 follows a small increase in 2007-08 in average Compulsory Third Party premiums (2.4 per cent) and a decrease in 2006-07 (-0.9 per cent). The average annual rise for the three years is 2.8 per cent.

## General government sector revenue

General government sector operating revenues are projected to grow modestly over the forward estimates, following strong growth in 2007-08.

**Table 3.5: General government sector revenues (\$ million)**

	2007-08 Budget	2007-08 Estimated Result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Taxation revenue	3 242.6	3 566.1	3 615.5	3 699.2	3 839.3	4 026.0
Current grants	6 088.9	6 258.3	6 525.8	6 763.2	7 017.2	7 349.9
Capital grants	297.8	313.6	382.2	481.6	411.3	311.2
Sales of goods and services	1 504.9	1 561.4	1 601.4	1 659.8	1 729.2	1 798.3
Interest income	170.0	200.7	199.8	198.4	216.7	233.1
Other	835.3	924.8	930.0	920.0	1 032.1	1 022.2
<b>Total</b>	<b>12 139.5</b>	<b>12 824.8</b>	<b>13 254.8</b>	<b>13 722.2</b>	<b>14 245.9</b>	<b>14 740.7</b>
<b>% change on previous year</b>						
Nominal terms growth %		<b>9.1</b>	<b>3.4</b>	<b>3.5</b>	<b>3.8</b>	<b>3.5</b>
Real terms growth %		<b>5.7</b>	<b>- 0.4</b>	<b>0.7</b>	<b>1.3</b>	<b>0.9</b>

Note: Totals may not add due to rounding.

Discussion on the forward projections for each of the components of general government revenue follows.

## Taxation

Taxation revenues have grown strongly in 2007-08 mainly due to property taxes and payroll tax.

The forward outlook for taxation revenue is for modest nominal growth, with taxation revenue forecast to grow at an annual average rate of 3.1 per cent over the forward estimates. Growth rates over the forward estimates are affected by the cost of payroll tax relief measures to be implemented in 2008-09 and 2009-10, the phasing out of rental and mortgage duty, which commenced in 2007-08 and will be completed in 2009-10, and the phased abolition of stamp duty on non-real property transfers and non-quoted marketable securities from 2009-10 with full abolition from 2010-11 (all IGA commitments). A fall in conveyance duty receipts is projected for 2008-09, reflecting an anticipated slowing in property market conditions from the strong levels experienced in 2007-08, with modest growth in subsequent years.

In policy adjusted terms, taxation revenues are projected to grow by 4.5 per cent in 2008-09 and by an average annual rate of 4.8 per cent per annum from 2009-10 to 2011-12. The lower growth in 2008-09 reflects the anticipated softening in property market conditions.

Tax estimates and associated growth rates are provided in Tables 3.6 and 3.7.

**Table 3.6: Taxation (\$ million)**

	2006-07 Outcome	2007-08 Budget	2007-08 Estimated Result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Payroll tax</b>	<b>845</b>	<b>853</b>	<b>893</b>	<b>888</b>	<b>915</b>	<b>969</b>	<b>1 028</b>
<b>Property taxes</b>							
Conveyance duty <sup>(a)</sup>	726	695	934	885	908	930	980
Land tax - Private	188	221	223	306	320	334	354
Land tax - Public	144	157	154	179	183	188	193
ESL on fixed property	76	80	81	88	90	92	94
Mortgage duty	56	35	47	25	—	—	—
Natural resource management levy	24	22	26	26	29	30	31
Save the River Murray levy	21	22	22	23	24	25	25
Guarantee fees	17	19	19	18	18	18	18
Rental duty	15	11	13	8	1	—	—
Share duty	13	8	10	8	4	(e)	—
Gaming machine surcharge	3	2	4	3	2	(e)	—
All other <sup>(b)</sup>	3	7	8	8	8	8	8
	<b>1 287</b>	<b>1 280</b>	<b>1 540</b>	<b>1 577</b>	<b>1 587</b>	<b>1 625</b>	<b>1 702</b>
<b>Gambling taxes</b>							
Gaming machines	312	295	300	296	314	335	357
Lotteries Commission	76	76	75	75	74	75	77
Casino	22	22	21	20	21	22	24
SA TAB	11	11	11	8	6	5	4
Other <sup>(c)</sup>	2	2	2	2	2	2	2
	<b>422</b>	<b>405</b>	<b>409</b>	<b>401</b>	<b>418</b>	<b>440</b>	<b>464</b>
<b>Insurance taxes</b>							
General insurance	198	191	195	201	208	216	223
CTP renewal certificate	58	59	60	61	62	63	64
CTP insurance	42	43	44	47	49	50	51
Life insurance	3	3	4	4	5	5	5
	<b>301</b>	<b>296</b>	<b>304</b>	<b>314</b>	<b>324</b>	<b>334</b>	<b>343</b>
<b>Motor vehicle taxes</b>							
Motor vehicle registration fees	234	248	248	258	274	285	297
Stamp duty on registration transfers	133	132	144	148	152	157	161
ESL on mobile property	28	28	29	29	30	30	31
	<b>395</b>	<b>409</b>	<b>421</b>	<b>435</b>	<b>456</b>	<b>472</b>	<b>489</b>
<b>Total taxation</b>	<b>3 250</b>	<b>3 243</b>	<b>3 566</b>	<b>3 615</b>	<b>3 699</b>	<b>3 839</b>	<b>4 026</b>
<b>Policy adjusted<sup>(d)</sup></b>	<b>3 055</b>	n.a.	<b>3 448</b>	<b>3 603</b>	<b>3 774</b>	<b>3 950</b>	<b>4 145</b>
<b>% change on previous year</b>							
<b>Total taxation</b>							
Nominal growth			<b>9.7</b>	<b>1.4</b>	<b>2.3</b>	<b>3.8</b>	<b>4.9</b>
Real growth			<b>6.3</b>	<b>-2.3</b>	<b>-0.4</b>	<b>1.3</b>	<b>2.3</b>
<b>Policy adjusted</b>							
Nominal growth			<b>12.9</b>	<b>4.5</b>	<b>4.7</b>	<b>4.7</b>	<b>4.9</b>
Real growth			<b>9.4</b>	<b>0.7</b>	<b>1.9</b>	<b>2.1</b>	<b>2.4</b>

(a) Includes voluntary conveyances, which were recorded in 'Other stamp duties on properties' in the 2007-08 Budget.

(b) Includes Hindmarsh Island levies and statutory interest paid to the Agents Indemnity Fund.

(c) Includes revenue from small lotteries and soccer pools less the cost of reimbursing on course totalisators for GST costs (2006-07 only).

(d) Policy adjusted series shows the underlying growth in tax revenues by removing the impact of tax measures and back casting the full year impact of the smoking ban on gambling tax revenue. Tax estimates have been adjusted to be consistent with 2008-09 policy settings.

(e) Less than \$500 000.

Note: Totals may not add due to rounding.

**Table 3.7: Taxation — Nominal growth (%)**

	<b>2007-08 Estimated Result</b>	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
<b>Payroll tax</b>	<b>5.7</b>	<b>-0.5</b>	<b>3.0</b>	<b>5.9</b>	<b>6.1</b>
<b>Property taxes</b>					
Conveyance duty	28.6	-5.3	2.6	2.4	5.4
Land tax - Private	18.3	37.5	4.5	4.4	5.8
Land tax - Public	6.8	16.9	2.2	2.7	2.4
ESL on fixed property	5.6	9.1	2.2	2.1	2.1
Mortgage duty	-16.0	-47.6	-100.0	—	—
Natural resource management levy	6.5	2.1	11.6	2.8	1.8
Save the River Murray levy	4.2	3.6	3.9	3.4	3.7
Guarantee fees	7.4	-2.2	-0.1	-0.6	0.0
Rental duty	-11.6	-36.3	-94.0	-100.0	—
Share duty	-20.2	-21.0	-44.3	-90.9	-100.0
Gaming machine surcharge	54.9	-38.1	-42.3	-93.3	-100.0
All other	153.5	2.5	2.7	0.0	0.0
	<b>19.7</b>	<b>2.4</b>	<b>0.6</b>	<b>2.4</b>	<b>4.7</b>
<b>Gambling taxes</b>					
Gaming machines	-3.8	-1.2	5.9	6.7	6.7
Lotteries Commission	-0.6	-0.6	-1.0	1.3	2.0
Casino	-7.7	-1.0	4.9	5.2	4.9
SA TAB	0.7	-30.6	-17.3	-19.4	-16.0
Other	7.0	2.8	2.5	2.3	2.3
	<b>-3.2</b>	<b>-1.8</b>	<b>4.1</b>	<b>5.2</b>	<b>5.5</b>
<b>Insurance taxes</b>					
General insurance	-1.5	2.9	3.7	3.5	3.5
CTP renewal certificate	4.0	1.7	1.8	1.8	1.6
CTP insurance	4.8	7.2	2.8	2.5	2.5
Life insurance	27.7	3.8	2.8	2.5	2.5
	<b>0.8</b>	<b>3.3</b>	<b>3.2</b>	<b>3.0</b>	<b>3.0</b>
<b>Motor vehicle taxes</b>					
Motor vehicle registration fees	5.8	3.9	6.3	4.0	4.0
Stamp duty on registration transfers	8.6	2.8	3.0	2.8	2.8
ESL on mobile property	2.7	1.5	1.7	1.6	1.7
	<b>6.5</b>	<b>3.4</b>	<b>4.9</b>	<b>3.5</b>	<b>3.5</b>
<b>Total taxation</b>	<b>9.7</b>	<b>1.4</b>	<b>2.3</b>	<b>3.8</b>	<b>4.9</b>
<b>Policy adjusted<sup>(a)</sup></b>	<b>12.9</b>	<b>4.5</b>	<b>4.7</b>	<b>4.7</b>	<b>4.9</b>

(a) Policy adjusted series shows the underlying growth in tax revenues by removing the impact of tax measures and back casting the full year impact of the smoking ban on gambling tax revenue. Tax estimates have been adjusted to be consistent with 2008-09 policy settings.

## Payroll tax

The outlook for payroll tax revenue is provided in Table 3.8.

**Table 3.8: Payroll tax**

	2007-08 Estimated Result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Total payroll tax (\$m)</b>	<b>892.9</b>	<b>888.3</b>	<b>914.7</b>	<b>968.8</b>	<b>1 028.2</b>
Nominal growth (%)	5.7	- 0.5	3.0	5.9	6.1
Real growth (%)	2.4	- 4.1	0.2	3.3	3.5
<b>Policy adjusted underlying revenue<sup>(a)</sup> (\$m)</b>	<b>828.8</b>	<b>883.6</b>	<b>933.0</b>	<b>989.9</b>	<b>1 050.6</b>
Nominal growth (%)	10.5	6.6	5.6	6.1	6.1
Real growth (%)	7.1	2.7	2.7	3.5	3.5

(a) Policy adjusted series shows the underlying growth in tax revenues by removing the impact of tax measures. Tax estimates have been adjusted to be consistent with 2008-09 policy settings. The policy adjusted figure for 2008-09 assumes a full year impact of the 2008-09 policy measure instead of an 11 month impact.

Payroll tax estimates have been revised up in 2007-08 mainly reflecting the impact of stronger than expected economic conditions on the growth in taxable payrolls.

The expected fall in payroll tax receipts in 2008-09 reflects the reduction in the payroll tax rate from 5.25 per cent to 5.0 per cent and the increase in the payroll tax threshold from \$504 000 to \$552 000 effective from 1 July 2008. The cost of these measures offsets underlying payroll tax revenue growth.

Lower growth in payroll tax receipts in 2009-10 compared with the following years is due to the impact of the further increase in the payroll tax threshold to \$600 000 and the further payroll tax rate cut from 5.0 per cent to 4.95 per cent from 1 July 2009.

In policy adjusted terms, payroll tax revenue is projected to increase solidly consistent with underlying economic projections.

## Property taxes

Property taxes include stamp duties (on the conveyance of property, mortgages, rental arrangements, transfers of non-quoted marketable securities), land tax, the ESL on fixed property, the Save the River Murray levy, regional natural resource management levies, guarantee fees and other minor taxes.

The revenue outlook for all property taxes is provided in Table 3.9.

**Table 3.9: Property taxes**

	2007-08 Estimated Result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Total property taxes (\$m)</b>	<b>1 539.9</b>	<b>1 577.2</b>	<b>1 586.6</b>	<b>1 625.2</b>	<b>1 701.9</b>
Nominal growth (%)	19.7	2.4	0.6	2.4	4.7
Real growth (%)	16.0	- 1.3	- 2.1	- 0.1	2.2
<b>Policy adjusted underlying revenue<sup>(a)</sup> (\$m)</b>	<b>1 517.6</b>	<b>1 574.4</b>	<b>1 644.8</b>	<b>1 716.0</b>	<b>1 798.6</b>
Nominal growth (%)	21.3	3.7	4.5	4.3	4.8
Real growth (%)	17.6	0.0	1.6	1.8	2.3

(a) Policy adjusted series shows the underlying growth in tax revenues by removing the impact of tax measures. Tax estimates have been adjusted to be consistent with 2008-09 policy settings. For comparability with future years, the policy adjusted figure for 2008-09 assumes a full year impact of 2008-09 policy measures.

Property tax revenues are affected by IGA tax policy reforms that take effect over the forward estimate period. These reforms will depress property tax growth in years up to and including 2010-11 as shown in the table above.

The policy adjusted series, on the other hand, assumes a continuation of 2008-09 tax policy settings across the forward period in order to measure the underlying growth in tax revenues.

### ***Conveyance duty***

Property market conditions have exceeded expectations so far in 2007-08.

Residential property turnover has been stronger than expected, although signs of some slowing in activity levels emerged in the opening months of calendar year 2008. Stronger than expected property transactions in 2007-08 may in part be attributable to taxation changes by the Commonwealth Government to superannuation, which appear to have provided some stimulus to property sales as investors re-arranged their portfolios.

Both residential and non-residential property values recorded very strong growth, which was well above expectations. In the twelve months to the March quarter 2008, the Australian Bureau of Statistics measure of established house prices for Adelaide increased by 21.6 per cent.

Conveyance duty projections for 2008-09 allow for a modest softening in property market conditions from current strong levels reflecting a realignment of the property market and the absence of special superannuation factors.

While sound general economic conditions and modest population growth are expected to provide underlying support for the property market, recent interest rate increases in the first quarter of calendar year 2008, together with uncertainty in global financial markets and a more modest economic outlook, are expected to have some dampening influence on turnover levels and property value growth.

Turnover is projected to fall modestly in 2008-09 while property prices are assumed to stabilise at current high levels.

The forward estimates assume only modest growth in property prices with turnover gradually returning to long-term trend levels.

The phased abolition of stamp duty on non-real property transfers commencing in 2009-10 with full abolition in 2010-11 depresses the growth in conveyance duty in those years.

### ***Land tax***

Private land owners contribute around 60 per cent of total land tax revenue. Government entities, mainly the South Australian Housing Trust and the Land Management Corporation, contribute the remainder.

Land tax assessments are based on land valuations undertaken by the Valuer-General, which have regard to recent market experience.

Estimated site value increases of 14.5 per cent for residential land, 20 per cent for commercial land and 34.5 per cent for industrial land are driving the growth in land tax receipts in 2008-09.

Land value growth is projected to moderate in subsequent years moving in line with long-term inflation expectations.

### ***Emergency services levy — fixed property***

ESL on fixed property is levied on the capital value of land and buildings. Growth in levy collections reflects growth in property values and in the number of taxable properties.

The ESL rates that apply to fixed property owners have remained unchanged since 2001-02 and will remain unchanged in 2008-09.

Capital values have, however, increased strongly as evidenced in property sales experience. This experience impacts on updated valuations determined by the Valuer-General for use in 2008-09 assessments.

The capital valuations that will be used in 2008-09 ESL assessments are estimated to have increased by 13.7 per cent for residential property, 14.7 per cent for commercial property and 17.0 per cent for industrial property.

Forward projections for years subsequent to 2008-09 assume that growth in capital values will be in line with long-term inflation expectations.

### ***Mortgage and rental duty***

Consistent with the government's commitment to IGA tax reforms, rental duty and remaining mortgage duty are being progressively phased out over a three year period, which commenced on 1 July 2007.

Stamp duty rates, which were reduced by one third from 1 July 2007, will be further reduced on 1 July 2008 and fully abolished on 1 July 2009.

Table 3.10 summarises the mortgage and rental duty rates that will apply during the phase out period.

**Table 3.10 Mortgage and rental duty rates that apply over the forward estimates period**

	Rates prior to reform	Current rates from 1 July 2007	From 1 July 2008	From 1 July 2009
<b>Mortgage rates<sup>(a)</sup></b>				
\$0 - \$400	Nil	Nil	Nil	Nil
\$401 - \$6000	\$10	\$10	\$10	Nil
Over \$6000	\$10 + 45c/\$100*	\$10 + 30c/\$100*	\$10 + 15c/\$100*	Nil
<b>Rental duty</b>				
Equipment finance <sup>(b)</sup>				
<i>Rate applied to rental income</i>	0.75%	0.50%	0.25%	Nil
All other rental arrangements				
<i>Rate applied to rental income &gt; \$6000 per month</i>	1.80%	1.20%	0.60%	Nil

(a) Applicable to loans other than owner occupied residential loans and refinancing which is exempt.

(b) Equipment finance includes commercial hire purchase and other equipment financing arrangements for terms greater than nine months.

\* Applies to each \$100 or part thereof in excess of \$6000.

The pattern of diminishing collections from these stamp duties across the forward estimates period reflects the phase out of these taxes.

### ***Share duty***

Share duty applies to transfers of non-quoted marketable securities but will be phased out over two years, commencing in 2009-10, as part of the IGA tax reform commitments.

Share duty receipts in 2007-08 are higher than originally budgeted reflecting a large transaction.

### **Natural resource management levies**

Natural resource management (NRM) levies are collected by councils on behalf of eight regional NRM Boards in existence in South Australia. The levies are paid by landholders and irrigators to fund the activities of the Boards that are responsible for managing and protecting each region's natural resources.

In 2007-08, revenue from NRM levies is expected to be higher than originally estimated primarily due to an increase in the Northern and Yorke NRM levy following a review by the Northern and Yorke NRM Board of its programs and an upward revision to revenue from landowner levies collected as part of the Upper South East program.

Revenue from NRM levies is forecast to increase modestly over the forward estimates period following strong growth in 2007-08. Strong growth in NRM levy revenue in 2009-10 reflects a low base in 2008-09 as a result of once-off relief being provided to drought affected levy payers in the River Murray area.

### **Save the River Murray levy**

Funds raised from the Save the River Murray Levy are used to fund specific measures aimed at improving the long-term security and quality of South Australia's water supply.

Levy rates are indexed annually to movements in the Adelaide Consumer Price Index. SA Water collects the levy.

Revenue growth reflects underlying inflation and growth in SA Water's customer base.

### **Guarantee fees**

Government guarantees on borrowed funds reduce borrowing costs for government authorities. Guarantee fees are charged for this funding cost advantage. The charging of guarantee fees supports transparency and accountability by ensuring agency decisions are made having regard to true borrowing costs, consistent with competitive neutrality principles.

Revenue from guarantee fees is expected to remain flat over the forward estimates.

### **Gambling taxes**

Gambling taxes include taxes on gaming machines in hotels and clubs, distributions from the Lotteries Commission (comprising a tax on net gambling revenue together with distributions net of income tax equivalents), casino duty and tax on net wagering revenue of the SA TAB.

The outlook for all forms of gambling tax revenue is provided in Table 3.11.

**Table 3.11: Gambling taxes**

	<b>2007-08 Estimated Result</b>	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
<b>Total gambling taxes (\$m)</b>	<b>408.8</b>	<b>401.3</b>	<b>417.9</b>	<b>439.7</b>	<b>464.0</b>
Nominal growth (%)	- 3.2	- 1.8	4.1	5.2	5.5
Real growth (%)	- 6.3	- 5.4	1.3	2.6	2.9
<b>Policy adjusted underlying revenue<sup>(a)</sup> (\$m)</b>	<b>377.4</b>	<b>396.4</b>	<b>416.0</b>	<b>438.8</b>	<b>463.9</b>
Nominal growth (%)	5.4	5.0	4.9	5.5	5.7
Real growth (%)	2.1	1.2	2.1	2.9	3.1

(a) Policy adjusted series shows the underlying growth in tax revenues by back casting the full year effect of the complete smoking ban.

Gaming machine revenue is projected to fall in 2007-08 and 2008-09 reflecting the full implementation of smoking bans in gaming venues (including the casino). Experience since the introduction of the full smoking ban in gaming venues suggests that the allowance made for a 15 per cent fall in annual net gambling expenditure in gaming premises as a result of the complete smoking ban remains appropriate. Most of the reduction has occurred in 2007-08 with a further negative impact in 2008-09 reflecting the full year effect of the smoking ban which came into effect on 31 October 2007.

Distributions from the Lotteries Commission of South Australia are projected to remain relatively flat over the forward estimates.

Gambling tax revenues from SA TAB are forecast to fall over the forward estimates period reflecting the government's decision to assist the South Australian racing codes by replacing the wagering tax on SA TAB race betting operations with correspondingly higher distributions from the SA TAB to the racing codes. SA TAB wagering tax on racing will be phased out over the next few years with the tax to be eliminated from 1 July 2012.

## **Insurance taxes**

Taxes on insurance comprise stamp duty on insurance premiums (including life insurance, general insurance and compulsory third party) as well as a flat \$60 stamp duty on renewal notices for motor vehicle registration and compulsory third party (CTP) insurance.

Projected growth rates for insurance tax revenues are provided in Table 3.12.

**Table 3.12: Insurance taxes**

	2007-08 Estimated Result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Total insurance taxes (\$m)</b>	<b>303.7</b>	<b>313.8</b>	<b>323.8</b>	<b>333.5</b>	<b>343.4</b>
Nominal growth <sup>(a)</sup> (%)	0.8	3.3	3.2	3.0	3.0
Real growth (%)	- 2.4	- 0.4	0.4	0.5	0.5

(a) Insurance taxes in 2006-07 included once-off back-payments of general insurance duty. Excluding once-off impacts that occurred in 2006-07, the nominal growth in 2007-08 would be 2.9 per cent.

Revenue growth in 2008-09 from stamp duty on insurance reflects industry projections of increases in household and commercial insurance premiums in the order of 2.9 per cent to 3.7 per cent respectively and, for CTP, an average premium increase of 7.2 per cent. CTP premiums rose only moderately in 2007-08 (average premium increase of 2.4 per cent).

Beyond 2008-09, insurance duty revenue is projected to grow broadly in line with inflation.

The insurance tax line also includes stamp duty on CTP renewal certificates, which is a flat charge of \$60 per vehicle. Revenue from this fee mainly reflects growth in the total stock of registered vehicles.

## **Motor vehicle taxes**

Motor vehicle taxes include registration fees, stamp duty on new registrations and ownership transfers, as well as the ESL on mobile property.

The growth rates for motor vehicle tax revenues are provided in Table 3.13.

**Table 3.13: Motor vehicle taxes**

	2007-08 Estimated Result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Total motor vehicle taxes (\$m)</b>	<b>420.8</b>	<b>434.9</b>	<b>456.3</b>	<b>472.1</b>	<b>488.6</b>
Nominal growth (%)	6.5	3.4	4.9	3.5	3.5
Real growth (%)	3.2	- 0.4	2.1	1.0	1.0

Registration fee revenue growth reflects the annual indexation of light motor vehicle fees, increased heavy vehicle registration fees and growth in the stock of registered vehicles.

Stamp duty on new motor vehicle registrations and transfers of used vehicles is expected to exceed original budget estimates for 2007-08 reflecting higher than expected turnover levels and average values for motor vehicles being registered and transferred.

Forward projections assume modest growth in revenue from new motor vehicle registrations and transfers of second hand vehicles. The phased introduction of revised heavy vehicle registration fees, as set nationally by the Australian Transport Council, contributes to stronger growth in motor vehicle taxes in 2009-10.

Relatively low growth in revenue raised from the ESL on mobile property reflects the growth in the stock of registered vehicles. ESL charges on motor vehicles are flat dollar amounts that have not been altered since 2000-01.

## South Australia's relative tax effort

Each year the Commonwealth Grants Commission (CGC) releases an assessment of relative tax effort for all states and territories as part of its annual relativity update. Based on the data published by the CGC in its latest Relativity Update, South Australia's relative tax effort has reduced from 13.4 per cent above the all states average in 2005-06 to 12.6 per cent above average in 2006-07. However, this assessment does not take into consideration a genuine incomparability between South Australia and other jurisdictions (namely land tax paid by South Australian public sector entities), nor does it include emergency service charges such as the ESL which are classified by the CGC as user charges rather than taxes. It is also yet to reflect the impact of tax measures announced subsequent to 2006-07.

South Australia progressed further than other states and territories in making its government business enterprises liable for the full range of taxes (Commonwealth, state and local) consistent with commitments made under the Competition Principles Agreement. In 1997-98 all South Australian government business enterprises included in the tax equivalent regime (TER) became liable for state taxes, including land tax. This included the South Australian Housing Trust (SAHT). Public housing authorities in other jurisdictions were not, however, liable for land tax. The large size of the SAHT's property holdings has meant that it accounts for more than one-third of total land tax receipts for the state. There is no net benefit to the budget from these tax payments since additional funding is provided to the SAHT to meet its land tax liability.

To the extent that other states and territories have not expanded the coverage of their TER to include public housing authorities, their land tax receipts will be lower.

In addition, as mentioned above, the CGC's assessment of total taxation is narrower than South Australia's published taxation numbers (as per the budget papers) in that the CGC does not include revenue collected in respect of the ESL as part of taxation revenue; rather, it is included in the user charges category 'Public Safety'.

After excluding land tax payments made by South Australian Housing Trust and including emergency services levy revenue as a tax rather than a user charge, South Australia's relative tax effort falls from 12.6 per cent to 8.3 per cent above average in 2006-07.

Details of tax effort assessments are provided in Table 3.14.

**Table 3.14: Tax effort ratios by jurisdiction**

	2005-06		2006-07	
	CGC <sup>(a)</sup>	Adjusted <sup>(b)</sup>	CGC <sup>(a)</sup>	Adjusted <sup>(b)</sup>
New South Wales	103.3	103.7	104.0	104.4
Victoria	101.8	102.0	103.0	103.3
Queensland	85.0	85.2	84.6	84.8
Western Australia	104.5	104.7	102.7	103.0
<b>South Australia</b>	<b>113.4</b>	<b>108.9</b>	<b>112.6</b>	<b>108.3</b>
Tasmania	96.5	96.6	95.5	95.5
Australian Capital Territory	106.7	107.0	105.9	106.2
Northern Territory	104.7	104.9	101.6	101.8

(a) Tax severity ratios consistent with GST-based relativities determined by the CGC. Note the ratios published in the CGC's Relative Fiscal Capacities of the States 2008 publication were subsequently amended by the CGC.

(b) South Australia adjusted to remove land tax paid by the South Australian Housing Trust. All jurisdictions adjusted to add the CGC's 'public safety user charges' assessment for emergency services.

Tax effort measured by the CGC reflects the use made of available tax bases not their size. South Australia has a small tax base relative to other states. As a result, in terms of tax revenue per capita, South Australia is a relatively low tax jurisdiction (third lowest in 2007-08 based on state and territory estimates published in mid-year budget reviews).

Details are provided in Table 3.15.

**Table 3.15: Per capita taxation by jurisdiction (\$)**

	2007-08		
	2006-07 <sup>(b)(c)</sup>	MYBR <sup>(c)(d)</sup>	Latest Est <sup>(c)(e)</sup>
Western Australia	2 748	2 990	3 061
Australian Capital Territory	2 760	2 925	3 013
New South Wales	2 584	2 679	n.a.
Victoria	2 265	2 396	2 478
Queensland	2 053	2 314	n.a.
<b>South Australia<sup>(a)</sup></b>	<b>1 985</b>	<b>2 061</b>	<b>2 146</b>
Northern Territory	1 731	1 779	1 829
Tasmania	1 521	1 752	n.a.
<b>All states and territories</b>	<b>2 340</b>	<b>2 494</b>	<b>n.a.</b>

n.a. not available

(a) Taxation revenues for South Australia have been adjusted to remove land tax paid by the South Australian Housing Trust.

(b) Based on published outcomes for all states and territories.

(c) Population figures for 2006-07 have been sourced from ABS publications and 2007-08 population estimates have been sourced from Commonwealth Treasury estimates.

(d) Based on taxation revenue estimates published in 2007-08 mid-year budget reviews for all states and territories.

(e) Based on taxation revenue estimates published in 2008-09 Budget publications where available. Not all states and territories had brought down their 2008-09 Budgets prior to the preparation of this table.

## Current grants

**Table 3.16: Current grants (\$ million)**

	<b>2007-08 Budget</b>	<b>2007-08 Estimated Result</b>	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
<b>COMMONWEALTH GRANTS</b>						
<b>Competition grants<sup>(a)</sup></b>	—	3.0	—	—	—	—
<b>GST revenue grants</b>	3 854.6	3 945.4	4 169.7	4 453.2	4 630.2	4 893.4
<b>Specific purpose grants</b>						
Direct grants	1 441.8	1 545.6	1 515.4	1 562.6	1 624.1	1 676.2
On-passed grants	702.9	677.0	740.7	646.3	663.8	679.7
<b>Total Commonwealth grants</b>	<b>5 999.3</b>	<b>6 171.0</b>	<b>6 425.8</b>	<b>6 662.2</b>	<b>6 918.1</b>	<b>7 249.3</b>
<b>OTHER GRANTS</b>						
<b>Current grants from private sector</b>	<b>89.6</b>	<b>87.3</b>	<b>100.1</b>	<b>101.0</b>	<b>99.1</b>	<b>100.6</b>
<b>Total grants</b>	<b>6 088.9</b>	<b>6 258.3</b>	<b>6 525.8</b>	<b>6 763.2</b>	<b>7 017.2</b>	<b>7 349.9</b>
<b>% change on previous year</b>						
<b>GST revenue grants</b>						
Nominal growth %	9.4	5.7	6.8	4.0	5.7	
Real terms growth %	6.0	1.8	3.9	1.4	3.1	
<b>Specific purpose grants</b>						
Nominal growth %	10.5	1.5	-2.1	3.6	3.0	
Real terms growth %	7.1	-2.2	-4.7	1.0	0.5	

Note: Totals may not add due to rounding.

(a) Competition payment in 2007-08 relates to progress in 2006 on water reform.

### GST revenue grants

GST revenue grants to South Australia in 2007-08 are expected to be \$90.8 million higher than the original budget estimate. The revision to GST revenue grants in 2007-08 reflects upward revisions both to the GST pool available for distribution to the state and to South Australia's relative population share. Reflecting the overall strength in national economic conditions, the GST pool for 2007-08 is now expected to grow by 7.8 per cent, compared to the Commonwealth's original budget estimate of 5.7 per cent.

Estimated GST revenue grants for 2008-09 are lower than was estimated at the time of the 2007-08 Mid-Year Budget Review reflecting the outcome of the 2008 Relativity Update by the Commonwealth Grants Commission. South Australia's new relativity was lower than expected mainly due to revised health needs assessments reflecting the inclusion of 2006 Census data and other revised datasets.

Over the forward estimate period, GST revenue is projected to grow more modestly. Growth in GST revenue in 2008-09 is also affected by large GST refunds expected to be paid following the Federal Court decision in *KAP Motors v Commissioner of Taxation [2008] FCA IS9 (KAP Motors)*.

South Australia's share of the GST pool is projected to decline over the forward estimate period reflecting a declining population share. Allowance has also been made for anticipated changes in Commonwealth Grant Commission's relativity assessments in future years including the 2010 Methodology Review.

## Specific purpose Commonwealth grants (current)

Specific purpose recurrent grants for direct expenditure on state programs include funding for health care, government schools, vocational education, training, transport, water conservation and housing assistance payments. These specific purpose grants are expected to exceed budget in 2007-08 by \$103.8 million mainly due to increased funding for health, including additional funding under the Australian Health Care Agreement, and education.

Funding levels for state programs are projected to decrease slightly in 2008-09 and then grow modestly over the forward years, mainly reflecting the funding profile for health and education.

Grants provided to the state for on-passing to other sectors mainly comprise funding for non-government schools, local government and drought affected farmers. In 2007-08, on-passed grants are expected to be lower than the original budget estimate reflecting a lower than anticipated uptake of exceptional circumstances funding for drought relief.

On-passed current grants are forecast to grow in 2008-09 and then fall in 2009-10, reflecting the expected profile of exceptional circumstances funding for drought affected farmers. The uptake of exceptional circumstances funding for drought relief is expected to peak in 2008-09, with the program expected to be finalised in that year.

Under the revised Commonwealth-state financial arrangements agreed by the Council of Australian Governments in March 2008, Commonwealth and state Treasurers will negotiate in the second half of this year the overall funding package to be provided to states. The specific purpose grants reported in Table 3.16 for the years from 2008-09 are therefore subject to change. Further discussion of the new arrangements is provided in Chapter 4.

## Other current grants

Other current grants mainly take the form of donations, bequests, industrial research and sponsorship grants. In 2007-08, other current grants are expected to be broadly in line with budget estimates.

Over the forward estimates period, other current grants are projected to remain at a fairly constant level.

## Capital grants

**Table 3.17: Capital grants (\$ million)**

	<b>2007-08 Budget</b>	<b>2007-08 Estimated Result</b>	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
<b>COMMONWEALTH GRANTS</b>						
<b>Specific purpose capital grants</b>						
Direct grants	247.0	236.2	355.7	444.2	387.3	286.6
On-passed grants	39.5	49.5	14.6	10.9	11.2	11.5
<b>Total</b>	<b>286.5</b>	<b>285.7</b>	<b>370.4</b>	<b>455.1</b>	<b>398.5</b>	<b>298.1</b>
<b>OTHER GRANTS</b>						
<b>Capital grants from private sector</b>	<b>11.3</b>	<b>27.9</b>	<b>11.8</b>	<b>26.5</b>	<b>12.9</b>	<b>13.1</b>
<b>Total grants</b>	<b>297.8</b>	<b>313.6</b>	<b>382.2</b>	<b>481.6</b>	<b>411.3</b>	<b>311.2</b>
<b>% change on previous year</b>						
<b>Commonwealth grants</b>						
Nominal growth %		<b>16.9</b>	<b>29.6</b>	<b>22.9</b>	<b>-12.4</b>	<b>-25.2</b>
Real terms growth %		<b>13.3</b>	<b>24.9</b>	<b>19.5</b>	<b>-14.6</b>	<b>-27.0</b>

Note: Totals may not add due to rounding.

Capital grants mainly take the form of specific purpose grants from the Commonwealth and, consistent with current grants, are categorised either as direct grants or on-passed grants. Smaller levels of capital funding are sourced from the private sector including the revenue recognition of assets donated or transferred to the government free of charge.

Capital grants from the Commonwealth are projected to increase strongly over the period to 2009-10 and, thereafter, to revert to lower levels. This pattern mainly reflects the projected timing of AusLink and health funding and is broadly mirrored in the pattern of capital spending on roads and health infrastructure.

On-passed grants mainly reflect the Commonwealth's Investing In Our Schools program. Although government schools share in this funding, the Commonwealth allocates the funds to individual schools. Consequently, the funds have been classified as 'on-passed' rather than 'direct' grants. On-passed capital grants from the Commonwealth fall in 2008-09 mainly reflecting the completion of funding under the Commonwealth Investing In Our Schools program.

## Sales of goods and services

Sales of goods and services by the general government sector include government fees and charges that are adjusted annually based on the average increase in the cost of services. As discussed earlier in this chapter, most government fees and charges will increase by 3.5 per cent from 1 July 2008.

**Table 3.18: Sales of goods and services (\$ million)**

	2007-08 Budget	2007-08 Estimated Result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Regulatory fees	325.9	353.2	367.5	385.6	402.9	424.7
Health unit fees	250.5	256.0	275.1	289.5	310.6	320.2
Commonwealth contributions	209.6	205.9	204.2	207.1	208.7	209.8
TAFE fees	78.6	83.0	88.7	91.9	94.2	97.0
Schools revenue	74.3	74.3	76.2	78.1	80.0	82.5
Metroticket sales	74.3	80.7	78.5	81.6	85.0	88.7
Drivers' licence fees	25.8	29.1	36.0	34.7	35.8	48.0
Other user charges	465.9	479.1	475.2	491.4	511.8	527.3
<b>Total</b>	<b>1 504.9</b>	<b>1 561.4</b>	<b>1 601.4</b>	<b>1 659.8</b>	<b>1 729.2</b>	<b>1 798.3</b>

Note: Totals may not add due to rounding.

Sales revenue is expected to exceed budget estimate by \$56.5 million in 2007-08, largely due to higher than expected revenue from regulatory fees (in particular, land transfer fees), increased revenue from metroticket sales and increases in other user charges.

Revenue from regulatory fees is projected to grow moderately over the forward estimates.

Drivers' licence fees fluctuate across the forward estimates reflecting assumptions regarding licence renewal timeframes. The increase in 2011-12 drivers' licence fees is due to the large number of licences due for renewal in that year.

Commonwealth contributions are expected to remain relatively flat over the forward estimate period. Low growth over the forward estimates reflects increased funding provided under the Pharmaceutical Benefits Scheme, which is largely offset by declining funding for war veterans as numbers reduce. The reduction in Commonwealth contributions in 2008-09 compared with 2007-08 also reflects the termination (after 2007-08) of compensation grants from the Commonwealth for the loss of concessional FBT status for government entities no longer recognised as public benevolent institutions.

## Interest income

Interest income is expected to exceed budget estimates in 2007-08 reflecting higher than assumed interest rates applicable to general government cash deposits. Growth in interest income over the forward estimates period reflects growth in the estimated level of cash balances.

## Other revenue

**Table 3.19: Other revenue (\$ million)**

	<b>2007-08 Budget</b>	<b>2007-08 Estimated Result</b>	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
Distributions from PNFCs	365.4	406.6	420.9	373.8	429.8	407.2
Royalties	125.8	144.4	163.5	183.8	185.5	193.8
Fines and penalties	100.3	99.6	105.2	110.9	116.0	121.7
Schools revenue (fundraising)	61.2	61.2	62.7	64.3	65.9	68.0
Distributions from PFCs	21.7	22.8	23.1	23.3	73.4	62.2
Other	160.8	190.2	154.6	163.8	161.5	169.4
<b>Total</b>	<b>835.3</b>	<b>924.8</b>	<b>930.0</b>	<b>920.0</b>	<b>1 032.1</b>	<b>1 022.2</b>
<b>Distributions from PFCs comprise</b>						
SAAMC	4.0	4.0	4.0	4.0	4.0	42.3
HomeStart	6.7	7.7	8.0	8.6	8.7	9.2
SAFA	10.9	10.9	10.9	10.5	60.5	10.5
Funds SA	0.2	0.2	0.2	0.2	0.2	0.2
<b>Total</b>	<b>21.7</b>	<b>22.8</b>	<b>23.1</b>	<b>23.3</b>	<b>73.4</b>	<b>62.2</b>

Note: Totals may not add due to rounding.

Other revenue is expected to exceed the original budget estimate by \$89.5 million in 2007-08 mainly due to higher than expected distributions from Land Management Corporation, stronger than expected royalties and an increase in other revenue. Other revenue is higher than the original budget estimate primarily reflecting contributions from interstate governments for projects forming part of the Living Murray program.

The strong increase in other revenue in 2010-11 mainly reflects increased distributions from SAFA and Land Management Corporation.

Estimated SAFA distributions in 2010-11 are significantly higher than in other years of the forward estimates. SAFA has excess capital and this can be prudently reduced by a larger distribution in 2010-11. Estimated SAAMC distributions in 2011-12 are also significantly higher than in previous years. This reflects the expectation that the activities of SAAMC will largely be completed by 2011-12 when the entity is likely to be wound up.

Distributions from public non-financial corporations (PNFCs) are relatively stable over the forward estimates except in 2009-10 when distributions are lower primarily in respect of Land Management Corporation reflecting the cyclical nature of its projects.

Royalty estimates are expected to exceed budget estimates by \$18.6 million in 2007-08 primarily reflecting higher than budgeted uranium and oil prices and upward revisions to production levels in the Cooper Basin. In 2008-09 and 2009-10, royalties are expected to grow strongly reflecting increased crude oil production and prices as well as royalties from new mines.

From 2009-10, royalty revenue from new mines is expected to more than offset the impact of lower copper prices and lower crude oil production due to the depletion of the Cooper Basin oil fields.

# **CHAPTER 4: INTERGOVERNMENTAL FINANCES**

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## **Overview**

Recent developments in financial relations between the Commonwealth and the states and territories (referred to as ‘the states’) and their implications for South Australia are summarised in this chapter, which also includes a section on local government finances.

## **Recent developments**

### **Council of Australian Governments agenda**

Following the outcome of the 2007 Federal Election, the Council of Australian Governments (COAG) met on 20 December 2007 in Melbourne to discuss a significant new work agenda for Commonwealth-state relations. In addition to the Prime Minister, Premiers, Chief Ministers and the President of the Australian Local Government Association, Commonwealth and State Treasurers also attended.

COAG identified seven areas for its 2008 work agenda:

- health and ageing;
- productivity — including education, skills, training and early childhood;
- climate change and water;
- infrastructure;
- business regulation and competition;
- housing; and
- Indigenous reform.

In order to progress the work agenda, COAG established seven working groups each overseen by a Commonwealth Minister, with deputies who are nominated by the states at a senior departmental level. It was further agreed that COAG would meet four times in 2008 with each of the working groups to provide by March 2008 implementation plans for the major Commonwealth election commitments. COAG also agreed that the reform of Commonwealth payments to the states would be a priority item for consideration by Treasurers who were required to report back to the next COAG meeting with a proposal for rationalising the number of existing agreements.

COAG has since met in Adelaide on 26 March 2008. Major outcomes of this meeting were as follows:

- COAG agreed to significant reforms for Commonwealth-state financial relations. These included an agreement to change the nature of Commonwealth-state funding arrangements by focusing more on outputs and outcomes, underpinned by a commitment from the Commonwealth Government to provide incentive payments to drive reforms. Details of the

reforms can be found in the section of this chapter on the Ministerial Council for Commonwealth-State Financial Relations;

- COAG agreed that the new Health Care Agreement would be signed in December 2008 with a commencement date for the new funding arrangements of 1 July 2009. In the meantime, the Commonwealth agreed to an immediate allocation of \$1 billion to relieve pressure for 2008-09 on public hospitals. This \$1 billion is made up of the indexation of the previous Commonwealth allocation for 2007-08 plus additional funding of \$500 million;
- COAG also agreed that in developing the new Health Care Agreement there would be a review of the indexation formulas for the years ahead. COAG also agreed that the new Australian Health Agreement should move to a proper long-term share of Commonwealth funding for the public hospital system;
- COAG agreed to a Memorandum of Understanding on Murray-Darling Basin Reform. This agreement will enable the necessary action to address over allocation, improve environmental outcomes, and enhance the efficiency of irrigation in a concerted effort to achieve an environmentally-sustainable future for the Basin; and
- with respect to business regulation, COAG agreed to a reform agenda across 27 areas of regulatory reform, to enhance productivity and workforce mobility by cutting the costs of regulation.

## Ministerial Council for Commonwealth–State Financial Relations

The Ministerial Council for Commonwealth–State Financial Relations, also known as the Treasurers’ Conference, was established by the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) as part of the substantial changes brought about by the Commonwealth’s introduction of the Goods and Services Tax (GST).

The Ministerial Council has already met twice in 2008, in Brisbane on 14 January 2008 and in Canberra on 14 March 2008, with the key agenda item being a request from COAG to consider significant reforms to Specific Purpose Payments (SPPs).

Recommendations made by the Heads of Treasuries (HoTs) SPP Working Group to consolidate and reduce the number of SPP Agreements were endorsed by Treasurers at their meeting of 14 March 2008. COAG agreed to the recommendations on 26 March 2008. The recommendations focus on the development of a new financial framework based on the key objectives of providing increased flexibility for resources, reduced administration and compliance costs and collaborative working arrangements that provide incentives for reforms in areas of joint responsibility. In particular, it is intended that reporting requirements for SPPs are to be simplified and based on outcomes rather than input measures – for example, there will no longer be a requirement for matching state funding.

In endorsing the recommendations made by Treasurers, COAG agreed to a new structure of payments that will include:

- **GST revenue funding:** To continue with no change to present arrangements.
- **general revenue assistance:** Where some SPPs currently contain no conditions, there is scope to reclassify them as general revenue assistance. Examples include compensation payments relating to the Snowy Hydroelectric scheme, royalty revenue sharing payments and national capital payments to the ACT;

- **Commonwealth own-purpose expenses (COPEs):** SPPs that the Commonwealth makes to the states to essentially purchase service delivery are to be reclassified as COPEs;
- **bundling the remaining SPP Agreements** into a small number of national agreements with a single growth factor for each SPP. The following SPP categories are proposed:
  - a national health care agreement;
  - a national affordable housing agreement;
  - a national education agreement. This would cover schools and the current skills agreement as well as early childhood payments. A decision is yet to be made whether separate agreements would be made for these functions; and
  - a national disabilities services agreement.
- **the introduction of National Partnerships payments (NPPs):** Two types of NPPs are proposed — to support the delivery of specified outputs or projects, and to facilitate the implementation, or reward the delivery, of national reforms. This category would include current SPPs that are essentially being used by the Commonwealth as a financial contribution to the states to deliver specific outputs.

It is proposed that the new framework will be agreed for implementation by 1 January 2009. For all new SPP arrangements, a new performance and assessment framework will be developed to support public reporting against performance measures and milestones. Funding for, and the details of, the new agreements will be negotiated by Treasurers during the balance of this year, with a new Intergovernmental Agreement to be considered by COAG in December 2008.

At its meeting on 26 March 2008, COAG agreed a new and expanded role for the COAG Reform Council (CRC). When requested by COAG, the CRC will report to the Prime Minister on the publication of nationally comparable performance information for all jurisdictions in relation to individual national SPPs and the independent assessment of predetermined milestones and performance benchmarks under the proposed National Partnership arrangements.

### ***Other outcomes***

At the meeting of 14 January 2008, Treasurers also agreed to enhanced reporting on each government's spending effort on the delivery of services to Indigenous people, including that of the Commonwealth. This reporting will cover the Commonwealth and each state's expenditure from all sources of revenue. It is envisaged that the first indigenous expenditure report will be brought forward to COAG at its first meeting in 2009 and annually thereafter. The reporting criteria and forward work plan are being considered by the COAG Working Group on Indigenous Reform.

The Ministerial Council meeting convened in Canberra on 14 March 2008 also considered a range of other issues including expected revenue payments to the states in 2007-08 and 2008-09 and GST administration issues. Outcomes included:

- agreement that the 2008-09 GST revenues will be distributed among the states in accordance with the recommendations of the Commonwealth Grants Commission (CGC) Report on State Revenue Sharing Relativities 2008 Update;
- endorsement of the Australian Tax Office's GST administration budget for 2008-09 and minor revisions to the GST Administration Performance Agreement; and

- endorsement of Loan Council Allocations nominated by the Commonwealth and each state for 2008-09 (South Australia's Loan Council Allocation is detailed in Appendix A) and agreement of continued discussions by the Loan Council on major infrastructure projects.

## Commonwealth Grants Commission 2008 Update

In March, the CGC released its 2008 Update of per capita relativities for the distribution of Commonwealth GST revenue grants to the states in 2008-09. The relativities are based on the principle of horizontal fiscal equalisation (HFE) (see below). This principle is well established and has underpinned the distribution of general purpose grants among the states for decades. The IGA incorporates the requirement that GST revenue grants will be allocated among the states in accordance with HFE.

Overall, the 2008 Update relativities redistributed about \$752 million among the states (see Table 4.1), with grants redistributed to New South Wales, Victoria, South Australia and the two territories and away from the other three states. This result was largely driven by data updates and revisions. The changed circumstances in the property markets and the mining sector had a significant effect on the CGC's assessments. The large redistributions away from Queensland and Western Australia, in particular, reflect the increases in the capacity of these states to generate mining royalties and conveyance revenues.

South Australia's relativity rose marginally to 1.20856 in the 2008 Update, which equates to an increase in GST revenue grants of \$5.8 million compared to payments received using the previous relativities. The CGC found that a fall in the state's relative capacity to raise revenue (especially mining revenue) was largely offset by the adoption of revised data in the expense assessments, mainly reflecting the introduction of 2006 Census data for many sociodemographic disability factors. In particular, the relative proportion of the South Australian population with low income dropped from the 2001 Census to the 2006 Census. As well, the CGC introduced new health cost and usage data which also resulted in a lower assessment for South Australia. This outcome was less than anticipated in the Mid Year Budget Review.

After the CGC's recommended distribution is implemented, South Australia will receive approximately \$823 million more than if funding were distributed on a simple population share basis without regard to the fiscal needs and capacities of each state.

**Table 4.1: Commonwealth Grants Commission 2008 Update results**

	2007 Update relativity <sup>(a)</sup>	2008 Update relativity <sup>(a)</sup>	Implied effect on grant share <sup>(b)</sup> (\$m)
New South Wales	0.89079	0.91060	341.5
Victoria	0.90096	0.92540	316.9
Queensland	1.00607	0.96508	-409.3
Western Australia	0.94747	0.88288	-326.7
<b>South Australia</b>	<b>1.20791</b>	<b>1.20856</b>	<b>5.8</b>
Tasmania	1.54465	1.52994	-16.2
Australian Capital Territory	1.16293	1.17205	8.2
Northern Territory	4.36824	4.51835	79.8
<b>Total redistributed among states</b>			<b>752.3</b>

(a) The relativities show the per capita funding relative to an Australian average of 1.

(b) Estimated impact of change in relativities on the 2007-08 GST pool included in the CGC's 2008 Update report.

### ***Horizontal fiscal equalisation***

The IGA includes a specific provision that GST revenue grants will be distributed entirely on a HFE basis. The principle of HFE is based on Australia's commitment to ensuring 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.

The CGC, an independent statutory body, annually recommends the shares of GST revenue grants that each state should receive, with the CGC's methodology remaining fixed between major assessment reviews. The most recent methodology review occurred in 2004 and the next review is scheduled for 2010.

The CGC was established in 1933 and initially reported on amounts of special revenue assistance to states. In 1976, general revenue sharing arrangements were introduced, under which the total amount of assistance to be made available to the states was to be decided by the Premiers' Conference and allocated among the states using per capita relativities agreed by the Conference. The CGC, using the principle of HFE, has since recommended annually what the per capita relativities should be. The use of HFE thus pre-dates the IGA by several decades.

Equalisation is an important element in ensuring similar standards of service delivery are achievable for taxpayers in different states for similar levels of taxation, regardless of the demographic, economic or geographic circumstances of those states.

History and international practice both support implementation of some form of fiscal equalisation. It is practised explicitly in most federations and implicitly takes place in nations with unitary systems of government. If Australia had a unitary system of government, the national government would seek to provide a broadly comparable level of services to comparable areas of Australia. HFE seeks to achieve a similar outcome in the current federal system.

As part of the 2010 methodology review, the CGC invited submissions on the so-called architecture of HFE and the current assessment category structure used in the Commission's assessments.

South Australia has continued to stress the importance of achieving horizontal fiscal equalisation as an overriding objective. South Australia has been actively involved in the review process through participating in working groups, conducting surveys and preparing submissions on proposed changes to methodology and data.

### **Commonwealth payments to the states**

Under the current Commonwealth-state funding arrangements, the Commonwealth provides funding to the states in the following forms:

- GST revenue grants are 'untied' payments that can be used freely by the states to finance their expenditure priorities. They are distributed to the states using CGC per capita relativities;
- Commonwealth payments for specific purposes include both existing and new Specific Purpose Payments (SPPs) and the new National Partnership Payments (NPPs). SPPs and NPPs are grants that are 'tied' to particular Commonwealth Government expenditure objectives. Commonwealth payments for specific purposes are classified as those paid 'to' the state for programs administered by state governments or 'on-passed' to entities such as non-government schools and local government. The administration of SPPs by the states is subject to guidelines agreed with the Commonwealth and their distribution and magnitude is determined through the Commonwealth Budget; and
- contributions are payments to the states to reimburse them for services considered to be Commonwealth own-purpose outlays provided on the Commonwealth's behalf. For example, Commonwealth Veterans' Affairs funding is paid to the South Australian Department of Health,

which provides the services to veterans. Apart from the Veterans' Affairs arrangements, the majority of these payments are relatively minor in nature.

Estimated levels of Commonwealth financial assistance for South Australia are set out in Table 4.2. Under the revised Commonwealth-state financial arrangements agreed by COAG in March 2008, Commonwealth and State Treasurers will negotiate in the second half of this year the overall funding package to be provided to states. The Commonwealth payments for specific purposes reported in Table 4.2 for 2008-09 are therefore subject to change.

**Table 4.2: Commonwealth payments to South Australia 2007-08 and 2008-09<sup>(a)</sup>**

	2007-08		2008-09	
	Estimated result \$ million	Budget \$ million	Change \$ million	Change %
<b>GST revenue grants</b>	3 945	4 170	225	5.7
<b>Payments 'to' the state for specific purposes<sup>(b)</sup></b>				
Health <sup>(c)</sup>	927	917	-10	-1.1
Education	321	320	-1	-0.3
Community services and Housing	272	277	6	2.1
Transport and Infrastructure	159	253	94	59.4
Environment	25	39	14	56.7
Other	79	65	-13	-16.9
Total payments for specific purposes	1 782	1 871	89	5.0
<b>Total payments 'to' the state</b>	<b>5 727</b>	<b>6 041</b>	<b>314</b>	<b>5.5</b>
<b>Payments 'through' the state</b>				
<b>Commonwealth contributions<sup>(d)</sup></b>	<b>727</b>	<b>755</b>	<b>29</b>	<b>4.0</b>
	206	204	-2	-1.0

(a) Data is compiled from agency estimates.

(b) Includes existing SPPs and estimates of SPPs and NPPs under the new arrangements to be introduced on 1 January 2009.

(c) The decrease in the funding level for the Health sector between 2007-08 and 2008-09 reflects the provision of \$500 million nationally in additional funding in 2007-08 for immediate hospital funding needs as agreed at the March COAG meeting.

(d) Commonwealth contributions for Veterans' Affairs are estimated to total \$70 million in 2007-08 and \$69 million in 2008-09.

## GST revenue grants

The IGA reforms in 1999 provided state governments with all of the revenue generated by the GST, in place of the general revenue assistance previously provided by the Commonwealth to the states. In return the states agreed to the abolition or reduction of a number of state taxes, and to take on the additional expenditure responsibilities of the First Home Owners Grant scheme and GST administration costs.

The new financial arrangements were not expected to provide immediate budgetary benefits to the states. As a result, the IGA provided for a Guaranteed Minimum Amount (GMA) of funds to be paid to ensure that the states would not be worse off under the new arrangements.

All states required transitional assistance from the Commonwealth in the first two years following the introduction of the GST. However, stronger than expected growth in GST revenues, fuelled to a large extent by growth in the dwellings sector, brought forward the date by which most states receive a net benefit from the arrangements. From 2006-07 onwards, no state has required transitional assistance.

South Australia will receive an estimated \$4170 million in GST revenue grants in 2008-09, an increase of 5.7 per cent from the \$3945 million estimated to be received in 2007-08.

## **Commonwealth payments for specific purposes**

SPPs are provided under Section 96 of the Constitution for both recurrent and capital expenditure purposes. As discussed earlier in the chapter, the reform of SPP arrangements will see a significant rationalisation in the number of SPPs. It is proposed that these reforms will be implemented by 1 January 2009 and the Commonwealth has made a commitment that no state will be worse off under the new arrangements.

Until the new arrangements are implemented, the existing SPP arrangements will continue, with some SPPs that expire before 1 January 2009 being rolled over until the new financial arrangements are put in place.

In 2008-09, South Australia will receive an estimated \$2626 million of funding in this form — an increase of 4.7 per cent from the \$2509 million estimated for 2007-08.

Of the total Commonwealth payments for specific purposes to be received by South Australia in 2008-09, \$755 million (or 29 per cent) will be ‘on-passed’, predominantly to non-government schools and local government. This represents an increase of 4.0 per cent from the amount received in 2007-08.

Commonwealth payments for specific purposes ‘to’ the state (for a range of purposes including health, housing and government schools) are forecast to increase by 5.0 per cent to \$1871 million in 2008-09.

The allocation of Commonwealth payments for specific purposes among the states is based on many approaches, including Commonwealth discretion, historical allocation and formula-based allocation. The CGC takes the distribution of most SPPs into account in its recommendations for allocating general revenue assistance. For these ‘included’ SPPs, South Australia in recent years has received slightly in excess of its population share, resulting in a small reduction in its GST revenue grants share.

### ***Monitoring of specific purpose funding***

The states monitor the level of SPPs to ensure that the Commonwealth is continuing to honour its commitment under the IGA not to cut aggregate SPPs as part of the national tax reform arrangements. To date the Commonwealth has met the benchmark of real per capita growth, both for aggregate payments and for payments to South Australia.

Under the new Commonwealth-state financial arrangements to be implemented from 1 January 2009, SPPs and NPPs will be reviewed by Treasurers every four to five years, to ensure that funding is adequate to meet expenditure demands. Funding levels will also be monitored by Treasurers to ensure that the Commonwealth meets its commitment that no state will be worse off under the new arrangements.

## **Local government finances**

This section provides information on the overall financial performance and position of local government in South Australia and the financial relationships local government has with both the Commonwealth and the State Government.

## Financial performance and position

The financial performance data shown in Table 4.3 is presented using a simplified ABS Government Finance Statistics framework. With the assistance of the South Australian Local Government Grants Commission, the data has been drawn from the annual financial statements of councils that are prepared in compliance with Australian Accounting Standards.

Consistent with an agreement between the Commonwealth, states and territories whereby each jurisdiction presents financial information on a Uniform Presentation Framework (UPF) basis, the General Meeting of the Local Government Association (LGA) in March 2006 resolved that each council's annual budget papers would include a common core of financial information (similar to Table 4.3). This ensures that information on both operating and capital investment activities is made available on a consistent basis and enables more meaningful comparisons of each council's finances.

**Table 4.3: Local government operating statement (\$ million)**

	2002-03	2003-04	2004-05	2005-06	2006-07
Operating revenue <sup>(a)</sup>	1 039	1 099	1 181	1 263	1 361
less Operating expenses <sup>(b)</sup>	1 091	1 148	1 220	1 287	1 369
<b>Operating surplus(+) / deficit(-)</b>	<b>-52</b>	<b>-49</b>	<b>-39</b>	<b>-24</b>	<b>-8</b>
<b>Less: Net outlays on non-financial assets</b>					
Capital investment expenditure on new/upgraded assets and renewal/replacement of existing assets <sup>(c)</sup>	313	336	342	375	444
less Proceeds from sale of assets	46	67	56	57	52
less Depreciation	258	268	280	288	314
less Amounts received specifically for new/upgraded assets <sup>(c)</sup>	43	53	49	58	57
<b>Net outlays on non-financial assets</b>	<b>-34</b>	<b>-52</b>	<b>-43</b>	<b>-28</b>	<b>21</b>
<b>Equals: Net lending(+)/borrowing(-)</b>	<b>-19</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>-29</b>

(a) Operating revenue excludes book gains on sale of assets and amounts received specifically for new/upgraded assets.

(b) Operating expenses include depreciation but exclude book losses on the sale or revaluation of assets.

(c) Excludes the value of non-financial assets donated to councils.

As shown in Table 4.3, local government in South Australia recorded a net borrowing result of \$29 million in 2006-07. This followed very small net lending results in each of the years 2003-04 to 2005-06 and is explained by a significant increase in capital expenditure on renewing and replacing infrastructure assets. Importantly, the aggregate level of local government's annual operating deficit continues to reduce steadily. The operating deficit of \$8 million in 2006-07 represented 0.6 per cent of operating expenses, which compares with a figure of 4.8 per cent in 2002-03.

Local government taxation revenue (from general and other rates on property) was \$885 million in 2006-07 and is estimated to be approximately \$940 million in 2007-08. Together with other own-source funding (for example user charges, investment income), approximately 84 per cent of local government operating revenue is from its own sources. In real terms, operating revenue for local government increased by 17.4 per cent over the four-year period from 2002-03 to 2006-07. Total operating expenses increased in real terms by 12.5 per cent over the same period.

Table 4.4 shows an abridged balance sheet for local government as a whole at the end of the financial years 2002-03 through to 2006-07.

**Table 4.4: Local government balance sheet (\$ million)**

	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
<b>Assets</b>					
Financial assets					
Cash and cash equivalents	170	178	213	263	277
Trade and other receivables	77	80	80	95	107
Equity accounted investments in council businesses	16	24	28	19	30
Other financial assets	7	7	6	2	1
Non-financial assets					
Inventories and assets held for sale	26	28	30	36	42
Land, buildings, infrastructure, plant, equipment and other non-financial assets	8 808	9 482	10 258	11 553	12 648
<b>Total assets</b>	<b>9 104</b>	<b>9 799</b>	<b>10 615</b>	<b>11 968</b>	<b>13 105</b>
<b>Liabilities</b>					
Trade and other payables	102	98	113	159	217
Borrowings and finance leases	418	431	438	456	472
Employee entitlements and other provisions	97	99	107	103	92
<b>Total liabilities</b>	<b>617</b>	<b>628</b>	<b>658</b>	<b>718</b>	<b>781</b>
<b>Net worth</b>	<b>8 487</b>	<b>9 171</b>	<b>9 957</b>	<b>11 250</b>	<b>12 324</b>
<b>Net financial liabilities<sup>(a)</sup></b>	<b>363</b>	<b>363</b>	<b>359</b>	<b>358</b>	<b>396</b>

(a) Net financial liabilities equals total liabilities less financial assets (excluding equity accounted investments in council businesses).

The level of local government net financial liabilities at 30 June 2007 was \$396 million, which is equivalent to 29 per cent of local government's operating revenue in 2006-07. This compares with a figure of 35 per cent in 2002-03. While the financial performance and position of local government as a whole has improved significantly since 2002-03, it is emphasised that the financial capacity of individual councils varies substantially.

With assistance in various ways from the State Government, the LGA has created a number of financial institutions to manage, on behalf of councils, a range of commercial arrangements. These include the Local Government Finance Authority, the LGA Mutual Liability Scheme, the Local Government Superannuation Scheme, and the LGA Workers Compensation Scheme. These institutions deliver efficient and effective shared service arrangements for local government and have received strong support from individual councils. At 30 June 2007, the institutions were managing assets valued at \$1941 million and had a combined net worth of \$78 million. These amounts are not included in Table 4.4. In addition, the State Government and the LGA have established arrangements for the joint tendering and contracting of electricity for those councils on the national electricity grid, resulting in efficiencies and cost savings to councils.

An independent inquiry initiated by the LGA in 2005 into the financial sustainability of local government in South Australia made significant recommendations regarding the need for local government to improve its financial governance. In particular, it expressed concern at the lack of long-term financial and asset management planning. While the inquiry acknowledged an increasing level of capital investment expenditure on renewal and replacement of existing assets, it highlighted that such expenditure remained significantly less than that needed to minimise whole-of-life-cycle costs of assets. The LGA, with the support of councils, subsequently embarked on a comprehensive

Financial Sustainability Program to implement the inquiry's recommendations and support improved council performance. The State Government is providing practical help in various ways to support the LGA's program.

In 2006, the LGA initiated a state-wide project to help councils develop strategies, policies and tools to achieve sustainable asset management. Councils are custodians of approximately \$12.6 billion of infrastructure and other assets on behalf of their communities. The LGA entered into an alliance with the Institute of Public Works Engineering Australia to adopt an internationally recognised approach for preparing asset management policies and plans. The Sustainable Asset Management in SA project is likely to be the most important outcome of the LGA's Financial Sustainability Program. Associated projects are being implemented to improve councils' financial governance and include development of long-term financial plans, improvement of external financial reporting and strengthening the audit regime.

During 2007, an implementation framework for additional shared service arrangements in local government was developed by the LGA. Following endorsement of the framework by councils, the LGA embarked on an ambitious program of pilot projects to explore a wide range of opportunities for increased resource sharing between councils.

## **Financial relationships with Commonwealth and State Governments**

### ***Commonwealth Government***

The Commonwealth provides both general and specific purpose payments to local government in South Australia.

The general purpose payments are made to the state and 'on-passed' to councils on the recommendations of the South Australian Local Government Grants Commission. Arrangements for the payment of these untied financial assistance grants to councils are embodied in the Commonwealth's *Local Government (Financial Assistance) Act 1995*. The financial assistance is provided in two parts — general purpose grants and untied local roads grants. For South Australia, these grants are estimated to be \$128.3 million in 2008-09, consisting of \$96.9 million in general purpose funding and \$31.4 million in untied local road funding. The Act provides for the allocation of grants to councils within the state on the basis of HFE principles, subject to a minimum grant provision. This provision requires that each council receive, as a minimum, its per capita share of 30 per cent of the general purpose pool of grants.

Commonwealth SPPs to local government are estimated to be \$50.1 million in 2008-09, which includes \$30.3 million under the AusLink Roads to Recovery Program and an extra allocation of \$14.2 million for local road funding. The supplementary local road funding of \$14.2 million is a continuation of arrangements which recognise the current inequitable share of identified local road grants being received by South Australia under the *Local Government (Financial Assistance) Act*.

Following an inquiry into local government finances by a House of Representatives Standing Committee, a report was tabled in Federal Parliament in November 2003. Three main projects emerged from the Commonwealth's response to the inquiry:

- a tripartite Intergovernmental Agreement establishing principles to guide intergovernmental relations on local government matters. An agreement was signed by all jurisdictions in April 2006;
- a review by the CGC of the interstate distribution of funding for local roads. In June 2006, the CGC recommended a revised funding distribution on an interim basis from 2007-08. The CGC further proposed that work be undertaken to improve local roads data, with a view to recalculating the interim distribution. The Commonwealth did not accept the CGC's recommendations; and

- a referral to the Productivity Commission to undertake a research study assessing local government revenue, including to examine the capacity of different types of councils to raise revenue and the impact of any state regulatory limits on the revenue-raising capacity of councils. The Commission's final report was released in April 2008.

At its April 2007 meeting, COAG discussed a paper prepared by the Australian Local Government Association which outlined the structure of current funding arrangements of local government in Australia and recent trends. It noted that nationally the level of reliance on grants varies significantly between individual local governments, with rural and remote councils generally far more reliant. COAG also noted the work under way by the Local Government and Planning Ministers' Council on strengthening national consistency in the areas of assessing local government financial sustainability, financial planning and reporting, and asset management.

### ***State Government***

In March 2004, a State/Local Government Relations Agreement was established to improve consultation arrangements and communication practices and to build more productive and collaborative working relationships between the state and local government. The agreement is between the State Government and the LGA and is signed by the Premier and the President of the LGA. A schedule of priorities for joint action is agreed on an annual basis. The agreement was revised in 2006 to reflect the national tripartite Intergovernmental Agreement on local government matters signed in April 2006.

The proposal for an agreement arose from the Minister's State/Local Government Forum. The Forum's role is to provide advice on key issues at the interface between state and local government and that require the cooperation of both spheres of government to reach effective resolution. Specific priority issues are being addressed in areas such as waste management, community wastewater management systems, climate change, natural resources management and affordable housing.

In January 2007, amendments to the *Local Government Act 1999* were brought into effect. Amending provisions aimed at improving the accountability of councils as well as strengthening their financial governance, asset management, rating practices and auditing arrangements.

The changes included the requirement for councils to:

- prepare and adopt long-term financial plans;
- prepare and adopt long-term infrastructure and asset management plans;
- establish audit committees;
- adopt several measures to strengthen the independence of external auditors;
- provide a non-concessional rate postponement scheme for state seniors, as a right; and
- adopt a consistent and improved reporting format covering annual financial statements.

These legislative reforms were supported by the LGA and are consistent with the recommendations of the LGA's independent inquiry into the financial sustainability of local government. The reforms support the directions of the LGA's Financial Sustainability Program, which is helping councils to meet these requirements.

Table 4.5 sets out arrangements by program or purpose under which the state provides grants and subsidies to councils (including for state programs) or payments to councils for local government or joint state-local government programs. Amounts included in the table do not include funding that is provided by the Commonwealth to the state and 'on-passed' to local government or contract payments to councils for the provision of services on behalf of state agencies. Care needs to be taken in any

comparison of the level of state government financial support to councils provided in different state jurisdictions. Significant definitional differences exist between the states and the level of information captured within each varies. In addition, certain funding in some states relates to functions that in general are not performed by South Australian councils.

**Table 4.5: Specific purpose payments from the state to local government (\$000)**

<b>Program/purpose</b>	<b>2007-08 Estimated Result</b>	<b>2008-09 Budget</b>
<b>Premier and Cabinet</b>		
Cultural Facilities Program, Public Art Program and Sundry Grants	244 <sup>(a)</sup>	110 <sup>(b)</sup>
Community Recreation and Sport Facilities Program	442 <sup>(a)</sup>	— <sup>(b)</sup>
Health Promotion through the Arts Program	68 <sup>(a)</sup>	— <sup>(b)</sup>
Inclusive Recreation and Inclusive Sport Program	123 <sup>(a)</sup>	— <sup>(b)</sup>
Out of the Square Program	150	150
Public Library Services	16 365	16 774
Statewide Recreation and Sport Enhancement Program	260 <sup>(a)</sup>	— <sup>(b)</sup>
Subsidy to Adelaide City Council – Aquatic Centre	237	238
<b>Trade and Economic Development</b>		
Community Builders Program	65 <sup>(a)</sup>	— <sup>(b)</sup>
Regional Development Infrastructure Fund	650	— <sup>(b)</sup>
Rural Town Development	500	— <sup>(b)</sup>
Upper Spencer Gulf and Outback Enterprise Zone Fund	—	530
<b>Treasury and Finance</b>		
Local Government Disaster Fund	6 219	1 200
Community Wastewater Management Systems	3 286	3 368
<b>Justice</b>		
Bushfire Mitigation Program	286	434
Crime Prevention and Community Safety Grants Program	359	— <sup>(b)</sup>
Natural Disaster Mitigation Program	375 <sup>(a)</sup>	507 <sup>(a)</sup>
Volunteer Resource Centres	100	100
<b>Primary Industries and Resources</b>		
Contribution to administration of Municipal Council of Roxby Downs	725	— <sup>(b)</sup>
European Wasp Program	70	70
Grants for Regional Open Space and the Public Realm	12 871 <sup>(a)</sup>	— <sup>(b)</sup>
<b>Transport, Energy and Infrastructure</b>		
Community Road Safety	40	20
Provincial City Bus Services	2 240	2 312
Regional Roads Program	700	700
State Bicycle Fund	420	— <sup>(b)</sup>
State Black Spot Program – Safer Local Roads	2 400	2 460
Stormwater Management Fund	4 100	4 200
Subsidy of electricity provision at Coober Pedy	3 017	2 981
TravelSmart SA Program	50	120
<b>Health</b>		
Drug and Alcohol Services Program	482	482
<b>Families and Communities</b>		
Council rate concessions	32 800	31 880
Family and Community Development Program	960	999
Home and Community Care Program	5 100	5 144
Parks Community Centre – Grant to City of Pt Adelaide Enfield	1 969	2 019
Support for disability services	191	196
<b>Environment and Conservation and the River Murray</b>		
Adelaide City Parklands grant	1 237	1 276
Assistance to local government for illegal dumping compliance	100	100
Coast Protection Board grants (mainly rural councils)	364	294
Dog and Cat Management Board grants	—	60
Environment Protection Fund	50	50
Kerbside Performance Incentives Program	616	990
Local Heritage Reviews	140	175
Metropolitan Council Coast Protection Works	250	— <sup>(b)</sup>
Regional Waste Management Infrastructure grants	700	1 000
<b>Further Education, Employment, Science and Technology</b>		
Adult Community Education Program	225 <sup>(a)</sup>	— <sup>(b)</sup>
Broadband SA Program	217 <sup>(a)</sup>	13 <sup>(a)</sup>
CareerStart SA	232	250
National Youth Week and Youth Advisory Committees	300	310
<b>Total</b>	<b>102 295</b>	<b>—<sup>(c)</sup></b>

(a) The portion of funding for the program(s) which was allocated to local government, or which is estimated will be allocated.

(b) Funding for some programs in 2008-09 not yet determined or is dependent on success of applications under a competitive grants process.

(c) When allocations for all programs are finalised, funding of around \$100 million can be expected in 2008-09.



# **CHAPTER 5: MANAGING THE STATE'S ASSETS AND LIABILITIES**

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## **Overview**

The state's balance sheet continues to reflect a strong financial position and is consistent with the state's triple-A credit rating.

The net operating surpluses forecast in 2007-08 and across the forward estimates contribute to an increase in general government sector net worth.

General government sector net debt is forecast to grow over the forward estimates. Strong operating surpluses forecast across the forward estimates constrain, but do not eliminate, the need to borrow to fund the state's significant infrastructure investment program. The government is committed to maintaining net debt at prudent levels and maintaining the state's triple-A credit rating.

The state's unfunded superannuation liability is the most significant obligation on its balance sheet and has increased primarily as a result of the independent triennial actuarial review and negative returns on superannuation assets expected in 2007-08.

The ratio of net financial liabilities to revenue is an indicator of the state's capacity to meet its obligations from revenue. Over the forward estimates this ratio is forecast to increase as a result of the projected net lending deficits, which reflect the significant capital investment program.

## **General government financial position**

Table 5.1 summarises key balance sheet indicators for the general government sector.

**Table 5.1: Key balance sheet indicators - general government sector**

As at 30 June	2007 Actual	2008 Estimated result <sup>(a)(b)(c)</sup>	2009 Estimate	2010 Estimate	2011 Estimate	2012 Estimate
<b>Net debt</b>						
\$m	- 24	82	610	1 154	1 677	1 983
% of total revenue	-0.2	0.6	4.6	8.4	11.8	13.5
<b>Net financial liabilities</b>						
\$m	7 254	8 710	9 330	9 996	10 688	11 179
% of total revenue	61.7	67.9	70.4	72.8	75.0	75.8
<b>Net financial worth</b>						
\$m	8 110	6 627	6 577	6 520	6 390	6 570
% of total revenue	69.0	51.7	49.6	47.5	44.9	44.6
<b>Net worth</b>						
\$m	22 128	21 682	22 425	23 361	24 320	25 427
% of total revenue	188.2	169.1	169.2	170.2	170.7	172.5

- (a) There is a structural break in 2008 reflecting the transfer of rail assets from TransAdelaide to the general government sector. This results in an increase in net debt and net financial liabilities of \$66 million in 2007-08, and a reduction in net financial worth of \$630 million, with no impact on net worth.
- (b) There is a structural break in 2008 reflecting the first time recognition on the general government balance sheet of South Australia's share of the net assets of the Murray-Darling Basin Commission. This has no impact on net debt, however results in a reduction in net financial liabilities of \$615 million (approximately 5 per cent of revenue) in 2007-08, and increases in net financial worth and net worth of \$615 million.
- (c) There is a structural break in 2008 reflecting the transfer of assets from the Adelaide Festival Centre Trust to the general government sector. This results in an increase in net debt and net financial liabilities of \$28 million in 2007-08, and a reduction in net financial worth of \$76 million, with no impact on net worth.

## Net debt

General government sector net debt is expected to increase by \$1901 million between June 2008 and June 2012, primarily reflecting the impact of projected net lending deficits, due to the government's significant capital investment program. Net debt remains at responsible levels over the forward estimate period.

Public private partnerships (PPPs) arrangements for secure facilities and schools are recognised as finance leases in the balance sheet, and consequently have an impact on net debt and net financial liabilities.

## Unfunded superannuation liability

The unfunded superannuation liability at 30 June 2008 is estimated to be \$1119 million higher than forecast in the 2007-08 Budget and \$1855 million higher than forecast in the 2007-08 Mid-Year Budget Review. This is primarily due to changes in demographic and economic factors reflected in the results of the independent triennial actuarial review and significantly lower than expected earnings on superannuation assets during 2007-08 (forecast to be 8.0 per cent in the 2007-08 Mid-Year Budget Review and now expected to be negative 4.0 per cent).

The state's unfunded superannuation liability is expected to rise from an estimated \$6910 million at 30 June 2008 to \$7164 million at 30 June 2012.

The unfunded superannuation liability is discussed in more detail later in this chapter.

## Net financial liabilities

Net financial liabilities are forecast to increase in 2007-08 and over the forward estimates period. In addition to net debt and unfunded superannuation liabilities, net financial liabilities includes other financial liabilities and financial assets (excluding equity held in public non-financial corporations and public financial corporations). Employee entitlements and provisions, including long service leave, (estimated to be \$1912 million at June 2008) is currently the second largest component of net financial liabilities after the unfunded superannuation liability. These liabilities are forecast to increase over the forward estimates largely due to the impact of increases in remuneration levels. Other net non-equity liabilities are projected to remain relatively stable from June 2008 to June 2012.

The estimated net financial liabilities to revenue ratio at June 2008 has increased by 5.3 percentage points since the 2007-08 Mid-Year Budget Review estimate of 62.6 per cent, due primarily to the increase in the unfunded superannuation liability, offset by a higher than expected net operating surplus in 2007-08. Net financial liabilities as a percentage of revenue is expected to increase over the forward estimates period.

Table 5.2 shows that the net financial liabilities of the South Australian general government sector as a percentage of revenue is higher than all other triple-A rated states. The government's fiscal targets include the achievement of net lending outcomes that ensure the ratio of net financial liabilities to revenue continues to decline towards that of other triple-A rated states. Further reductions in South Australia's ratio over time are therefore desirable.

A number of other states are also forecasting an increase in net financial liabilities to revenue ratios, reflecting the pressure to increase investment in social and economic infrastructure.

**Table 5.2: General government sector net financial liabilities to revenue (%)**

As at 30 June	2008	2009	2010	2011	2012
South Australia	67.9	70.4	72.8	75.0	75.8
New South Wales <sup>(a)</sup>	59.2	60.2	60.0	59.5	na
Victoria	56.8	60.0	62.0	63.6	67.8
Queensland	1.6	12.2	20.4	26.8	na
Western Australia	20.3	20.2	17.7	17.5	24.8
Tasmania <sup>(a)</sup>	58.9	54.2	47.9	40.9	na

Source: Data has been sourced from jurisdictions' 2008-09 Budgets (for Victoria and Western Australia) and 2007-08 Mid-Year Budget Reviews (for New South Wales, Queensland and Tasmania for which 2008-09 Budget information was not available at the time of publication).

(a) New South Wales and Tasmania's net financial liabilities to revenue ratios include deferred tax benefits assets recognised on those states' balance sheets. This treatment is not followed by other states and not supported by the ABS. Removal of these assets is conservatively estimated to be an increase in the ratio to 71.8% for NSW and 78.3% for Tasmania for 2008-09 year.

## Net financial worth

Net financial worth is a broader measure than net financial liabilities, as it also incorporates equity interests in public non-financial corporations and public financial corporations. After decreasing in 2007-08, net financial worth is forecast to remain relatively stable from June 2009 to June 2012 as a result of those equity interests offsetting the increase in financial liabilities.

## Net worth

Net worth is the amount by which general government sector assets (physical and financial) exceed general government sector liabilities. General government sector net worth is expected to increase across the forward estimates period.

Table 5.3 displays movements in net worth attributable to operating transactions and other economic flows.

**Table 5.3: General government sector net worth (\$ million)**

	2007-08 Estimated result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Net worth at beginning of year</b>	<b>22 128</b>	<b>21 682</b>	<b>22 425</b>	<b>23 361</b>	<b>24 320</b>
<b>Change in net worth from operating transactions:</b>					
Net operating balance	373	160	356	434	424
<b>Change in net worth from other economic flows:</b>					
Movement in net assets of PFCs	- 303 <sup>(a)</sup>	59	45	-27	81
Movement in net assets of PNFCs	705 <sup>(a)(b)</sup>	512	563	589	643
Investment in Murray-Darling Basin Commission	615 <sup>(c)</sup>	15	16	16	17
Revaluation of unfunded superannuation liability	-1 795 <sup>(d)</sup>	- 3	- 4	- 4	- 4
Revaluation of long service leave liability	- 40	- 42	- 46	- 48	- 49
Other revaluation adjustments	- 2	42	5	- 2	- 4
<i>Subtotal</i>					
Total other economic flows	- 819	583	580	524	683
<b>Net worth at year end</b>	<b>21 682</b>	<b>22 425</b>	<b>23 361</b>	<b>24 320</b>	<b>25 427</b>

Note: Totals may not add due to rounding.

- (a) Housing Trust (PNFC). This resulted in a reduction in the general government sector's equity in the PFC with an equivalent increase in the equity held in the PNFC sector. Movements in the net assets of the PFC and PNFC sectors shown in this table are net of the effect of the SACHA amalgamation. The net worth of the general government sector is unaffected by this transaction.
- (b) Net of the impact of transfer of TransAdelaide rail assets and AFCT assets to the general government sector
- (c) South Australia's share of the net assets of the Murray-Darling Basin Commission have been recognised for the first time in 2008 consistent with the treatment by the Australian Bureau of Statistics and other Murray-Darling Basin Commission states.
- (d) Further detail available in Table 5.6.

The net operating surpluses forecast in 2007-08 and across the forward estimates contribute to an increase in net worth in the general government sector.

Net assets of both public non-financial corporations and public financial corporations are forecast to increase across the forward estimates. The major contributor to this increase is the revaluation of non-financial assets held by the South Australian Housing Trust and SA Water.

### ***Land and fixed assets***

Land and fixed assets held by government agencies include road and rail networks, as well as land and buildings held mainly by education and health related agencies.

The total value of land and fixed assets held in the general government sector is expected to grow from \$15.1 billion at 30 June 2008 to \$18.9 billion at 30 June 2012.

In 2008-09, \$1.4 billion of non-financial assets will be acquired within the general government sector, mainly in the areas of transport and health. Capital investment is expected to average \$1.7 billion per annum from 2008-09 to 2011-12. General government sector net infrastructure investment is expected to be over twice the level of depreciation over the forward estimate period, reflecting the significant ongoing investment in the state's underlying infrastructure.

Depreciation expense reflects the consumption of an asset's service potential. Depreciation on assets totals \$593 million in 2008-09 and rises to \$725 million in 2011-12. The increase reflects the significant increase in the state's asset base over the same period. Table 5.4 shows the projected holdings of land and fixed assets for the general government sector over the forward estimates period.

**Table 5.4: Land and fixed assets – general government sector (\$ million)**

As at 30 June	2007	2008	2009	2010	2011	2012
	Actual	Estimated result <sup>(a)</sup>	Estimate	Estimate	Estimate	Estimate
Inventories	96	88	89	89	89	89
Land	2 261	2 444	2 481	2 479	2 413	2 367
Buildings and improvements	4 778	4 994	5 290	5 668	6 109	6 368
Water, sewerage & drainage assets	92	96	93	90	87	84
Road networks	4 454	4 629	4 907	5 311	5 715	6 081
Rail & bus networks	94	337	435	582	838	1 029
Other infrastructure assets	1 394	1 618	1 704	1 772	1 828	1 987
Heritage assets	841	844	845	846	847	848
Self-generating & regenerating assets	3	3	3	3	3	3
<b>Total land and fixed assets (net of provisions for depreciation)</b>	<b>14 013</b>	<b>15 054</b>	<b>15 847</b>	<b>16 840</b>	<b>17 929</b>	<b>18 856</b>
<b>Depreciation expense</b>	<b>498</b>	<b>531</b>	<b>593</b>	<b>637</b>	<b>678</b>	<b>725</b>

Note: Totals may not add due to rounding.

(a) During 2007-08 \$630 million of rail related assets and \$76 million of land, building and improvement related assets were transferred from the public non-financial corporations sector to the general government sector.

## Key general government sector balance sheet indicators – time series

Table 5.5 provides a time series of net debt, unfunded superannuation, net financial worth, net worth and net financial liabilities for the general government sector since 30 June 2003 and projected to 2012.

Significant volatility in the unfunded superannuation liability is evident between 2003 and 2008 reflecting the inherent short-term fluctuation in some key economic assumptions. The large jump in the ratio of net financial liabilities to revenue largely reflects the increase in the unfunded superannuation liability. This increase was due to the adverse financial market performance and the actuarial report; factors outside government control. The State Government's concern is to ensure that the impact of its budget policy is in accord with its medium term fiscal objectives.

Net debt and net financial liabilities and their percentage to revenue are forecast to increase over the forward estimates reflecting the government's significant capital investment program in infrastructure assets. Net worth continues to grow due to operating surpluses and revaluation of assets.

**Table 5.5: General government sector balance sheet indicators — time series**

As at 30 June	Net debt	Unfunded superannuation <sup>(a)</sup>	Net financial worth	Net worth	Net financial liabilities	% of revenue
	\$m	\$m	\$m	\$m	\$m	
2003	666	4 445	3 500	15 288	6 974	74.6
2004	224	5 668	3 842	15 760	7 858	78.9
2005	144	7 227	3 853	16 359	9 392	88.7
2006	- 119	6 146	5 846	19 703	8 171	72.7
2007 <sup>(b)</sup>	- 24	5 075	8 110	22 128	7 254	61.7
2008 <sup>(c)(d)(e)</sup>	82	6 910	6 627	21 682	8 710	67.9
2009	610	6 992	6 577	22 425	9 330	70.4
2010	1 154	7 062	6 520	23 361	9 996	72.8
2011	1 677	7 120	6 390	24 320	10 688	75.0
2012	1 983	7 164	6 570	25 427	11 179	75.8

Sources 2003 to 2007 financial data from South Australia's Final Budget Outcome reports. Financial data from 2008 is estimated data from Appendix A of this Budget Statement.

- (a) There is a structural break in the methodology used to calculate superannuation liabilities between June 2003 and June 2004. This accounting change, which involved the adoption of the Commonwealth Government bond rate for valuation purposes in line with the accounting standard on employee benefits, resulted in a significant increase in superannuation liabilities.
- (b) There is a structural break in 2007 reflecting the amalgamation of SAFA and SAICORP on 1 July 2006. The transfer of SAICORP's assets and liabilities from the general government sector to the public financial corporations sector results in an increase in general government net debt of \$99 million at 1 July 2006 and an increase in net financial liabilities of \$90 million at 1 July 2006.
- (c) There is a structural break in 2008 reflecting the transfer of rail assets from TransAdelaide to the general government sector. This results in an increase in net debt and net financial liabilities of \$66 million in 2007-08, and a reduction in net financial worth of \$630 million, with no impact on net worth.
- (d) There is a structural break in 2008 reflecting the transfer of assets from the Adelaide Festival Centre Trust to the general government sector. This results in an increase in net debt and net financial liabilities of \$28 million in 2007-08, and a reduction in net financial worth of \$76 million, with no impact on net worth.
- (e) There is a structural break in 2008 reflecting the first time recognition on the general government balance sheet of South Australia's share of the net assets of the Murray-Darling Basin Commission. This has no impact on net debt, however results in a reduction in net financial liabilities of \$615 million (approximately 5 per cent of revenue) in 2007-08, and increases in net financial worth and net worth of \$615 million.

## Unfunded superannuation liability

Table 5.5 showed that the unfunded superannuation liability is steadily increasing in nominal terms across the forward estimates period. This is because the annual increase of the defined benefit obligation as a result of benefits being one year closer is greater than the cash payments provided to the scheme for investment. The annual cash payments provided to the scheme are set in accordance with the government's target to fully fund all superannuation liabilities by 2034. The pattern of payments is determined such that the unfunded superannuation liability continues to rise until 2014 and then declines to reach zero in 2034.

Table 5.6 summarises the change in the unfunded superannuation liability since the 2007-08 Budget.

**Table 5.6: Unfunded superannuation liability (\$ million)**

<b>As at 30 June</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Estimate as at 2007-08 Budget</b>	<b>5 791</b>	<b>5 831</b>	<b>5 861</b>	<b>5 881</b>	<b>5 890</b>
Impact of revised discount rate assumptions used to value superannuation liabilities at the Mid-Year Budget Review compared with 2007-08 Budget assumptions <sup>(a)</sup>	- 558	- 556	- 553	- 549	- 542
Impact of expected higher returns on superannuation assets in 2006-07 and 2007-08 as at Mid-Year Budget Review compared with 2007-08 Budget assumptions <sup>(b)</sup>	- 190	- 202	- 215	- 230	- 244
Other actuarial changes	13	14	15	16	17
<b>Estimate as at 2007-08 Mid-Year Budget Review</b>	<b>5 055</b>	<b>5 086</b>	<b>5 108</b>	<b>5 119</b>	<b>5 120</b>
Impact of less than expected returns on superannuation assets in 2007-08 compared with 2007-08 Mid-Year Budget Review assumptions <sup>(c)</sup>	773	793	811	829	845
Impact of changes in demographic factors from the 2007 triennial independent actuarial review	268	276	285	294	303
Impact of changes in economic factors from the 2007 triennial independent actuarial review	792	821	849	875	899
Variation between actual and expected experience <sup>(d)</sup>	22	16	9	3	- 4
<b>Estimate as at 2008-09 Budget</b>	<b>6 910</b>	<b>6 992</b>	<b>7 062</b>	<b>7 120</b>	<b>7 164</b>

Note: Table may not add due to rounding.

- (a) The discount rate at the time of the mid-year budget review was 6.3 per cent compared with 5.9 per cent assumed in the 2007-08 Budget.
- (b) The assumed earnings rate for 2007-08 at the time of the mid-year budget review was 8.0 per cent compared with the long-term assumption of 7.5 per cent.
- (c) The assumed earnings rate for 2007-08 is negative 4.0 per cent for the 2008-09 Budget compared with the assumption in the mid-year budget review of 8.0 per cent.
- (d) This reflects the inclusion of updated member data as at 30 June 2007.

The projected unfunded superannuation liability has significantly increased since the 2007-08 Mid-Year Budget Review. The increase in the liability is largely due to a change in the economic and demographic factors used to value the unfunded superannuation liability as a result of the 2007 independent actuarial triennial review, and lower than expected returns projected to be achieved by Funds SA in 2007-08.

As part of the triennial review of superannuation funds the independent actuary recommended changes to economic factors (salary inflation rate, CPI) and demographic factors reflecting the impact on the future benefits of current and former employees (commutation rate, rates of salary promotion, rates of age retirement etc). These recommendations have been adopted in valuing the liabilities and assets of the defined benefit schemes.

The actuary recommended the assumed salary inflation be increased from 4 per cent to 4.5 per cent and that the inflation assumption rise from 2.5 per cent to 3 per cent. On this basis the assumed earnings rate was increased to 7.5 per cent, reflecting the Funds SA target of 4.5 per cent over inflation. This change in economic factors added \$792 million to the liability at 30 June 2008.

Demographic factors added a further \$268 million resulting in a total increase of \$1060 million as at 30 June 2008 as a result of the triennial review.

The estimate of the unfunded superannuation liability as at 30 June 2008 reflects the estimated Funds SA earnings rate of negative 4.0 per cent in 2007-08. This earnings rate is substantially below

the long-term assumed earnings rate of 7.5 per cent, and the 8.0 per cent assumption reflected in the 2007-08 Mid-Year Budget Review. The negative returns are due to the significant decline experienced in the financial markets during the second half of 2007-08.

The negative returns in 2007-08 must be viewed in the context of the above target returns in the preceding eight years. Funds SA targets a real return of 4.5 per cent over the medium term. It is expected that the target return will be achieved over this time.

A discount rate of 6.3 per cent (effective annual rate) has been used for the 2008-09 Budget, the same rate used at the time of the 2007-08 Mid-Year Budget Review. The discount rate reflects the risk-free interest rate and is currently set on the basis of the longest dated Commonwealth Government nominal bond (currently May 2021 bond).

Table 5.7 shows estimated cash contributions to the state's unfunded superannuation liability. The cash contributions are forecast to increase over the forward estimates consistent with the government's commitment to fully fund the superannuation liability by 2034.

**Table 5.7: Estimates of past service superannuation liability cash payments (\$ million)**

	2007-08	2008-09	2009-10	2010-11	2011-12
	235	292	305	318	333

## Non-financial public sector financial position

While the general government sector is the focus of the budget, the non-financial public sector financial position is also important. The non-financial public sector comprises the general government sector and the public non-financial corporations sector.

Table 5.8 summarises key balance sheet indicators for the non-financial public sector.

**Table 5.8: Key balance sheet indicators – non-financial public sector**

As at 30 June	2007 Actual	2008 Estimated result <sup>(a)(b)</sup>	2009 Estimate	2010 Estimate	2011 Estimate	2012 Estimate
<b>Net debt</b>						
\$m	1 989	2 029	2 776	3 804	4 849	5 230
% of total revenue	16.1	15.1	19.8	26.2	32.1	33.4
<b>Net financial liabilities</b>						
\$m	9 518	10 902	11 761	12 934	14 185	14 739
% of total revenue	77.2	81.0	84.0	89.2	93.9	94.0
<b>Net financial worth</b>						
\$m	-8 795	-11 169	-11 969	-13 096	-14 374	-14 900
% of total revenue	-71.4	-83.0	-85.5	-90.3	-95.1	-95.1
<b>Net worth</b>						
\$m	22 128	21 682	22 425	23 361	24 320	25 427
% of total revenue	179.6	161.0	160.2	161.1	161.0	162.2

(a) There is a structural break in 2008 reflecting the amalgamation of the South Australian Community Housing Authority (PFC) with the South Australian Housing Trust (PNFC). This results in an increase in net debt and net financial liabilities and a decrease in net financial worth of \$98 million in 2007-08, with no impact on net worth.

(b) There is a structural break in 2008 reflecting the first time recognition on the general government balance sheet of South Australia's share of the net assets of the Murray-Darling Basin Commission. This has no impact on net debt, however results in a reduction in net financial liabilities of \$615 million (approximately 5 per cent of revenue) in 2007-08, and increases in net financial worth and net worth of \$615 million.

The net debt of the non-financial public sector is projected to increase over the forward estimates period. The public non-financial corporation sector component of non-financial public sector net debt is expected to increase from \$1948 million at June 2008 to \$3246 million at June 2012.

One of the impacts on both the net debt and net financial liabilities is the government's announcement, in April 2008, of an investment in a 50 gigalitre desalination plant to secure the state's water supply. The majority of the expenditure for the plant will occur over the period 2007-08 to 2011-12 and it is expected to be fully operational by the summer of 2011-12. The effect of this capital expenditure is evident in the non-financial public sector net debt and net financial liabilities over the forward estimates.

The estimated ratio of net financial liabilities to revenue for the non-financial public sector is expected to increase by 13 percentage points over the forward estimates period. The increase is a result of a number of factors including infrastructure initiatives such as the state's new desalination plant. It is anticipated that the debt associated with building the desalination plant will be repaid through significant increases to the price of water, in line with the government's obligations under the Council of Australian Governments' pricing principles.

The forecast negative net financial worth position of the non-financial public sector contrasts with the positive net financial worth of the general government sector. This \$19 billion to \$21 billion variation over the estimate period reflects:

- the exclusion of equity held by the general government sector in the public non-financial corporations sector (\$17 billion to \$18 billion), which is recognised as a financial asset in the general government sector. This asset is eliminated in the consolidation of the non-financial public sector; and
- the inclusion of the net debt of the public non-financial corporations sector (\$2 billion to \$3 billion).

## **Land and fixed assets**

Table 5.9 shows the projected holdings of land and fixed assets for the non-financial public sector for the budget year and across the forward estimates.

The total value of land and fixed assets for the non-financial public sector is projected to rise from \$32.8 billion at 30 June 2008 to \$40.3 billion at 30 June 2012.

The higher level of physical assets in the non-financial public sector compared with the general government sector reflects the inclusion of assets held by public non-financial corporations. These include assets of SA Water (water and wastewater infrastructure such as pipelines, water filtration plants and reservoirs) and South Australian Housing Trust.

**Table 5.9: Land and fixed assets – non-financial public sector (\$ million)**

As at 30 June	2007	2008	2009	2010	2011	2012
	Actual	Estimated result <sup>(a)</sup>	Estimate	Estimate	Estimate	Estimate
Inventories	289	272	228	217	205	216
Land	6 300	6 643	6 777	6 872	6 907	6 964
Buildings and improvements	8 688	9 613	9 980	10 425	10 812	10 928
Water, sewerage & drainage assets	7 585	7 893	8 483	9 360	10 453	11 176
Road networks	4 458	4 633	4 911	5 316	5 720	6 086
Rail & bus networks	294	340	439	586	841	1 032
Other infrastructure assets	1 840	1 986	2 081	2 163	2 221	2 377
Heritage assets	847	848	849	850	851	852
Self-generating & regenerating assets	616	621	644	667	681	693
<b>Total land and fixed assets (net of provisions for depreciation)</b>	<b>30 917</b>	<b>32 849</b>	<b>34 391</b>	<b>36 455</b>	<b>38 691</b>	<b>40 324</b>
<b>Depreciation expense</b>	<b>755</b>	<b>804</b>	<b>868</b>	<b>925</b>	<b>977</b>	<b>1 047</b>

Note: Totals may not add due to rounding.

(a) In 2007-08 the South Australian Community Housing Authority was amalgamated with the South Australian Housing Trust. This results in the transfer of \$787 million of mainly land, buildings and improvement related assets from the public financial corporations sector to the public non-financial corporation sector.

## Key non-financial public sector balance sheet indicators – time series

Table 5.10 provides a time series of net debt, unfunded superannuation, net financial worth, net worth and net financial liabilities for the non-financial public sector since 30 June 2003 and projected to 2012.

**Table 5.10: Non-financial public sector balance sheet indicators – time series**

As at 30 June	Net debt	Unfunded superannuation <sup>(a)</sup>	Net financial worth	Net worth	Net financial liabilities	% of revenue
	\$m	\$m	\$m	\$m	\$m	
2003	2 696	4 445	-8 811	15 288	9 096	89.4
2004	2 285	5 668	-9 550	15 760	10 031	93.7
2005	2 126	7 227	-11 004	16 359	11 511	101.5
2006	1 786	6 146	-9 889	19 703	10 451	88.5
2007 <sup>(b)</sup>	1 989	5 075	-8 795	22 128	9 518	77.2
2008 <sup>(c)(d)</sup>	2 029	6 910	-11 169	21 682	10 902	81.0
2009	2 776	6 992	-11 969	22 425	11 761	84.0
2010	3 804	7 062	-13 096	23 361	12 934	89.2
2011	4 849	7 120	-14 374	24 320	14 185	93.9
2012	5 230	7 164	-14 900	25 427	14 739	94.0

Sources: 2003 to 2007 financial data from South Australia's Final Budget Outcome reports. Financial data from 2008 is estimated data from Appendix A to this Budget Statement.

- (a) There is a structural break in the methodology used to calculate superannuation liabilities between June 2003 and June 2004. This accounting change, which involved the adoption of the Commonwealth Government bond rate for valuation purposes in line with the accounting standard on employee benefits, resulted in a significant increase in superannuation liabilities.
- (b) There is a structural break in 2007 reflecting the amalgamation of SAFA and SAICORP on 1 July 2006. The transfer of SAICORP's assets and liabilities from the general government sector to the public financial corporations sector results in an increase in general government net debt of \$99 million at 1 July 2006 and an increase in net financial liabilities of \$90 million at 1 July 2006.
- (c) There is a structural break in 2008 reflecting the amalgamation of the South Australian Community Housing Authority (PFC) with the South Australian Housing Trust (PNFC). This results in an increase in net debt and net financial liabilities and a decrease in net financial worth of \$98 million in 2007-08, with no impact on net worth.
- (d) There is a structural break in 2008 reflecting the first time recognition on the general government balance sheet of South Australia's share of the net assets of the Murray-Darling Basin Commission. This has no impact on net debt, however results in a reduction in net financial liabilities of \$615 million (approximately 5 per cent of revenue) in 2007-08, and increases in net financial worth and net worth of \$615 million.

## **Management of assets and liabilities**

### **Assets**

Each agency establishes, implements and maintains its own asset management plan to ensure assets are deployed efficiently and effectively in the delivery of programs.

### **Debt management**

The funding and management of the state's debt is undertaken by the South Australian Government Financing Authority (SAFA).

The state's funding requirements are achieved by SAFA through the issue of securities in the financial markets, including long-term Select Lines fixed interest securities issued in Australia and through SAFA's short-term funding facilities.

SAFA's ability to raise funding has not been materially impacted by the recent volatility in global financial markets during 2007-08 emanating from issues such as the United States sub-prime crisis. SAFA currently has modest funding requirements. Throughout the credit squeeze there has been a move to quality assets with good demand for SAFA's bonds and commercial paper, resulting in a significant improvement in SAFA's funding costs when compared to those of non-government issuers.

As at 30 June 2007, SAFA had loans to the Treasurer of approximately \$2.8 billion to finance the general government sector and South Australian Housing Trust (via long-term housing agreement debt). These loans are partly offset by deposits the Treasurer has with SAFA. The average interest cost on the Treasurer's debt for 2007-08 is expected to be 6.75 per cent.

In relation to general government debt, the government's debt management objective is to minimise the long-term average interest cost subject to acceptable levels of interest rate risk.

Under the debt management framework, debt is managed in an average maturity (duration) range of 1-1.5 years. There is no discretion to have an interest rate position outside that range. Interest rate risks are also controlled by the use of value-at-risk limits. The debt management framework is reviewed regularly and such reviews would take into account any significant changes in the state's debt levels.

In addition to debt managed under this framework, the general government sector has indexed and long-term housing agreement debt. This serves to increase the overall duration of general government sector debt.

The framework for managing the debt of public non-financial corporations, such as SA Water, is determined by the individual corporations.

### **Managing superannuation liabilities and assets**

All public sector employees are covered by some form of superannuation scheme. These schemes include member contributory schemes designed to provide employees with pension or defined lump sum benefits upon retirement. These defined benefit schemes are now closed to new members.

As an employer, the Government of South Australia meets the Commonwealth mandated superannuation guarantee arrangements by means of the Southern State Superannuation (Triple S) Scheme.

The Triple S Scheme is an accumulation scheme to which the employer contributes at a rate of 10 per cent if members contribute at least 4.5 per cent of salary. For non-contributory members or members who contribute less than 4.5 per cent of salary, the employer contribution rate is the Guarantee Charge rate of 9.0 per cent.

The provision by the government of defined benefit superannuation schemes for its employees creates a liability for the government to pay future benefits to scheme members in accordance with the terms of the schemes. The SA Superannuation Scheme and the Police Superannuation Scheme, which are the main defined benefit schemes, were closed to new members in 1994. A program began in 1994-95 to fully fund all employer superannuation liabilities. The current funding program aims to have the defined benefit schemes fully funded by 2034.

Superannuation liabilities represent the present value of estimated future benefit payments. The State Superannuation Scheme liabilities (being defined benefit schemes) are calculated assuming general real salary increases of 1.5 per cent per annum and pension increases adjusted by the Consumer Price Index (CPI) assumed to be 3.0 per cent per annum. Commencing with the 2003-04 Mid-Year Budget Review, the liabilities have been calculated using a discount rate set with reference to the Commonwealth Government bond rate. The risk-free discount rate used for the 2008-09 Budget is 6.3 per cent (effective annual rate) but will be adjusted in future years as the risk-free rate moves. An earnings rate of negative 4.0 per cent for 2007-08 has been assumed based on estimated investment earnings by Funds SA to early May 2008 and using the assumption of 7.5 per cent per annum long term return for the remainder of the year. The long-term earnings rate assumption of 7.5 per cent per annum may be reviewed periodically to reflect movements in the risk free discount rate.

Table 5.11 sets out for the superannuation schemes operating in the state public sector, the estimated accrued liabilities of those schemes and the assets available to meet those liabilities, as at 30 June 2008.

**Table 5.11: Public sector superannuation liabilities as at 30 June 2008 (estimated)**

	Accrued liability \$m	Assets \$m	Net liability \$m
Schemes administered by SA Government <sup>(a)</sup>	19 350	12 431	6 919
Schemes not administered by SA Government <sup>(b)</sup>	235	244	(9)
Total schemes	19 585	12 675	6 910

(a) The parts of the liability relating to schemes administered by the SA Government that are defined benefits schemes have been determined by the Department of Treasury and Finance on the basis of the present value of expected future benefits that have arisen from membership of the various schemes. The SA Ambulance Service Superannuation Scheme is valued by an independent actuary.

(b) The value of the liabilities and the assets administered by these organisations is based upon actuarially determined estimates and valuations performed by qualified actuaries appointed by the trustees of the various schemes.

Table 5.12 details the components of the unfunded liability for the State Superannuation Scheme, the scheme with the largest unfunded liability.

**Table 5.12: State Superannuation Scheme as at 30 June 2008 (estimated) (\$ million)**

<b>Liabilities</b>	
Pension Scheme	
Pensioners	5 415
Contributors	3 664
	9 079
Lump Sum Scheme	1 815
Gross liability	10 894
<b>Less Assets</b>	
SA Superannuation Fund (members' contributions)	2 434
Employer fund (contributions by agencies including past service contributions by the government)	2 636
	5 070
Unfunded liability	5 824

## Insurance arrangements

From 1 July 2006, SAFA's functions were expanded to include acting as captive insurer of the Crown following amendments to its enabling legislation.

Prior to this date, the government's insurance and risk management arrangements were managed by a subsidiary of the Treasurer, the South Australian Government Captive Insurance Corporation.

SAFA manages the government's insurance and risk management arrangements through a separate insurance division using the trading name SAICORP.

The insurance function of SAFA is operated through two funds specifically established in SAFA's accounts to quarantine the insurance activities from SAFA's finance activities.

Premiums received from agencies for insurance cover provided under the government's insurance and risk management arrangements for incidents occurring from 1 July 1994 are credited to SAICORP Insurance Fund 1, which is used to:

- meet loss and claim payments above agreed levels of agency excesses;
- provide a reserve to cover future losses and claims;
- pay premiums for the government's catastrophe reinsurance program and other insurances deemed necessary and appropriate in connection with the arrangements;
- meet the cost of administering the insurance and risk management program; and
- pay service providers for advice and services as required in connection with the insurance and risk management program.

Claim payments in respect of incidents that occurred prior to 1 July 1994 and any other payments made under the insurance program that fall outside of the insurance cover provided under SAICORP Insurance Fund 1 are met from SAICORP Insurance Fund 2.

From 1 July 2006, the Treasurer has indemnified SAFA for the financial outcomes of SAICORP Insurance Fund 2. On an annual basis, payments will be made under the Treasurer's indemnity to ensure that SAICORP Insurance Fund 2 is maintained on a break-even basis in SAFA's accounts as at 30 June each year.

All government departments are included in the arrangements, together with all statutory authorities, unless specifically exempted by the Treasurer.

Premium revenue earned by SAFA from client agencies for 2007-08 is estimated to be \$29.1 million (\$31.3 million for 2006-07). SAFA has a policy of accumulating reserves over time to meet the cost of retained risks. Funds not required to meet day-to-day operational costs or short-term claim costs are invested in the tax-exempt multi-sector growth product of Funds SA.

At 30 June 2007, SAICORP Insurance Fund 1 had:

- total assets of \$299 million;
- total liabilities of \$160 million, including outstanding claim liabilities of \$145.7 million. Medical malpractice claims accounted for \$106.5 million of the outstanding claim liabilities; and
- net assets (free reserves) of \$139 million.

At 30 June 2007, SAICORP Insurance Fund 2 had:

- total assets of \$70 million;
- total liabilities of \$70 million, including outstanding claim liabilities of \$65.1 million. Medical malpractice claims accounted for \$38.5 million of the outstanding claim liabilities; and
- no net assets (a break-even position).

In accordance with the Treasurer's indemnity in relation to SAICORP Insurance Fund 2, the Fund's positive asset position as at 30 June 2007 was eliminated by a payable of \$5.4 million to the Treasurer.

# CHAPTER 6: GOVERNMENT BUSINESSES

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## Overview

The overall contributions for government businesses are expected to be above budget for 2007-08 due primarily to additional dividend and tax equivalent payments from the Land Management Corporation. Most government businesses are expected to continue to perform soundly in 2008-09, however SA Water's returns continue to be impacted by water restrictions.

Government businesses are classified according to the Australian Bureau of Statistics (ABS) standards. Government businesses classified as either public non-financial corporations (PNFCs) or public financial corporations (PFCs) are covered in this chapter (see Appendix D for agency classification).

In accordance with ABS classification standards, SA Lotteries' contributions have been excluded from PNFC dividends. This item is recorded as Gambling Tax in Chapter 3, while income tax equivalent payments by SA Lotteries are recorded as 'distributions' in the same chapter.

More detailed information on PNFCs that have major social policy functions (such as the South Australian Housing Trust) is reported in the relevant Portfolio Statements. Forward estimates for the PNFC sector are presented in Appendix A.

The business activities of agencies classified as part of the general government sector are not reported in this chapter but are included in the relevant Portfolio Statements (see Budget Paper 4).

The government's primary budget focus is the general government sector. PNFC and PFC revenue, expenditure and profit do not directly affect the general government targets. However, contributions paid by PNFCs and PFCs (dividend and tax equivalent payments) and subsidies received (including grants and community service obligations (CSO) payments), are included in the general government results. The subsidies received by government businesses are classified as expenses for the general government sector, and contribution payments made by government businesses are classified as general government revenues.

PNFC borrowings contribute to non-financial public sector (NFPS) net debt. Although the government does not set a specific target for NFPS net debt, the level of NFPS debt is reported as part of the budget process. The government has determined that PNFCs may only borrow where they can demonstrate that their investment programs are consistent with commercial returns (including budget funding). Investing expenditure by PNFCs is reported in the Capital Investment Statement.

## Public non-financial corporations: operating performance

**Table 6.1: Public non-financial corporations sector budget aggregates (\$ million)**

	2007-08 Budget <sup>(c)</sup>	2007-08 Estimated Result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Net operating balance before dividends and tax equivalents</b>	353.8	438.0	385.4	367.2	418.0	403.8
less						
Dividends <sup>(a)</sup>	242.4	271.6	280.7	245.1	282.7	271.9
Tax equivalents	123.0	135.0	140.3	128.7	147.2	135.3
<i>equals</i>						
<b>Net operating balance</b>	-11.6	31.3	-35.5	-6.7	-11.9	-3.5
less						
<b>Net acquisition of non-financial assets</b>						
Gross fixed capital formation <sup>(b)</sup>	303.0	306.5	521.0	799.6	857.6	370.6
less Depreciation	239.7	273.1	274.5	288.1	298.3	322.2
plus Change in inventories	—	—	—	—	—	—
equals Total net acquisition of non-financial assets	63.4	33.4	246.6	511.6	559.3	48.4
<i>equals</i>						
<b>Net lending / borrowing</b>	-75.0	-2.0	-282.1	-518.2	-571.1	-51.9

Note: Table may not add due to rounding

(a) In accordance with ABS classification standards, Table 6.1 excludes SA Lotteries dividends. This item is recorded as Gambling Tax in Table 3.6 of Chapter 3, while income tax equivalent payments by SA Lotteries are recorded as 'distributions' in Chapter 3.

(b) Gross fixed capital formation comprises purchases of non-financial assets less sales of non-financial assets.

(c) In accordance with note (a), the 2007-08 Budget figure has been adjusted to exclude dividend contributions from SA Lotteries totalling \$76.3 million.

## Operating performance

In 2007-08 the PNFC sector is estimated to contribute a total of \$406.6 million in dividend and tax equivalent payments, which represents a \$41.2 million increase from budget. The increase is mainly a result of the continued high levels of demand for land as reflected by the Land Management Corporation.

The revenue sources of a number of major government businesses, including the Land Management Corporation and ForestrySA, are tied to the level of activity in the building and construction sector, particularly residential housing. The building and construction industry has remained relatively strong in 2007-08, with solid residential property development activity and high demand for industrial properties.

Despite these positive conditions, SA Water, ForestrySA and SA Lotteries are expected to record below budget results for 2007-08, which are discussed below. However, this will be more than offset by an expected above budget result for the Land Management Corporation.

The net operating balance (before dividend and tax equivalent payments) for the PNFC sector in 2007-08 of \$438.0 million has been boosted by the receipt of a \$50.0 million grant from the government towards the Adelaide Entertainment Centre facility enhancements in 2008-09 and 2009-10.

After adjusting for this grant in 2007-08, the budgeted 2008-09 net operating balance of \$385.4 million (before dividend and tax equivalent payments) is comparable with 2007-08.

Under Government Finance Statistics (GFS) reporting conventions, the net operating balance is calculated after dividends and tax equivalents. Dividends and tax equivalents contribute to operating revenues of the general government sector.

The negative net operating balance is mainly due to forecast deficits for the South Australian Housing Trust over the forward estimate period. The South Australian Housing Trust's financial viability is being addressed through the government's Affordable Homes Program, which will reduce the Trust's housing assets and debt over the next ten years.

### ***SA Water***

SA Water's 2007-08 estimated contributions to government of \$274.4 million are slightly below budget, reflecting an increase in depreciation expenses due to higher asset values in 2006-07. Grant, subsidy and CSO revenue from the government to SA Water totalled \$165.1 million in 2007-08. As a result the net contribution to government in 2007-08 is \$109.3 million.

SA Water's revenue is expected to increase across the forward estimates mainly due to price increases and a small growth in customer numbers. However, this is partly offset by increases in SA Water's operating expenses and capital expenditure costs.

The government approved an average 12.7 per cent real increase in water prices in 2008-09 and, in principle, a revenue direction based on increases of similar magnitude for the four subsequent years to 2012-13. This aims to address the financial impacts on SA Water and the regulatory requirement for full cost recovery on a go forward basis, arising from future expenditures. The government has announced that there will be no net benefit to the budget (after taking into account the impact of the new enhanced pensioner concession scheme).

SA Water's profit before tax is expected to decrease from \$281.1 million in 2007-08 to \$278.3 million in 2008-09. This is due to the revenue earned by SA Water from contributed assets decreasing in 2008-09, combined with lower water sales as a result of continuing water restrictions offset partly by the increase in water prices. Contributions to government are expected to decrease by \$3.7 million to \$270.7 million in 2008-09. No provision is made for continuation of temporary restrictions into 2009-10.

The continuing Level 3 restrictions are expected to result in SA Water's before tax profit in 2008-09 being lower by \$43.9 million than it would otherwise be. This is due to lost water sales revenue plus cost of advertising, water licences and management of restrictions. The actual outcome could vary substantially, depending on water flows into the Mount Lofty Ranges and the Murray-Darling Basin catchments in 2008.

### ***SA Lotteries***

SA Lotteries' contributions are expected to be slightly below budget in 2007-08. This is due to the competitive environment in which SA Lotteries operates and reduced consumer discretionary spending available for lotteries games due to increased interest rates and petrol prices, strong competition from gaming machines and an increasingly regulated gambling environment.

Sales revenue is expected to increase from \$354 million in 2007-08 to \$356 million in 2008-09. Across the forward estimates, sales revenue is expected to be flat.

### ***Land Management Corporation***

Land Management Corporation's contributions to government in 2007-08 will be over budget by \$48.8 million. This is mainly due to the continued high levels of demand for land to accelerate housing availability and the higher than expected englobo land sales primarily related to the Playford North redevelopment project.

Land Management Corporation's expected operating performance over the forward estimates reflects its project-based revenues and expenses, as well as sales trends driven by the cyclical nature of demand for property.

Total revenue is projected to increase from \$181.8 million in 2007-08 to \$239.7 million in 2008-09. This is due to the general increase in land sales for a range of projects, including the Edinburgh Parks development, the Penfield residential development, the Gillman East Trunkway and the Northfield residential development. Revenue is then expected to decrease across the remainder of the forward estimate period primarily as a result of lower land sales and projects nearing completion, including the Mawson Lakes project and the Edinburgh Parks development.

Expenses are also projected to increase from \$86.1 million in 2007-08 to \$129.5 million in 2008-09 due to the related increase in the cost of land sales for projects that will be completed during 2008-09. Expenditure is then expected to decrease during the remainder of the forward estimate period, mainly related to the decrease in land sales.

Contributions are expected to increase from \$90.4 million in 2007-08 to \$102.8 million in 2008-09 as a result of the increase in land sales. For the remainder of the forward estimate period, contributions are expected to decline.

The major projects contributing to Land Management Corporation's revenue during the forward estimate period include: the Playford North redevelopment, the Blakeview-Craigmore development, the Port Waterfront redevelopment, the Edinburgh Parks development, the Seaford Meadows development, the Northfield residential development and the Penfield residential development.

Following the \$35 million loan repayment by Mitsubishi Corporation to the government, Land Management Corporation received an equity injection of \$35 million in 2007-08, so as to allow it to participate in any resultant joint development opportunities with the private sector.

### ***ForestrySA***

ForestrySA's 2007-08 projected contributions to government of \$28.2 million are slightly below budget primarily as a result of reduced sales prices as a consequence of smaller average sawlog diameters.

While the housing and construction sector is cyclical in nature, ForestrySA's sales appear less so given the high quality of product sourced from the Green Triangle Region. As a result, ForestrySA's budgeted revenue remains relatively stable during the forward estimates period, despite the outlook for housing construction and renovation activity moderating.

Revenue (excluding timber revaluation movements) is expected to remain relatively stable at approximately \$127 million per annum until 2011-12, when it decreases by \$8 million. This is a result of ForestrySA marketing additional saw log for three years (from 1 July 2008 to 30 June 2011).

Expenditure in 2008-09 is expected to decrease by \$7.8 million to \$85.9 million. The decrease is mainly due to the reduction in cost of sales associated with the non-renewal of the Export Chip Supply Agreement, which required ForestrySA to purchase and then on sell sawmill chip. Expenditure is then expected to remain relatively stable during the forward estimate period.

Contributions are expected to increase by \$5.8 million to \$34.0 million in 2008-09, primarily as a result of an increase in total sawlog sales and lower cost of sales. For the remainder of the forward estimate period (with the exception of 2011-12), contributions are expected to remain relatively stable at approximately \$34 million.

## **Investing expenditure**

Gross fixed capital formation for the PNFC sector is \$521.0 million in 2008-09, including investing expenditure of \$762.7 million and contributed assets of \$25.4 million.

The main contributing businesses are SA Water (\$499.1 million including contributed assets) and the South Australian Housing Trust (\$213.4 million). SA Water has more than doubled its capital expenditure in 2008-09 compared with the 2007-08 Budget, with similar increases continuing across the forward estimates period.

Some significant investing initiatives in 2008-09 are:

- \$169.0 million for the South Australian Housing Trust towards public housing, construction and redevelopment;
- \$96.5 million for SA Water towards the Adelaide desalination plant;
- \$26.3 million for SA Water towards the upgrade of the Christies Beach Wastewater Treatment Plant;
- \$23.0 million for SA Water towards the Water Proofing the South Urban Reuse;
- \$22.1 million for the South Australian Housing Trust towards public housing capital maintenance;
- \$20.0 million for the Adelaide Entertainment Centre towards facility enhancements;
- \$12.0 million for ForestrySA for the acquisition of land;
- \$10.0 million for the South Australian Housing Trust towards the Crisis Accommodation Program; and
- \$8.0 million for SA Lotteries towards the replacement of the On-Line Lotteries System.

Investing expenditure from 2008-09 to 2010-11 is increasing markedly mainly due to the majority of expenditure for the Adelaide desalination plant occurring over this period, which is expected to be completed and fully operational by the summer of 2011-12.

## Grants, subsidies, community service obligations, dividends and tax equivalent payments

Table 6.2 summarises the financial flows between the major government businesses and the general government sector. These flows include grants, subsidies, community service obligations, dividends and tax equivalent payments.

**Table 6.2: Financial flows between major government businesses and the general government sector (\$ million)<sup>(a)</sup>**

	Grants, Subsidies and CSOs			Dividends			Tax Equivalents		
	Actual 2006-07	Estimate 2007-08	Budget 2008-09	Actual 2006-07	Estimate 2007-08	Budget 2008-09	Actual 2006-07	Estimate 2007-08	Budget 2008-09
<b>PNFC</b>									
Adelaide Convention Centre	4.4	4.5	4.5	0.5	—	—	0.3	—	—
Adelaide Entertainment Centre	0.8	54.5	—	—	—	—	—	—	—
Adelaide Festival Centre Trust	9.9	14.5	13.0	—	—	—	—	—	—
Electricity Lease Entities	2.8	3.9	4.6	2.5	0.3	—	—	—	—
ForestrySA	3.0	3.1	3.2	29.8	19.1	23.0	12.3	9.1	11.0
Land Management Corporation	16.6	7.0	2.0	36.4	61.4	69.4	17.3	29.0	33.4
Lotteries Commission of South Australia <sup>(b)</sup>	—	—	—	—	—	—	8.1	7.7	7.2
Public Trustee	—	—	—	1.3	1.5	1.7	1.5	0.7	0.8
South Australian Government Employee Residential Properties	2.5	5.1	5.2	1.2	1.2	1.2	2.0	2.0	2.0
South Australian Housing Trust <sup>(c)</sup>	229.0	252.1	257.6	—	—	—	—	—	—
South Australian Motor Sport Board	3.9	11.3	2.4	—	—	—	—	—	—
South Australian Water Corporation	156.2	165.1	179.3	208.1	188.2	185.4	95.4	86.2	85.3
TransAdelaide	5.7	2.3	2.0	5.3	—	—	0.5	0.1	0.1
West Beach Trust	0.8	0.7	0.9	—	—	—	0.4	0.3	0.5
<b>PNFC Total</b>	<b>435.6</b>	<b>524.0</b>	<b>474.7</b>	<b>285.1</b>	<b>271.6</b>	<b>280.7</b>	<b>137.7</b>	<b>135.0</b>	<b>140.3</b>
<b>PFC</b>									
Funds SA	—	—	—	—	—	—	0.2	0.2	0.2
HomeStart Finance	—	4.0	4.0	5.0	5.8	5.5	3.6	1.9	2.5
Motor Accident Commission	—	—	—	—	—	—	—	—	—
South Australian Asset Management Corporation	—	—	—	—	4.0	4.0	—	—	—
South Australian Government Finance Authority	—	—	—	—	10.9	7.7	25.4	—	3.2
<b>PFC Total</b>	<b>—</b>	<b>4.0</b>	<b>4.0</b>	<b>5.0</b>	<b>20.7</b>	<b>17.2</b>	<b>29.1</b>	<b>2.1</b>	<b>5.8</b>
<b>PNFC and PFC Total</b>	<b>435.6</b>	<b>528.0</b>	<b>478.7</b>	<b>290.1</b>	<b>292.3</b>	<b>297.9</b>	<b>166.8</b>	<b>137.1</b>	<b>146.1</b>

Note: Table may not add due to rounding

- (a) Table 6.2 includes only those PNFCs and PFCs that are expected to impact on general government net lending. Amounts included in Table 6.2 are presented on an accrual basis. The table includes Commonwealth Government subsidies paid through the Government of South Australia (for example, subsidies to the South Australian Housing Trust). Local government rate equivalents are included in Table 6.2 within the Tax Equivalents column and are classified as 'distributions' in Chapter 3 in accordance with ABS classification standards.
- (b) In accordance with ABS classification standards, Table 6.2 excludes SA Lotteries dividends. This item is recorded as Gambling Tax in Table 3.6 of Chapter 3, while income tax equivalent payments by SA Lotteries are recorded as 'distributions' in Chapter 3.
- (c) Reflects the consolidation of the South Australian Community Housing Authority and Aboriginal Housing Authority into the South Australian Housing Trust from 1 July 2007.

## Governance arrangements

Government businesses are structured in three main ways:

- as statutory authorities. Most government businesses are of this form. A large number of statutory authorities operate within the public sector for a variety of purposes. Relatively few of these operate primarily as government businesses;
- as Corporations Law companies. This approach is seldom used as it creates difficulties in establishing appropriate accountability arrangements; and
- as administrative units of government departments.

Government businesses are required to operate fairly, efficiently and prudently to maximise benefits flowing to the community from their use of resources. The government is also continuing its commitment to transparency and accountability in all aspects of the financial, risk management and governance arrangements for government businesses.

The Department of Treasury and Finance monitors and reports to the Treasurer and other responsible Ministers on the financial and non-financial performance, risk management and governance arrangements for the major government businesses. The Treasurer and responsible Ministers have also appointed board members and/or board observers to major government businesses in line with the government's commitment to improve public sector governance.

To support the goal of improving PNFCs' financial performance, the government approved a new ownership framework for PNFCs during 2004-05. The major changes in the policy guidelines in determining the relationship between the government and PNFCs include:

- CSO payments are to be output based under long term agreements, and subject to periodic review;
- dividend payments are to be based on actual business performance rather than budget forward estimates, and may therefore become more variable; and
- PNFC capital structures are to be based on the same general factors that influence the debt and equity position of publicly listed corporations — primarily business risk and capital intensity.

The framework redistributes risk in a manner comparable with shareholder risk in publicly listed companies. CSO, dividend and tax equivalent payments are reflected in the performance statement for each PNFC.

To date, this framework has been implemented for SA Water, ForestrySA and the Land Management Corporation.

## Balance sheet structure

Almost all government businesses are public authorities as defined under the *Public Finance and Audit Act 1987*, which makes them controlled entities for the purposes of the government's accounts. Even where there is no specific legislative provision, the agency's net financial position is included in the general government sector financial statements. As a result, the general government balance sheet recognises the general government sector's exposure to the net liabilities of its PNFC and PFC businesses.

The liabilities of government businesses are generally explicitly guaranteed by the enabling legislation for the entity. The *Public Corporations Act 1993* provides that all liabilities of a public corporation are guaranteed by the Treasurer. The *Public Finance and Audit Act 1987* provides for the Treasurer to charge periodic fees in respect of the provision of guarantees or indemnities. In practice, the Treasurer only charges guarantee fees on loan liabilities of government businesses. To date, the Treasurer has not charged guarantee fees on any other government business liabilities (for example employee provisions or accounts payable).

## **Competitive neutrality policy and principles**

South Australia's approach to competitive neutrality is expressed in the *Government Business Enterprises (Competition) Act 1996* and the supporting *Competitive Neutrality Policy Statement* (most recently revised in July 2002). The basic competitive neutrality requirements of tax equivalent payments, debt guarantee fees and private sector equivalent regulation can be achieved through corporatisation, commercialisation or cost-reflective pricing, in declining order of cost of implementation. The mechanism chosen to achieve competitive neutrality depends on the extent to which potential benefits justify the costs of implementation.

The Appendices to the *Competitive Neutrality Policy Statement* list those businesses subject to Competitive Neutrality (CN). The policy statement notes that identifying and listing specific businesses is not intended to exclude other business activities being identified as significant and added to the list as required. Regular assessments are carried out by agencies. Removal of the business from the list would not preclude a complaint being made against the business.

The implementation of CN principles has been largely completed for identified significant business activities within government. The focus is now on monitoring for ongoing compliance by way of a formal annual review process requiring responsible Ministers to confirm that government businesses continue to operate in accordance with CN principles.

### ***Tax equivalent policy***

In accordance with the principles of competitive neutrality, government businesses are required to pay to the Consolidated Account such amounts which represent the value of any direct or indirect taxes that the authority would otherwise have paid to the Commonwealth Government, to any state or territory governments or to any local council if it were not exempt from the taxation laws of the Commonwealth, or any state or territory.

# CHAPTER 7: RISK STATEMENT

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## Overview

This chapter outlines the major financial risks that could affect the fiscal outlook set out in the 2008-09 Budget and identifies measures the government has adopted to manage these risks. The risks are summarised in three main sections — risks to revenue, risks to expenditure and contingent liabilities and other exposures.

Budget estimates are made on assumptions and judgments formed in the context of information available at the time of their preparation. In practice, both revenues and expenses will be subject to variation from the budget, the size of such variation typically increasing over the forward estimates period.

Financial risks arise from general developments or from specific events that affect the fiscal outlook. They may be positive or negative and they may not necessarily be within the government's control. Examples include fluctuations in economic activity, changes to demand for services and fluctuations in financial markets.

The budget estimates include allowances to help manage potential financial risks. For example, allowances are made for wage and salary outcomes and capital expenditure contingency provisions. In addition, some sources of risk to the fiscal outlook can, to a certain extent, be managed through established risk management practices such as hedging and insurance.

## Revenue risks

### Taxation, royalties and fines

#### *Taxation revenue*

State taxation revenues are exposed to variations and fluctuations in both the volume and value of economic activity. Broadly based taxes such as payroll tax are influenced by general economic trends, whereas more narrowly based taxes are subject to influences which are specific to particular segments of economic activity. For example, price and activity trends in the property market have a greater impact on state taxation revenues than does the broader economy because of the significant share of revenues derived from property based taxes such as stamp duty and land tax.

Fluctuations in economic activity are typically more volatile in a small regional economy than at the national level. This heightens the risk of state taxation revenues exceeding or falling short of budget forecasts, particularly at turning points in the economic cycle. However, the performance of the national economy is also a key driver of South Australian Government revenues. The pool of Goods and Services Tax (GST) revenue grants allocated to the states and territories is directly influenced by national trends in consumer spending and housing construction. Furthermore, South Australia's share of GST revenue grants is influenced, in part, by the state's relative taxation revenue capacity.

If South Australia's taxation revenues are constrained relative to other states and territories as a result of weaker state economic performance, the Horizontal Fiscal Equalisation (HFE) process will provide South Australia with a higher share of GST revenues. This means that in the medium to longer term, overall South Australian revenues (GST revenue grants and own source revenues) are ultimately driven by national rather than state economic performance. However, the HFE process operates with a

lag and therefore fluctuations in state economic activity do have a short-term impact on overall revenues.

Over recent years, strong economic growth both nationally and in South Australia has provided a supportive environment for revenue growth. Budget projections assume that economic growth will continue over the forward estimates period, albeit with some moderation in the pace of growth. Specific risk factors include:

- a greater than anticipated slowing in global economic growth. While some slowing in international economies has been factored into the forward estimates, the forecasts are reliant on continued strong growth in developing economies such as China and India. Further potential destabilisation of global financial markets also presents downside risks;
- variations in climatic conditions and water security could impact on the volume of South Australian agricultural output and farm incomes;
- increases in interest rates may curb domestic demand growth to a greater extent than is anticipated, particularly consumer spending and the housing market; and
- some manufacturing activities facing competitive pressure flowing from exchange rate appreciation.

State taxation revenue is not particularly sensitive to movements in broad-based price measures, for example the Consumer Price Index (CPI). Rather, where there are price effects on taxation revenues, they tend to be specific to particular transactions; for example, property values, motor vehicle values and insurance premiums.

**Impact:** A variance of 1.0 per cent in state taxation revenue, not including GST revenues, equates to about \$36 million per annum.

### ***Conveyance duty***

Trends in property market values and activity levels have been difficult to predict in recent years. The uplift in the property market has been stronger and lasted longer than anticipated. Neither industry analysts nor state governments anticipated the size and duration of the property market boom.

Property market conditions are subject to ongoing uncertainty going forward following a stronger than expected performance so far in 2007-08 and an uncertain economic and financial market outlook.

Residential property turnover has been stronger than expected, although the rate of growth slowed in the opening months of calendar year 2008. Residential and non-residential property values have also recorded stronger than expected growth in 2007-08.

The impact of recent interest rate increases, financial market pressures and preliminary indications in some jurisdictions of price falls in some property market segments, add to uncertainty about the short term outlook for the property market.

Forward projections allow for some slowing in turnover levels in 2008-09 and only modest growth in property prices over the forward estimate period.

There is a risk that property prices and/or activity levels could weaken by more than has been provided for in the forward estimates, particularly if further interest rate rises occur.

The irregular timing of large commercial transactions also adds to the risk of forecasting error.

**Impact:** A 1.0 per cent variation in property values or a 1.0 per cent variation in activity each equate to about \$8 million in conveyance duty revenue.

### ***Gaming machine revenue***

There are a number of risks to gaming machine tax revenue collections.

Discretionary spending levels are influenced by interest rate movements and unexpected and/or unusually large increases in the cost of essential items such as petrol.

Regulatory reforms impact on gaming machine tax revenue collections. The introduction of a full smoking ban in hospitality venues from 31 October 2007 is estimated to have resulted in a 15 per cent fall in gaming machine expenditure.

Long-term growth in underlying expenditure is estimated to remain at 5.0 per cent per annum, which has regard to household consumption spending forecasts, but this projection is vulnerable to household budget shocks, including from petrol prices and interest rates.

**Impact:** A variance of 1.0 per cent in hotel and club gaming machine expenditure equates to around \$4 million in gambling tax revenue.

### ***Royalties***

Mining royalties are exposed to external economic forces; in particular, those that affect the international price of oil, copper, uranium and gold as well as internal, unplanned operational issues (eg fires, plant failure, etc).

There is potential for growth in royalty revenue from new mines. The timing of these additional royalty streams is dependant on the timing of discoveries, the time required to meet development approvals and to develop new mine sites to an operational level. Royalty revenue does not flow until commercial production commences.

Variation in royalty revenues are substantially offset over time by consequent variations in the share of Commonwealth GST revenue grants received by South Australia through the fiscal equalisation process.

**Impact:** Excluding fiscal equalisation impacts, a one cent change in the exchange rate has a direct revenue impact of about \$1.7 million on royalty revenue while a 1.0 per cent change in international prices for copper, uranium, gold, oil and petroleum liquids has a direct revenue impact of \$1.5 million.

### ***Traffic infringement fines***

Revenue collected from traffic infringement fines is sensitive to changes in driver behaviour patterns and the number of speed detection devices (red light/speed cameras) in operation.

Revenue estimates reflect that all red light/speed cameras are operational.

**Impact:** A variance of 1.0 per cent in the number of traffic infringement notices equates to around \$800 000 per annum.

## **Commonwealth-State relations**

### ***Changes to general purpose payments (GST revenue)***

South Australia became reliant on GST revenue from 2003-04 as the principal source of Commonwealth funding. Accordingly, South Australia's revenue is now more exposed to variations in national economic activity and potential changes in GST policy settings.

**Impact:** A 1.0 per cent change in GST revenue growth has a revenue impact for South Australia of about \$39 million per annum.

### ***Changes to horizontal fiscal equalisation methodology***

Commonwealth GST revenue grants are the vehicle for HFE. The methodology and data underlying the HFE process are determined by the Commonwealth Grants Commission (CGC). The CGC takes into account submissions from states and territories. While the CGC is an independent body, states and territories compete strongly in submitting arguments in support of their position.

Methodology reviews are conducted every five years. The March 2005 Treasurers' Conference agreed on terms of reference for the CGC's 2010 methodology review which include guidelines for simplification of its assessments. The terms of reference pose risks to the budget outlook because simplified assessments may cause a departure from an accurate assessment of fiscal needs.

**Impact:** The risk of HFE methodology changes that may impact on the state, either positively or adversely, is significant over the medium term. The focus on simplification of the CGC's assessments poses added risks.

### ***Changes to data used by the CGC***

In each annual update of relativities, the CGC uses the latest available sociodemographic and other data while continuing to use methods established in the last methodology review. While the requirement for the CGC to improve data and data sources wherever possible is appropriate, this can lead to changes in GST relativities.

The CGC has also changed methods used in annual updates where data is no longer available or is now considered unfit for purpose.

An example of how CGC data changes can impact on the budget is the health services assessment in the 2008 Update. The CGC used new data from the 2006 Census on the size and composition of state populations and revised health costs data from the Australian Bureau of Statistics' National Health Survey and from the Australian Institute of Health and Welfare. The adoption of the new data resulted in a decrease in GST revenue grants to South Australia of about \$50 million per annum.

**Impact:** A 0.01 change in South Australia's relativity (from the 2008 Update relativity of 1.20856) results in a change in GST revenue grants of about \$37 million.

### ***Specific purpose payments and national partnership payments***

Specific purpose payments (SPPs) from the Commonwealth to the state reflect a variety of terms and conditions. Funding levels are exposed to the risk of variability in:

- the underlying parameters specific to expenditure programs; and
- Commonwealth policy settings favouring some areas of expenditure over others.

The new funding arrangements agreed by the Council of Australian Governments (COAG) in March 2008 provide for a small number of SPPs covering the major state functions of health, housing, education and disabilities services. In addition, national partnership payments (NPPs) will be paid to states to support delivery of specified projects or to facilitate the implementation of reforms of national importance. The new arrangements place the focus on outcomes and outputs rather than matching and other input controls but the details are yet to be finalised. The Commonwealth has stated that no state will be worse off under the new arrangements.

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) included a commitment by the Commonwealth not to cut aggregate SPPs as part of the national tax reform arrangements agreed in 1999. To date the Commonwealth has been meeting its commitment in real per capita terms. However, any future departure from this commitment would impact on the states.

**Impact:** SPPs account for about 19 per cent of state government revenues. Variations in their level or the conditions applying are a major risk to the budget.

## **Changes in profitability of government businesses**

As part of their day to day operations, government business enterprises manage a range of commercial risks associated with their business. Risks that adversely impact upon a government business may affect its ability to pay dividends and make tax equivalent payments, thereby impacting on the general government sector's financial outlook.

**Impact:** A 1.0 per cent fall in contributions from current year earnings would have a \$4.4 million impact on the budget.

## **Water security**

The Murray-Darling Basin is continuing to experience the worst drought on record, which has led to a significant reduction in River Murray flows to the state in 2007-08. The government has responded to these reductions by:

- restricting the amount of water irrigators and other River Murray licensees could take from the River Murray to 32 per cent of their full allocation;
- continuing Enhanced Level 3 restrictions through 2007-08;
- implementing temporary closure of wetlands and backwaters;
- fast-tracking dredging applications so water could be accessed at lower river levels;
- installing standpipes around the Lower Lakes for water carting;
- temporary modifications to SA Water pump stations to allow them to operate at lower river levels; and
- fast-tracking new water treatment plants and pipelines constructed in regional South Australia through the Country Water Quality Improvement Program.

There is a risk that the drought and extremely low flows will continue into 2009. This may require further action to ensure water security for the state.

Water restrictions cause SA Water to lose revenue from water sales. The budget provides for Enhanced Level 3 water restrictions continuing throughout 2008-09, reducing SA Water's before tax

profit by \$43.9 million and resulting in lower contributions to government of \$42.3 million in 2008-09. No provision is made for continuation of restrictions into 2009-10.

The actual impact of restrictions on SA Water's profit in 2008-09 could vary substantially, depending on water flows into the Mount Lofty Ranges and the Murray-Darling Basin catchments in 2008. Strong intakes may allow the government to reduce current restrictions while low intakes may require that the government introduce additional restrictions.

The state may also need to undertake further works and initiatives that are not accommodated by the current \$9.8 million budget for water security drought measures, including:

- the construction of a temporary weir south of Wellington, with an estimated construction cost in excess of \$130 million;
- the acquisition of additional water entitlements; and
- mitigation of the impact of acid sulphate soils in wetlands and the lower lakes.

These works and measures may be paid for by Commonwealth Government grants and SA Water. Any expenditure by SA Water would initially result in reductions to its contributions to government via lower dividends and tax equivalent payments, until SA Water were able to fully recover its expenditure from consumers through water charges.

## **Expenditure risks**

### **Drought**

The government has provided \$38.8 million over the period 2006-07 to 2008-09 for a range of assistance and support measures for primary producers and regional communities affected by drought. If drought conditions persist beyond 2008-09, additional measures may be required.

### **AusLink 2**

The 2007-08 Commonwealth Budget announced investment of \$22.3 billion in Australia's land transport system under the AusLink 2 program between 2009-10 and 2013-14. This represents an increase of \$7.3 billion on total funding allocated to the states under the existing AusLink 1 program which covered the period 2004-05 to 2008-09.

The Commonwealth has not yet provided an allocation of this funding pool to the states. This allocation is expected to be made following the analysis of detailed project funding submissions made in 2008-09.

The expected allocation to South Australia for AusLink 2 projects and associated expenditure has been estimated for the purposes of the 2008-09 State Budget, based on the state receiving a similar proportion of total AusLink funding as that received for the AusLink 1 program.

Funding from the Commonwealth is matched by the state on an agreed basis for each project.

**Impact:** A 1.0 per cent growth in the cost of state matching expenditure under the AusLink 2 program will increase expenditure by approximately \$1 million per annum.

## **Hospital expenditure growth**

Hospital activity growth has been significant in recent years. The government is implementing a number of community care, primary care and hospital avoidance strategies to manage the financial impact of this growth. If, despite these strategies, the growth in hospital activity is higher than expected in the medium term, this may result in significant future costs.

Growth in hospital non-wage costs is also a significant hospital management issue. Expenditure on prostheses, drugs and other hospital consumables is currently growing faster than the CPI. The government is implementing policies to manage the increase in expenditure on goods and services. However, if these policies are unsuccessful, it may result in significant future costs.

**Impact:** A 1.0 per cent growth in hospital activity above the level incorporated in the 2008-09 Budget will increase expenses by approximately \$14 million per annum. A 1.0 per cent growth in hospital non-wage costs above the level incorporated in the 2008-09 Budget will increase expenses by approximately \$8 million per annum.

## **Student enrolment numbers**

The government has implemented strategies designed to engage 15-19 year olds in full time learning or earning and to increase net interstate migration. The strategies will therefore affect student enrolment numbers. The 2008-09 Budget includes a best estimate of expected movements in both the number and composition of student enrolments as a result of current government policy settings. To the extent that actual enrolment numbers vary from those estimates there will be an impact on the state's financial position.

**Impact:** Depending on the mix of students in the primary and secondary areas, a 1.0 per cent growth in government school enrolment numbers above the levels incorporated in the 2008-09 Budget will increase expenditure in the range of \$8 million to \$11 million per annum.

## **Students with additional needs**

The budget includes provisions for the resourcing requirements of students with additional needs; this includes Aboriginal students, students with disabilities, new arrivals and students with English as a second language. If the number of students with additional needs increases above budget projections, there will be an impact on the budget.

**Impact:** Depending on the mix of students, a 1.0 per cent growth in additional needs students above the levels incorporated in the 2008-09 Budget will increase expenditure by approximately \$1 million per annum.

## **River Murray improvement programs**

The forward estimates include water acquisition for environmental flows, other expenditure on River Murray improvements, the National Action Plan for Water Quality and Salinity, and other initiatives. A new Memorandum of Understanding has now been agreed with the Commonwealth in relation to the management of the Murray-Darling Basin.

**Impact:** The effect of the new Memorandum of Understanding on the forward estimates will not be known for some time but is not expected to be significant.

## **Higher than expected increases in wages and salaries**

Allowance for the costs of the next round of enterprise bargaining has been factored into the 2008-09 Budget and forward estimates. Enterprise agreements are in place for all major workforce groups for the relevant terms with all associated costs included in the 2008-09 Budget. Negotiations for new agreements have begun with salaried medical officers and teachers and TAFE lecturers as these groups are due for wage and salary increases from April 2008 and October 2008 respectively. Public sector executives (July 2008) and Metropolitan Fire Service firefighters (January 2009) are also due for renewals in 2008-09.

The budget includes provisions for reasonable salary increases for all employee groups in the next round of enterprise bargaining. If wage and salary outcomes differ from these provisions there will be an impact on the budget.

Allowances in the forward estimates for enterprise bargaining outcomes cover both salary and non-salary outcomes.

**Impact:** If public sector wide wage outcomes for new enterprise agreements vary by 1.0 per cent per annum from allowances in the forward estimates, the budget impact will be approximately \$200 million in 2011-12.

## **Capital investment**

A number of departments including Health and Transport, Energy and Infrastructure have large capital investment programs over the forward estimates period. Projects include prudent allowances for growth in costs. Historically there has been cost escalation, compared with original projections, associated with large capital investment projects. As raw material prices increase and all states embark on significant infrastructure programs this risk increases.

**Impact:** If cost escalations exceed the amounts included in the capital investment program, there will be a negative impact on annual net lending outcomes. A 1.0 per cent increase in costs for the capital program will increase expenditure by approximately \$14 million per annum.

## **Interest rates**

Higher than expected interest rates could adversely affect the general government and public non-financial corporations (PNFC) sectors' budget position through increased interest payments.

**Impact:** A 1.0 percentage point increase in the average interest rate applying to general government sector debt would increase net interest expense by approximately \$3.5 million in 2008-09 rising to \$18.3 million in 2011-12. A 1.0 percentage point increase in interest rates would affect the PNFC sectors' profits by approximately \$20.6 million in 2008-09. This would affect contributions received by the general government sector from PNFCs.

## **Increase in consumer price index**

Higher inflation may impact on the prices paid by government agencies for goods and services. 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 is: a price change alters the overall agency price indexation by more than 0.5 percentage points above or below the standard 2.5 per cent indexation.

**Impact:** Not identifiable.

## **Fluctuation in foreign exchange rates**

Treasurer's Instruction 23, *Management of Foreign Currency Exposures*, requires public authorities to recognise and control foreign exchange risks associated with the purchase of imported goods and services. Public authorities are required to obtain forward cover for the acquisition of goods and services that are expected to give rise to a foreign currency exposure exceeding A\$100 000. This limits potential foreign exchange risks faced by the government once acquisition decisions are made.

**Impact:** Foreign exchange rates could have an impact on the operational costs of portfolios that source supplies and services from overseas. This includes products such as pharmaceuticals within the hospital sector and the operation of overseas offices.

## **Superannuation liabilities and expenses**

For defined benefit scheme superannuation liabilities (ie pension or defined benefit lump sum schemes) the budget is exposed to factors affecting the value of the unfunded liability. These factors include lower than expected returns on investment funds, changes in actuarial assumptions relating to future benefit payments, movements in the risk-free discount rate or an increase in long-term inflation assumptions.

**Impact:** A fall in the Commonwealth Government bond rate between valuation dates will lead to the use of a lower discount rate for valuation purposes, resulting in an increase in the value of the unfunded liability. A 1.0 percentage point reduction in the discount rate would increase unfunded superannuation liabilities by \$1.8 billion. However the impact on the budget balance is the imputed interest on these unfunded liabilities and the interest rate used to calculate this will also fall by 1.0 percentage point. The net effect on the budget would be an improvement of around \$2 million per annum in the net operating balance.

A 1.0 percentage point lower than expected return on superannuation assets invested by Funds SA would increase estimated unfunded superannuation liabilities by around \$61 million. An increase in unfunded superannuation liabilities of this magnitude would increase nominal superannuation interest expenses, decreasing the net operating balance result by around \$5 million per annum.

## **Change in domestic and overseas share prices**

Funds SA, WorkCover, the Motor Accident Commission (MAC) and South Australian Government Financing Authority (SAFA) are exposed to both domestic and international equity markets. A fall in domestic and overseas share prices could adversely impact upon their investments and obligations.

**Impact:** A variation in domestic and overseas share prices will directly impact the budget through a change in earnings on superannuation assets. A change in the value of WorkCover's and MAC's financial investments will not have a direct impact on the budget.

A change in the value of SAFA's financial investments may have a direct impact on the budget through a variation in SAFA's contribution to the Consolidated Account.

## **Insurance**

Risks associated with insurance liabilities are managed by the insurance division (SAICORP) of the SAFA. The operations of SAICORP are described in Chapter 5.

## ***State Government Insurance Commission residual assets and liabilities***

The assets and liabilities relating to residual State Government Insurance Commission (SGIC) general policies were transferred to SAICORP on 30 June 2003 by the *Motor Accident Commission (Transfer of Residual Assets and Liabilities) Proclamation 2003* under *Section 30 of the SGIC (Sale) Act 1995*. These were general policies of insurance issued but not transferred to the buyer on the sale of the general insurance business formerly conducted by SGIC. Specific details of these policies are not available and hence no liability has been recognised by SAICORP in relation to them. Liabilities will be brought to account if and when the policy owners make valid claims.

## **Government Motor Vehicle Fleet - Residual Value Risk**

The government owns a fleet of approximately 8400 passenger and light commercial vehicles that are used for government operations and are managed by Fleet SA. The vehicles are valued at over \$200 million and are generally sold at the earlier of 60 000 kms or three years. The budget allows for approximately \$50 million per annum for receipts from the sale of vehicles.

A high proportion of the fleet is locally manufactured six cylinder vehicles. The resale market for vehicles can be volatile and is affected by a range of economic factors.

**Impact:** A 1.0 per cent reduction in residual values would result in a reduction in investing receipts by approximately \$500,000 per annum.

## **Contingent liabilities**

Contingent liabilities are defined in accordance with the Government's Consolidated Financial Report which is produced in line with Australian Accounting Standard 31.

The state government's most significant quantifiable contingent liabilities are in the form of guarantees to external parties. Other contingent liabilities include those associated with indemnities, legal claims, other than those covered by SAICORP, and joint venture schemes.

The quantifiable contingent liabilities are summarised in the following table.

**Table 7.1: Contingent liabilities of the Government of South Australia to entities external to the public sector at 30 June (\$ million)**

	<b>2006</b>	<b>2007</b>
Guarantees <sup>(a)(b)</sup>	674	694
Other <sup>(c)</sup>	22	29
<b>Total</b>	<b>696</b>	<b>723</b>

(a) Valued at nominal values. No adjustments have been made to take into account the probability of actual liabilities occurring.

(b) Includes the total liabilities of the Local Government Finance Authority (\$422m) that are guaranteed by the Government of South Australia pursuant to the *Local Government Finance Authority Act 1983*.

(c) Data for 2007 includes minor revisions since publication in the 2006-07 Final Budget Outcome.

## **Quantifiable contingent liabilities and other exposures**

The following commentary sets out the significant contingent liabilities and other specific exposures for the Government of South Australia.

### ***Guarantee of government businesses' liabilities***

The liabilities of government businesses are generally explicitly guaranteed by the Treasurer under the enabling legislation for the entity. The *Public Corporations Act 1993* provides that all liabilities of a public corporation are guaranteed by the Treasurer.

**Exposure:** As at 30 June 2007, total liabilities of the public financial corporations sector were \$13.6 billion and total liabilities of the public non-financial corporations sector were \$2.8 billion.

### ***Treasurer's guarantee of Local Government Finance Authority loans and other liabilities***

Pursuant to the *Local Government Finance Authority Act 1983*, liabilities incurred or assumed by the Local Government Finance Authority (LGFA) are guaranteed by the Treasurer. These liabilities include bank loans, loans provided by the SAFA and other liabilities including deposits or loans from councils and prescribed local government bodies.

The LGFA has also issued a financial guarantee on behalf of the Workers Compensation Scheme of the Local Government Association of South Australia in favour of WorkCover. The guarantee is fully secured against depositor funds held, the value of which will not be less than the value of any liability that might be incurred.

**Exposure:** The total value of loans and liabilities is estimated to be \$422 million at 30 June 2007.

### ***Osborne Arrangements***

In 1996, the then ETSA Corporation entered into arrangements with Osborne Cogeneration Pty Ltd (OCPL) for the generation of electricity at the Osborne Generation Plant. As part of these arrangements, ETSA Corporation entered into a Power Purchase Agreement and a Gas Sale Agreement with OCPL requiring ETSA Corporation, in general terms, to purchase prescribed amounts of electricity from OCPL and to sell prescribed amounts of gas to OCPL for the respective terms of those agreements.

Over the life of the Power Purchase Agreement and Gas Sale Agreement (Osborne Arrangements) it was estimated that ETSA Corporation would incur losses representing, in general terms, the difference between:

- the contracted purchase price under the Power Purchase Agreement and forecast pool prices in the electricity market; and
- the contracted sale price under the Gas Sale Agreement and the wholesale price for gas available in the market to ETSA Corporation to comply with its gas supply commitments.

The Osborne Arrangements, and the underlying exposures, were subsequently transferred to Flinders Power Pty Ltd (Flinders Power) as part of the former government's sale of electricity assets. When NRG Energy Inc purchased the operations of Flinders Power as part of the former government's program for privatisation of the state's electricity assets, the Osborne Arrangements (together with the underlying exposures) were transferred to NRG Energy Inc's subsidiary Flinders Osborne Trading Pty Ltd (FOT).

As part of the privatisation of the operations of Flinders Power (Flinders Operations), the former Treasurer provided a guarantee to OCPL in respect of the obligations of FOT under the Osborne Arrangements (Treasurer's Guarantee). In turn NRG Energy Inc indemnified the Treasurer if the Treasurer's Guarantee was called upon by OCPL (NRG Indemnity).

In August 2006, NRG Energy Inc sold its interests in the Flinders Operations to Babcock and Brown Power (BBP), an infrastructure fund. The sale to BBP included the contracts under the Osborne Arrangements. The NRG Indemnity is now provided by Babcock and Brown International Pty Ltd.

**Exposure:** \$150 million to \$200 million.

### ***Financial assistance provided by the Treasurer***

Financial obligations under various assistance agreements with the Treasurer relating to the Industry Investment Attraction Fund, the Rail Reform Transition Program, the Structural Adjustment Fund for South Australia and the Strategic Industry Support Fund are subject to performance criteria by those entities receiving assistance.

**Exposure:** As at 31 March 2008, total financial obligations were \$33 million.

### ***South Australian Asset Management Corporation — put option***

A property put option was entered into in November 1993 as part of the sale arrangements of the Australis property, now known as SA Water House.

At the time of the sale, Group Asset Management Division (GAMD), which was succeeded by the South Australian Asset Management Corporation (SAAMC), entered into a 15 year lease as head lessee with the purchaser for a substantial portion of the building, which was backed in cash flow terms against a pre-existing 15 year lease between GAMD and the then Minister for Public Infrastructure (as sub lessee) over the same portion of the building. In addition, GAMD undertook to purchase the building for \$39.5 million in November 2008, at the owner's option, if the market value of the building at the time is lower than the agreed \$39.5 million.

**Exposure:** The property has been conditionally sold subject to the put option. Although the sale reduces significantly the risk of the building being returned to SAAMC pursuant to the put option, it does not completely eliminate it until November 2008.

### ***South Australian Housing Trust***

Under the South Australian Housing Trust's (SAHT) bond guarantee scheme, eligible customers are provided with a bond and in some cases rent in advance to assist in securing accommodation through the private rental market. SAHT gives the bond guarantee to the landlord who lodges it with the Residential Tenancies Tribunal. In the event of a claim by a landlord, the Residential Tenancies Branch makes the payment to the landlord and seeks reimbursement from SAHT. The private rental customer becomes liable to SAHT for the amount disbursed on their behalf.

**Exposure:** \$13.2 million in bond guarantees issued and outstanding as at 30 June 2007. The value of claims made in the 2006-07 financial year was \$2.7 million.

To improve home affordability, the SAHT previously provided opportunities for Trust tenants to purchase their rental home in stages, under the Progressive Purchase Scheme. As a result of the scheme, SAHT owns portions of properties involved. In some cases, SAHT has agreed with lending institutions to purchase the other party's interest at current market value if the other party defaults on their mortgage. Approximately 65 of the properties included in the scheme are subject to mortgages with a collective loan balance of \$1.9 million. The tenants' share of the value of the properties subject to mortgage is estimated to be \$6.1 million, based on the Valuer-General's overall capital value.

**Exposure:** \$1.9 million

### ***Guarantee for Austraining International Pty Ltd***

The Minister for Employment, Training and Further Education has provided a guarantee to the Treasurer regarding borrowings provided by SAFA to Austraining International Pty Ltd in relation to the company's short-term working capital requirements for major projects undertaken by the company. Austraining International's principal activity is to secure international contracts for work in vocational education and training.

**Exposure:** \$3.0 million

### ***Indemnities arising from joint venture land development initiatives***

On 10 July 1997, documentation was executed with Delfin Property Group Limited (now Delfin Mawson Lakes Pty Ltd), Lend Lease Corporation Limited (now Lend Lease Development Pty Ltd) and associated entities of those companies to establish a joint venture to develop the Mawson Lakes Economic Development Project at The Levels. This project comprises residential, retail and industrial accommodation to be developed over a 10 to 12 year timeframe. Other parties with commitments to the joint venture arrangements include the City of Salisbury and University of South Australia.

The Land Management Corporation (LMC) has a 50 per cent interest in the joint venture. Under the terms of the agreements for the joint venture, LMC will make available to the joint venture land for development. In addition, the state government has obligations for various infrastructure works associated with the project.

LMC has provided indemnities for bank guarantees and for a letter of guarantee in favour of local and state government authorities in relation to the abovementioned developments.

**Exposure:** LMC's combined contingent liability in relation to these indemnities is \$3.1 million.

### ***Guarantee given in respect of the Port Waterfront Development Agreement***

On 30 November 2004, the LMC provided a guarantee to Multiplex Port Adelaide Pty Ltd and UCPA Waterfront Pty Ltd as part of reciprocal arrangements in respect of the Port Waterfront Development Agreement. The guarantee is due to expire in 2015.

**Exposure:** \$5.0 million

### ***Information relating to a crime***

As at 30 June 2007, the value of outstanding rewards for unsolved murders was \$4.8 million. The amount and timing of any rewards that will be paid is uncertain.

**Exposure:** \$4.8 million

### ***Deed of Guarantee by the Treasurer for South Australian Netball Association's loan in relation to ETSA Park***

In 1997, the Government of South Australia entered into formal arrangements with the South Australian Netball Association (SANA) regarding the construction of a netball stadium at Mile End. The arrangements resulted in SANA securing a loan of \$3.5 million from an external banking institution to be applied, along with government funding, toward the stadium's construction.

As part of the arrangements, the loan to SANA is underwritten by the government.

**Exposure:** \$1.7 million

### ***Winding up of the National Electricity Market Management Company Ltd***

National Electricity Market Management Company Ltd (NEMMCO) is a company limited by guarantee and manages the National Electricity Market (NEM) wholesale trading arrangements. The participating jurisdictions in the NEM (New South Wales, Victoria, Queensland, South Australia, Tasmania and the Australian Capital Territory) are the current shareholders of NEMMCO as set out in the NEMMCO Members Agreement dated 9 May 1996 (the Agreement) as amended.

NEMMCO was formed for the purpose of efficiently conducting the NEM in accordance with the National Electricity Rules on a self-funding/break even basis, with funding provided through market participant fees.

**Exposure:** Under the terms of the Agreement, in the event that NEMMCO is wound up and its debts, liabilities and expenses cannot be met from the assets of NEMMCO, South Australia's total contribution towards the liability is capped at \$1.5 million.

### ***Generation Lessor Corporation***

Generation Lessor Corporation (GLC) has entered into a number of leasing arrangements over generation assets located within South Australia with unrelated private sector operators. As part of these arrangements, GLC has provided limited indemnities to these operators.

In the unlikely event that GLC defaults under the Torrens Island Generating Plant Leases, Synergen Generating Unit Lease, Northern and Playford Generating Unit Leases, the Leigh Creek Township Lease and the Leigh Creek Railway Sub-Lease, with respect to limited specified undertakings resulting in the termination of any of these leases by the lessees, GLC will be required to refund the net present value (as at the termination date) of so much of the post termination date rent obligations as were prepaid by the relevant lessee. The likelihood of these defaults occurring is considered highly remote.

**Exposure:** The rent refund under the above leases as at 31 March 2008 is estimated to be approximately \$461 million.

### ***Distribution Lessor Corporation***

In the unlikely event that Distribution Lessor Corporation (DLC) defaults under the Distribution Network Lease with respect to limited specified undertakings resulting in the termination of the lease by the lessor, DLC will be required to refund the net present value (as at the termination date) of so much of the post termination date rent obligations as were prepaid by the lessee. The likelihood of these defaults occurring is considered highly remote.

The lessee is also entitled to terminate the Distribution Network Lease, and obtain a partial refund of prepaid rent, where there is the destruction or permanent incapacity of at least 65 per cent of the power lines making up the distribution network as a result of an uninsurable event such as war, terrorism or the release of nuclear ionisation. The likelihood of this occurring is considered highly remote.

Under the terms of the distribution network leases, the lessee can elect to own new assets constructed during the term of the lease which qualify as 'qualifying projects' or 'geographical extensions' as well as land on which those assets are located.

Qualifying projects are a discrete replacement, modification, alteration, addition or renewal to the network which is outside the ordinary course of maintenance, modification, alteration or renewal and, at the time effected, cost greater than a qualifying threshold of \$2 million indexed in accordance with the lease documentation. Geographical extensions are extensions beyond the outer extremities of the distribution network as at the commencement date of the lease. At the expiry of the lease, qualifying projects will be automatically transferred and vested in DLC or a body nominated by DLC for a price equal to the regulatory value of the qualifying projects as at the lease end date. Geographical extensions receive the same treatment if DLC so elects, but not otherwise.

To date, the lessee has not notified DLC of any geographic extensions to the distribution network. The lessee has notified DLC of four qualifying projects which the lessee has elected to own, and which DLC is required to pay for at the expiry of the Distribution Network Lease on 28 January 2200. It is not possible at this time to quantify the regulatory value of these qualifying projects.

**Exposure:** The rent refund as at 31 March 2008 is estimated to be approximately \$3.0 billion.

### ***Transmission Lessor Corporation***

Transmission Lessor Corporation (TLC) has guaranteed certain payments and other obligations to third parties in relation to a leasing arrangement in respect of the transmission network. As part of these arrangements, TLC has provided limited indemnities to third parties.

In the unlikely event that TLC defaults under the Transmission Network Lease with respect to limited specified undertakings resulting in the termination of the lease by the lessor, TLC will be required to refund the net present value (as at the termination date) of so much of the post termination date rent obligations as were prepaid by the lessee. The likelihood of these defaults occurring is considered highly remote.

**Exposure:** The rent refund as at 31 March 2008 is estimated to be approximately \$586 million.

### **Unquantifiable contingent liabilities and other exposures**

#### ***Insurance Underwriting***

Insurance underwriting by its nature has liabilities contingent upon certain events occurring which give rise to a claim under the policy of insurance. Details of individual insurance claims are not discussed for legal, commercial and privacy reasons. Notwithstanding this, listed below are several of the state's potential exposures.

##### *Eyre Peninsula bushfires*

- The Coroner's findings in the Wangary Bushfire Inquest were handed down on 18 December 2007. A working party has been established to consider the recommendations in the findings.

##### *Mullighan Inquiry*

- The final report of the Commission of Inquiry (Children in State Care) was tabled in parliament on 1 April 2008. The report recommends a task force be established to examine a redress scheme for adults who were sexually abused as children in state care. The government is currently preparing a response to the report.

##### *Stolen Generation claim*

- In 2007-08, the Supreme Court awarded a claimant \$525 000 in damages against the State of South Australia together with \$250 000 in lieu of interest. The government has appealed the decision which is a significant case that may set a precedent. The government has paid the awarded compensation to the claimant and stated that it will not seek the return of the payments made even if the appeal is successful.

##### *Dust diseases regulations amendments*

- In March 2008, the government announced that it would make further changes to the law to make it easier for sufferers of asbestos-related diseases to claim damages. A change to the regulations of the *Dust Diseases Act 2005* will push back the date from which a defendant is presumed to have known of the dangers of asbestos in a prescribed industrial or commercial process from 1 January 1979 to 1 July 1971.
- State government-owned enterprises are, and will continue to be, defendants to asbestos litigation. The amendments will open up the benefits of the legislation to a larger number of potential plaintiffs.

### ***Defence SA (formerly Port Adelaide Maritime Corporation)***

The state has entered into an agreement with the Commonwealth for the construction of a ‘Common User Facility’ including a ship lift, runway, wharf, dry berth and hard stand areas, transfer system, entrance roads and other infrastructure to support the shipbuilder in the construction of three air warfare destroyers planned for the Australian Navy. The agreement requires the state to indemnify the Commonwealth from any third party losses or damages arising from a failure to complete the Common User Facility in accordance with the agreed design and schedule or meet the agreed performance criteria. The indemnity is reduced to the extent the loss is caused by the negligence of the Commonwealth, the shipbuilder or the latter’s related bodies corporate. The likelihood of non-performance is considered remote.

### ***Management of asbestos in government owned buildings***

Asbestos containing materials are present in government owned residential and commercial properties. The government as owner and landlord acknowledges the risk with regard to its duty of care to tenants, visitors and contractors engaged to maintain the buildings that it owns.

For commercial office buildings, reviews of asbestos registers are undertaken annually to ensure that the condition of asbestos containing materials is managed in such a way as to prevent any potential risk to health.

All residential properties have been inspected and any high-risk materials removed. An ongoing program for the removal of asbestos containing products in residential properties commenced during 2006-07.

Safe removal of asbestos, where required, is a part of the government’s management plan and does, on occasion, cause an increase to the expenditure requirements for building works and maintenance programs.

### ***Provision of indemnities and undertakings by TransAdelaide***

TransAdelaide has a contingent liability in relation to the warranty of AUSTRICS products sold and provision of annual support of the same. The lives of various elements of the indemnities vary between one and six years from settlement date.

TransAdelaide has fifty railcars subject to a cross border lease which expires in April 2023. Encumbrances exist within this agreement which give rise to financial consequences in the event of loss or destruction of these leased railcar assets. No event has occurred which would give rise to the encumbrances/consequences.

### ***Minerals and Energy***

Certain matters such as contaminated land and hazardous materials have been identified and managed in accordance with recognised standards. This includes the environmental liabilities of past mining practices where there is no longer an active lease.

Since 1972, certain rehabilitation associated with extractive industries has been funded from contributions to the Extractive Areas Rehabilitation Fund (EARF) funded from a royalty on production. The government has been liable for rehabilitation of certain extractive mining sites that have operated since 1972 using funds contributed from the royalty.

Following a review of funding arrangements in the extractive industries, amendments to the *Mining Act* were made reducing any liability by clarifying and restricting the type of rehabilitation the EARF will fund and ensuring that EARF funds more adequately match the liability by increasing the royalty rate.

In respect of non-extractive mine operations, it is a lease condition that rehabilitation be undertaken by the leaseholder before a lease is surrendered. The Department of Primary Industries and Resources' responsibility is to ensure that a lease is not surrendered before appropriate rehabilitation has occurred. Rehabilitation bonds lodged as bank guarantees or cash are designed to underwrite any failure by a miner to complete necessary rehabilitation. These are held by the government and together with compliance activity mean the liability risks to government are minimised.

### ***Alice Springs to Darwin Railway***

The AustralAsia Railway Corporation (the Corporation), the South Australian and Northern Territory Governments and Asia Pacific Transport Pty Ltd have entered into a concession arrangement for the design, construction, operation and maintenance of the Alice Springs to Darwin Railway on a build, own, operate, transfer-back basis.

Both the South Australian and Northern Territory Governments guarantee the obligations of the Corporation. This guarantee is a joint guarantee, but South Australia and the Northern Territory each accept responsibility for breach of an indemnity that is caused by that jurisdiction's act or omission. Where the event, giving rise to a Corporation obligation is solely caused by one jurisdiction, that jurisdiction accepts sole responsibility. If both South Australia and Northern Territory caused the event, then each accepts responsibility to the extent to which it caused the event.

For other Corporation obligations, South Australia and the Northern Territory accept liability for events occurring within the geographical area of its jurisdiction. Principally, the Corporation has granted indemnities to ensure that title to the railway corridor is secure for the construction and operation of the railway infrastructure. These indemnities cover risks related to native title claims, undisclosed interests in the corridor, environmental contamination, heritage and sacred sites and environmental assessment processes.

The project documents provide for the early termination of the concession arrangement by Asia Pacific Transport Pty Ltd in certain circumstances that would give rise to the payment of an early termination amount. The amount includes all debt and debt break costs for the project, certain agreed break costs for the project, certain agreed break costs for third party contractors and payments to equity. For all these events the remedy is within the control of either the Corporation or the governments.

The prospect of any one of these contingent liabilities arising is considered to be highly remote.

### ***Disengagement from present Information and Communication Technology contracts***

The disengagement provisions of current Information and Communication Technology (ICT) Agreements specify responsibility for costs arising should the government disengage from these contracts. The disengagement costs will, in part, be dependent upon the timing and outcomes of the current Future ICT procurement process.

Transitional arrangements for tranche 1 contracts are expected to be completed in 2007-08, with the exception of Electronic Messaging Services which will not be fully transitioned until November 2008. Transitional arrangements for the tranche 2 contract, Telecommunications Carriage and Related Services, are likely to be in place during 2008-09. Depending on the outcomes of the procurements, the state may be contingently liable for costs associated with disengaging from the services provided through the current contracts.

At this stage, it is not possible to reliably measure these costs due to the procurement outcomes (ie which suppliers are successful) and exact timing not being known.

## **Glenthorne Farm**

Glenthorne Farm, at O'Halloran Hill, was purchased by the University of Adelaide from the Commonwealth Scientific and Industrial Research Organisation, with the assistance of a grant from the Government of South Australia.

A contract signed by the Government of South Australia and the University of Adelaide resulted in the former assuming liability for any possible third party claims resulting from any contamination which may be discovered on the property.

The South Australian and Commonwealth Governments agreed by exchange of letters that, in the event of such a claim, the state government reserves its right to seek a contribution from the Commonwealth based on the Commonwealth's previous ownership of the land.

### ***Guarantee of employment for former employees of government electricity businesses***

Part 4 of the *Electricity Corporations (Restructuring and Disposal) Act 1999* (the Act) imposes certain obligations on both the state government as a vendor and the private sector parties as buyers of the electricity businesses of the state that occurred throughout 2000. Persons who transferred to the new private sector employers and fit the definition in section 24(13) of the Act are referred to as 'transferred employees'.

Section 24 of the Act provides that after the expiration of two years from the time of a relevant employee's transfer and where a transferred employee's position is considered to be surplus to the private sector employer's requirements, any action taken by the employer with regards the surplus position must also include the offer of a voluntary separation package (VSP). At the same time, an offer of public sector employment must be made to the transferred employee with a rate of pay that is at least equivalent to the rate of pay received from the private sector employer.

The legislation provides that employees who accept an offer of public sector employment may not be retrenched and their rate of pay may not be reduced except for proper cause associated with the employee's conduct or physical or mental capacity.

The rationalisation of the electricity industry private sector resulted in a number of positions being declared surplus to the requirements of the employers of the 'transferred employees'. It is estimated (the private sector employers are not required to advise the government of how many of the relevant employees decide to voluntarily change their jobs) that a significant number of the redundant employees decided to take VSP's. Approximately 60 returned to the public sector since 2002.

There exists an ongoing exposure to the numbers of the government workforce contingent to the private electricity sector's long and short-term decisions of mergers and acquisitions and general restructuring. The contingency is two-fold:

- Identifying and placing returning employees in areas that are in their field of expertise and at an appropriate level that would allow future integration within the employing agency. This is a non-financial, short-term issue which is dependant on the number and the quality of the returning employees; and
- Funding requirements. The private sector is required to pay the VSP equivalent for a returning employee to the Treasurer. This is generally but not always sufficient to fund two years of salaries and superannuation contributions in a government position. If the position is not integrated in that period, the employing department, and RESI as the administrating entity of the process, would be forced to increase their funding requests. Additionally, the government as a whole would need to increase annual and long service leave provisions as returning employees are considered to have been continuously employed by the state.

# **CHAPTER 8: SOUTH AUSTRALIAN ECONOMY**

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## **Overview**

The performance of the South Australian economy has remained solid in 2007-08 despite rising interest rates and the adverse effects of the ongoing drought and water allocation constraints facing agricultural producers. Employment growth is expected to be around 2½ per cent for 2007-08, maintaining the strong labour market performance of recent years. Housing construction activity has been buoyant and business investment has remained at high levels. Growth in consumer spending accelerated through 2007, underpinned by solid employment and wages growth. There has been very strong growth in mineral exploration and South Australia's population is growing at its fastest pace in two and a half decades.

In response to the tightening of monetary policy and slower global economic growth, some moderation in economic growth is expected in 2008-09. South Australia's Gross State Product (GSP) growth is forecast to be 2¾ per cent in 2008-09, while employment is expected to grow by 1½ per cent.

## **Recent economic performance**

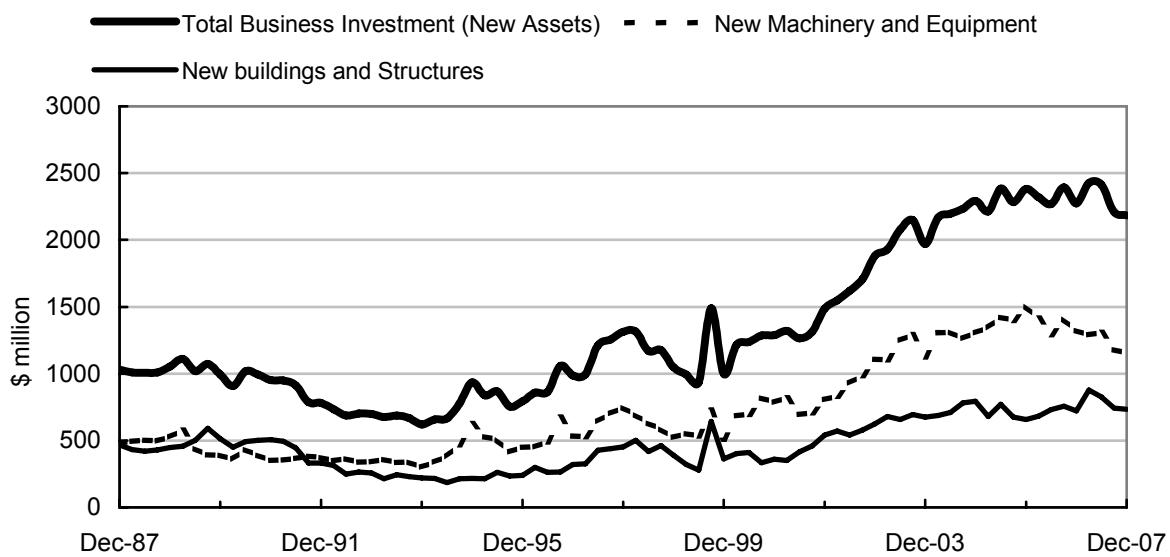
The Department of Treasury and Finance estimates that South Australia's GSP will grow by around 3¾ per cent in real terms in 2007-08. By comparison, the Commonwealth Treasury expects national GDP growth to be 3½ per cent in 2007-08.

State Final Demand (SFD), which is a measure of total spending in the South Australian economy by households, business and governments grew by 2.5 per cent in real terms during 2007. Growth in SFD slowed through the middle of 2007 before picking up again in the December quarter. For the 2007-08 financial year, the Department of Treasury and Finance expects that SFD growth will be 2¾ per cent, close to the original budget forecast of 3 per cent.

Household consumption spending grew by 3.2 per cent in real terms during 2007, underpinned by strong employment and wages growth. Retail spending levels in South Australia have held up firmly in the first three months of 2008.

Business investment in new assets remained near historically high levels, 71 per cent higher than in 2001. Growth in business investment was particularly strong in the mining industry.

**Figure 8.1: Real business investment in South Australia – seasonally adjusted (\$ million per quarter)**



Source: ABS, Australian National Accounts: National Income, Expenditure and Product, Catalogue no. 5206.0. Values represent chain volume measures. Reference year for chain volume measures is 2005-06.

Mineral exploration expenditure in South Australia was up 78 per cent during 2007, to \$332 million, lifting the state's share to over 16 per cent of the national total.

The housing construction sector has remained buoyant in South Australia, with dwelling investment expanding by 6.6 per cent in real terms during 2007 and dwelling commencements reaching their highest calendar year level since 1993. Over the past six years South Australia has been consistently building in excess of 10 000 new dwellings per annum.

House prices in South Australia have continued to outperform many other states, and the national average. According to the Land Services Group (Department of Transport, Energy and Infrastructure), the median established house price in Adelaide increased to \$362 500 in the March quarter 2008, an increase of 20 per cent compared to the same time a year earlier.

Rental vacancy rates remain extremely tight in South Australia. The residential vacancy rate in Adelaide was 1.1 per cent in the December quarter 2007. According to the ABS, average residential rents in Adelaide during March quarter 2008 were 5.1 per cent higher than at the same time a year earlier.

While farm sector output increased significantly in 2007-08, relatively dry conditions for broadacre farming and irrigation entitlement restrictions continued to limit the extent of the recovery in the farm sector. The Australian Bureau of Agricultural and Resource Economics (ABARE) estimates that South Australia's 2007-08 winter crop will be 4.9 million tonnes, a 77 per cent increase on the previous financial year, but still almost 30 per cent below the five-year average.

While the construction and mining sectors continue to experience positive trends, ongoing pressure from international competition and a strong Australian dollar are contributing to a challenging environment for the manufacturing sector. Nonetheless, South Australian business confidence remains positive, as supported by results in *National Australia Bank's Small Medium Enterprise (SME's) Quarterly Survey*, *The Commonwealth Bank Business SA Survey* and *Bank SA State Monitor*.

Nationally, new motor vehicle sales remain at high levels but Australian produced vehicles continued to lose market share in the year to April 2008. While lower than expected sales led to the recent decision by Mitsubishi to close its Tonsley Park manufacturing plant in March, Holden announced a

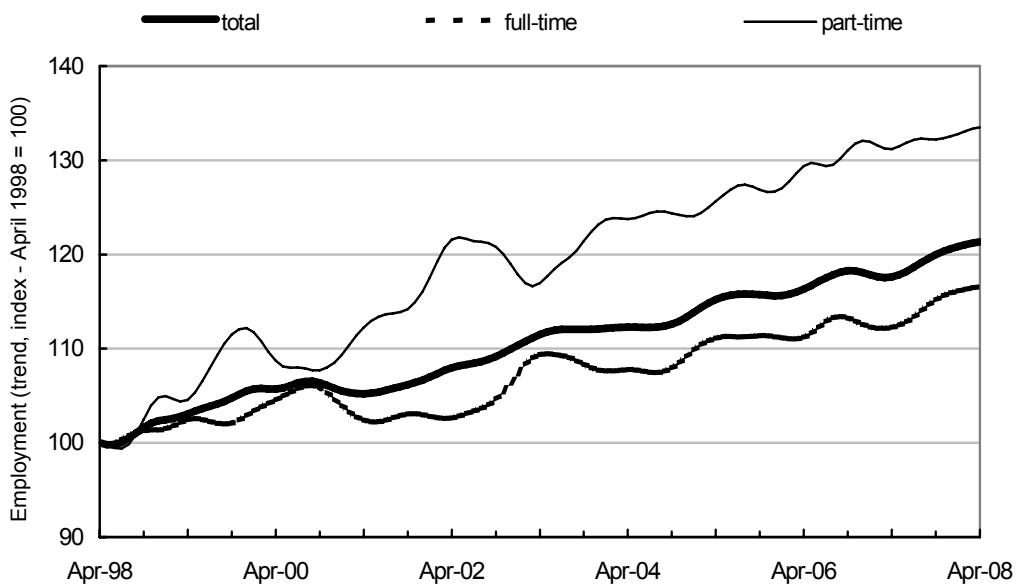
major export deal with Pontiac in the United States. This deal will see two new cars, a high performance sedan and a sports truck modelled on the ute, produced at the Elizabeth plant. The sedan will be built later this year while production of the sports truck will commence around mid 2009. New jobs at the Elizabeth plant are likely to flow from this announcement.

The value of South Australian overseas goods exports grew by 8.5 per cent to a total of \$9.9 billion in the 12 months to March 2008, despite the Australian dollar hovering at historically high levels throughout that time. Export volumes have also grown, rising by 3.1 per cent during 2007. The fastest growing export commodities in value terms during the 12 months to March 2008 included wine, metal ores and lead.

South Australia's annual population growth rate is currently at its highest level since the mid 1980s, with the estimated resident population growing by 16 000 during the year to September 2007. Net migration inflows accounted for more than half of the population gain, with growing net overseas migration inflows outweighing a net loss of population to the rest of Australia. Improvements in South Australia's net overseas migration gain have been largely associated with the introduction in 2004 of the Skilled Independent Regional visa and the active attraction of skilled and business migrants by the South Australian Government.

Continued growth in the non-farm sectors of the South Australian economy has led to estimated further solid growth in employment of around 2¼ per cent in 2007-08. This represents a continuation of the employment growth momentum experienced in recent years with employment rising by 1.7 per cent in 2006-07 and by 2.0 per cent in 2005-06. South Australia's trend unemployment rate was 4.6 per cent in April 2008, its lowest since monthly labour force surveys commenced in 1978. Labour force participation in South Australia is at its highest level since the early 1990s.

**Figure 8.2: South Australian employment - trend (index numbers) (April 1998=100)**

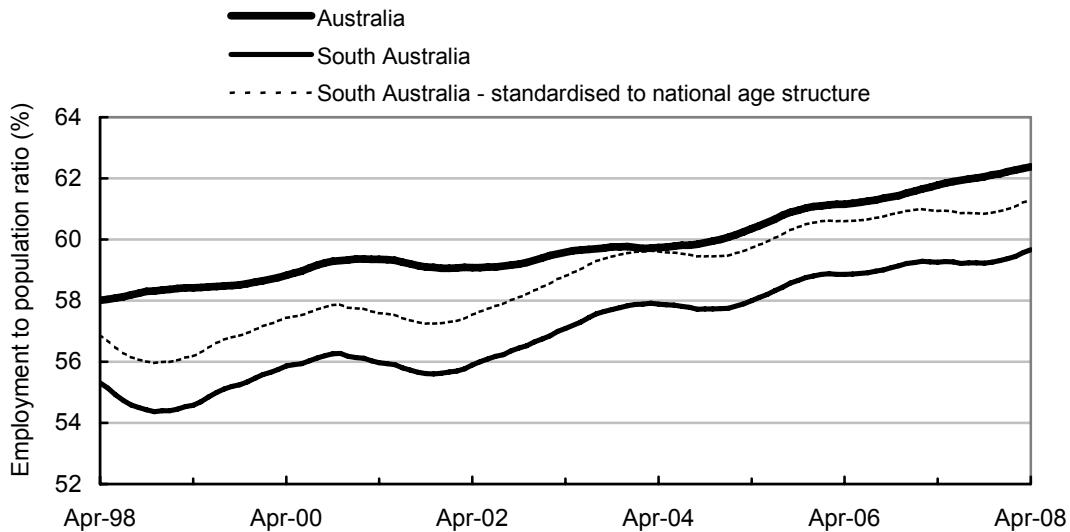


Source: ABS, Labour Force Australia, Catalogue no. 6202.0

In *South Australia's Strategic Plan*, the South Australian Government has an objective of increasing the employment to population ratio, standardised for age differences, to the Australian average. Figure 8.3 shows the latest trends in this measure, based on annual average data to remove volatility in the monthly estimates. Before adjusting for differences in age structure South Australia's employment to population ratio is currently around 2¾ percentage points lower than the national average. The current gap is smaller than in the late 1990s and early 2000s, indicating an improved job creation performance in South Australia relative to that time. The ongoing gap is, however, partly the result of

South Australia's older age structure. When adjustment is made to remove this age structure effect the gap between South Australia's employment to population ratio and the national average reduces to around 1 percentage point. South Australia's employment to population ratio and age adjusted employment to population ratio in April 2008 were at their highest levels since monthly labour force surveys commenced in February 1978.

**Figure 8.3: Employment to population ratios—year average per cent**



Source: ABS, Labour Force Australia, Catalogue no. 6291.0.55.001

Consumer price inflation in Australia has accelerated significantly, culminating in data for the March 2008 quarter showing growth of 4.2 per cent compared with a year earlier. This places headline consumer price inflation well outside the upper limit of the 2-3 per cent inflation band targeted by the Reserve Bank of Australia (RBA). The Consumer Price Index (CPI) for Adelaide grew by 4.5 per cent over the same period, a slightly higher level of inflation than the national average.

Growth in wage costs also appears to have accelerated moderately. National wages growth, based on the ABS hourly rates of pay index, was 4.1 per cent during the year to the March quarter 2008. South Australian wages growth has been stronger than the national average, recording a 4.6 per cent increase over the same period.

## Economic Outlook

The outlook for the national and state economies is clouded by uncertainty regarding international economic developments. World economic growth forecasts have been downgraded as financial market conditions and economic activity in the United States weaken and global credit problems persist. In April, the International Monetary Fund (IMF) downgraded its forecast for growth in world output to 3.7 per cent in 2008 and 3.8 per cent in 2009, following growth of 4.9 per cent in 2007. The United States economy is projected by the IMF to fall into mild recession in 2008 as its housing correction continues while economic growth in other developed countries is also expected to slow through trade and financial links. In line with moderating economic growth in many of the advanced economies, the growth momentum in the emerging and developing nations is also anticipated to slow in 2008, reflecting policy efforts to contain demand growth as well as flow-through effects from advanced economies and a moderation in commodity prices. However, the IMF says growth in all developing regions will remain above trend. The risks to the global forecasts appear to be tilted to the downside.

In the 2008-09 Commonwealth Budget, the Commonwealth Treasury forecast that the Australian economy will grow by  $2\frac{3}{4}$  per cent in 2008-09, easing from  $3\frac{1}{2}$  per cent growth in 2007-08 and reflecting weaker global economic growth, tighter credit conditions and the impact of cumulative interest rate rises on domestic demand growth. Non-farm GDP growth is forecast to be  $2\frac{1}{4}$  per cent in 2008-09, lower than the expected 2007-08 growth rate of  $3\frac{3}{4}$  per cent. Ongoing growth in household consumption spending, further growth in business investment and stronger growth in exports are anticipated to underpin the national growth outlook for 2008-09.

For South Australia, the Department of Treasury and Finance is expecting an easing in GSP growth to  $2\frac{3}{4}$  per cent in 2008-09. This assumes a moderation in consumer spending growth consistent with the dampening effects of successive interest rate rises in late 2007 and early 2008. While higher interest rates are also likely to impact on housing construction activity, current high levels of population growth, solid employment gains, and low rental vacancy rates are anticipated to support dwelling construction at high levels. In support of this outlook, the number of dwelling approvals remains at high levels. While building activity is still underpinned by strong positive influences, broader residential property market activity is likely to weaken in response to the impact of higher mortgage interest rates and growth in Adelaide house prices are expected to moderate.

Business investment is expected to remain at high levels. This positive outlook for business investment is supported by the major investment project listings in the Access Economics *Investment Monitor*, surveys of construction work yet to be done, as well as the ABS survey of business expectations which suggests that investment expenditure is planned to be 11 per cent higher in 2008-09 than in 2007-08. This growth rate is based on a historical comparison by the Department of Treasury and Finance of the planned expenditure recorded in the survey and the actual expenditure outcomes for those years. The analysis assumes that capacity constraints are not an issue for business. Economic growth over the next two to three years is anticipated to be reinforced by the impact of major developments including the Air Warfare Destroyer project and the Prominent Hill mine, as well as state government infrastructure projects.

For the farm sector of the economy, recovery in output and incomes for the broadacre sector and irrigated agriculture remains dependent on winter rainfall, and water flows and allocations.

Job vacancy data suggest that the demand for labour in South Australia has moderated during the first quarter of 2008. ANZ Bank data indicates that newspaper job advertisements in South Australia, an indicator of hiring intentions, have fallen 5.1 per cent in trend terms since September. Nonetheless the labour market remains strong. The *ABS Job Vacancies and Labour Force* surveys suggest that on average there were 4.0 unemployed people per job vacancy in South Australia in the year to February 2008, the lowest since the Job Vacancies survey began in November 1983 and well down on ratios approaching 40 in the early 1990s. Employment in South Australia is forecast to grow by  $1\frac{1}{2}$  per cent in year average terms during 2008-09.

Table 8.1 shows estimates, forecasts and projections of economic growth for South Australia and Australia. In the forward estimate years 2009-10 to 2011-12, estimated growth rates are projections based on historical growth performance and the impact of major known and approved projects. However, no allowance has been made for the impacts of the yet to be approved expansion of the Olympic Dam mine. Should this project proceed, growth in employment and working age population are likely to be boosted.

**Table 8.1: Key economic indicators — Australia and South Australia real growth rates  
(per cent per annum)**

	2006-07 Actual	2007-08 Estimate	2008-09 Forecast	2009-10 Projection	2010-11 Projection	2011-12 Projection
<b>Australia<sup>(a)</sup></b>						
Gross Domestic Product (GDP)	3.2	3½	2¾	3	3	3
Domestic Final Demand (DFD)	4.1	5¼	3¾	n.a.	n.a.	n.a.
Employment	2.7	2½	1¼	1¼	1¼	1¼
CPI <sup>(b)</sup>	2.1	4	3¼	2½	2½	2½
<b>South Australia<sup>(c)</sup></b>						
Gross State Product (GSP)	0.8	3¾	2¾	2¾	2¾	2¾
State Final Demand (SFD)	2.4	2¾	2¾	2¾	2¾	2¾
Employment	1.7	2¼	1½	1¼	1	1

Source: South Australian Department of Treasury and Finance. Actuals from Australian Bureau of Statistics.

(a) Australian forecasts from 2008-09 Commonwealth Budget.

(b) Through the year to the June quarter.

(c) Forecasts and projections are based largely on underlying national economic and state population trends, climatic conditions impacting on farm sector production and emerging major projects.

# UNIFORM PRESENTATION FRAMEWORK

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## Overview

By agreement between the Commonwealth and the states and territories, each jurisdiction presents financial information on a *Uniform Presentation Framework* (UPF) basis presented in their budget papers, mid-year budget update and budget outcome reporting. The tables in this appendix present budget information for South Australia on the UPF basis, reflecting the fiscal measures and scope outlined below.

The primary objective of the UPF is to ensure that Commonwealth, state and territory governments provide a common ‘core’ of financial information in their budget papers to enable direct comparisons of each government’s budget and financial results.

The UPF is based on the reporting standards of the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) framework. ABS formats and standards are in turn derived from international GFS frameworks such as the International Monetary Fund draft manual of *Government Financial Statistics* and the *United Nations System of National Accounts 1993* (SNA93). The ABS publishes annual government financial information for all Australian government jurisdictions on this basis each year.

The ABS GFS publication (*Australian System of Government Finance Statistics: Concepts, Sources and Methods* Cat. No. 5514.0) requires that provisions for doubtful debts be excluded from the balance sheet. Consistent with the Commonwealth Government’s methodology, South Australia has not adopted this treatment in the UPF reports because excluding such provisions would overstate the value of assets in the balance sheet (and would therefore be inconsistent with the market valuation principle).

## Accrual GFS fiscal measures

The key measures in the GFS accrual framework are: GFS net operating balance, GFS net lending, cash surplus, net debt, net worth, change in net worth, net financial worth and net financial liabilities.

### ***GFS net operating balance***

The GFS net operating balance, or operating result, is the excess of revenue from transactions 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).

Net operating balance can also be defined as the change in net worth less the effects of revaluation of financial assets and liabilities.

### ***GFS net lending***

GFS net lending (sometimes referred to as fiscal balance) measures a government’s investment-saving balance.

Net lending (which is recorded in the operating statement) differs from the net operating balance in the treatment of capital expenditure. Unlike the net operating balance, net lending includes net capital expenditure, but not the use of capital (that is depreciation).

Net lending is the accrual counterpart of the GFS cash surplus in the cash flow statement. However, the two measures are unlikely to coincide because of the differences arising when transactions are recorded in cash and accrual terms.

### ***Cash surplus***

The GFS cash surplus/deficit is a flow measure reported in the cash flow statement.

The cash surplus has four components. The first is net cash received from operating activities (comprising tax revenue plus grants and subsidies received plus revenue from sales of goods and services, less payments for goods and services, interest costs, and grants and subsidies paid). The second component is net cash inflow from sales and purchases of non-financial assets. The third component (in the case of public non-financial corporations and public financial corporations) is the level of distributions paid. And the fourth component removes the initial increase in liability accruing at the beginning of finance leases and similar arrangements.

### ***Net debt***

Net debt 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, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

### ***Net worth***

Net worth is calculated as total assets (both financial and non-financial) minus total liabilities (including shares and other contributed capital of other sectors of the jurisdiction). 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.

The net worth measure is reported in the balance sheet.

### ***Change in net worth***

Change in net worth measures the variation in net worth (as described above), and is the most inclusive measure of the change in a government's financial position over a given period.

### ***Net financial worth***

Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus liabilities.

### ***Net financial liabilities***

Net financial liabilities comprises total liabilities less financial assets (net financial worth), but excludes equity investments (net worth) in the other sectors of the jurisdiction.

Net financial liabilities is a more accurate indicator than net debt of a jurisdiction's fiscal position as it includes substantial non-debt liabilities such as accrued superannuation and long service leave entitlements. Excluding the net worth of other sectors of government from net financial worth results in a purer measure of financial worth than net financial worth, as, in general, the net worth of other sectors of government, in particular the public non-financial corporations (PNFC) sector is backed by physical assets.

## Scope

The UPF divides the Australian public sector into three institutional subsectors: the general government sector, the public non-financial corporations sector; and the public financial corporations sector.

General government comprises all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production.

Public non-financial corporations are bodies mainly engaged in the production of goods and services of a non-financial nature for sale in the marketplace at prices that aim to recover most of the costs involved. This sector includes some trading enterprises, such as SA Water, ForestrySA and SA Housing Trust. In general, PNFCs are legally distinguishable from the governments that own them.

Public financial corporations are bodies primarily engaged in providing financial intermediation services or auxiliary financial services. Generally, they are able to transact in financial liabilities on their own account.

## Budget reporting

Under the UPF agreement, all governments are required to present as part of their budget documentation an operating statement, balance sheet and cash flow statement for the general government sector, public non-financial corporations sector and the non-financial public sector. The non-financial public sector is the consolidation of the general government sector and the public non-financial corporations sectors. In addition, information is also presented on taxes, general government sector expenses by function and Loan Council Allocations.

This information is presented in Tables A.1 through to A.15 in this appendix.

### *Reporting of outcomes*

Outcomes are presented in the Final Budget Outcome document. In addition to the tables presented at budget time, outcome reporting also contains the accrual financial statements for the public financial corporations sector.

## Future developments in the presentation of government financial information

### *Australian Accounting Standard for a single set of government reports.*

The Government of South Australia and its reporting entities produce general purpose financial reports in accordance with Australian equivalents to International Financial Reporting Standards (known as generally accepted accounting principles).

The government produces budgets and outcome documents in accordance with the Uniform Presentation Framework (UPF), which is based on the Australian Bureau of Statistics Government Finance Statistics framework.

In December 2002 the Financial Reporting Council (FRC) under the jurisdiction of subsection 225(1) of the *Australian Securities and Investments Commission Act 2001*, issued a direction to the Australian Accounting Standards Board (AASB) to harmonise the two reporting frameworks.

The objective of harmonising generally accepted accounting principles and the government finance statistics framework is to achieve a single standard for the production of government budgets and

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financial reports, that are auditable, comparable between jurisdictions and have outcome statements that are directly comparable with the relevant budget statements.

The AASB decided to implement the FRC's direction in two phases:

1. financial reporting by government and its sectors (general government, public non-financial corporation and public financial corporation); and
2. financial reporting by entities within the general government sector, comprising government departments, statutory bodies and other bodies.

AASB 1049 *Financial Reporting of General Government Sectors by Government* was issued in September 2006 and only addressed the harmonisation of the two frameworks for financial reporting by the general government sector.

In October 2007, the AASB expanded the scope of AASB 1049 to include financial reporting by governments and its sectors. The issue of the revised AASB 1049 *Whole of Government and General Government Sector Financial Reporting* completes the first phase.

AASB 1049 applies from 1 July 2008 for the 2008-09 fiscal year. The AASB is currently considering the harmonisation principles in relation to financial reporting by bodies within the general government sector.

### ***Revised Uniform Presentation Framework***

As a result of these developments the UPF was updated to align with AASB 1049.

The Commonwealth, states and territories agreed that an updated framework (rather than replacing the UPF with AASB 1049) would continue to provide a common core of financial information in budget papers and comparable data amongst jurisdictions while maintaining the current level of transparency.

The revised UPF provides jurisdictions with the base statement to add required information to comply with AASB 1049. All jurisdictions have agreed to adopt the revised UPF by no later than 2009-10 budget reports.

**UNIFORM PRESENTATION FRAMEWORK TABLES****Table A.1: General government sector operating statement (\$million)**

	<b>2007-08 Estimated result</b>	<b>2008-09 Budget</b>	<b>2009-10 Estimate</b>	<b>2010-11 Estimate</b>	<b>2011-12 Estimate</b>
<b>GFS revenue</b>					
Taxation revenue	3 566	3 615	3 699	3 839	4 026
Current grants	6 258	6 526	6 763	7 017	7 350
Capital grants	314	382	482	411	311
Sales of goods and services	1 561	1 601	1 660	1 729	1 798
Interest income	201	200	198	217	233
Other	925	930	920	1 032	1 022
Total revenue	12 825	13 255	13 722	14 246	14 741
<i>less</i>					
<b>GFS expenses</b>					
Gross operating expenses					
Employee expenses	5 861	6 116	6 320	6 496	6 671
Depreciation	531	593	637	678	725
Other operating expenses	3 142	3 281	3 348	3 538	3 718
Nominal superannuation interest expense	276	370	371	372	372
Other interest expenses	225	234	265	314	382
Other property expenses	—	—	—	—	—
Current transfers	2 293	2 372	2 295	2 282	2 317
Capital transfers	126	129	130	131	132
Total expenses	12 452	13 094	13 366	13 812	14 317
<i>equals</i>					
<b>GFS net operating balance</b>					
	373	160	356	434	424
<i>less</i>					
<b>Net acquisition of non-financial assets</b>					
Purchases of non-financial assets	1 007	1 396	1 694	1 860	1 730
less Sales of non-financial assets	88	94	113	137	121
less Depreciation	531	593	637	678	725
plus Change in inventories	—	—	—	—	—
plus Other movements in non-financial assets	—	—	—	—	—
equals Total net acquisition of non-financial assets	388	709	945	1 045	884
<i>equals</i>					
<b>GFS net lending / borrowing</b>					
	-15	-548	-589	-611	-460

Note: Totals may not add due to rounding.

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**Table A.2: Public non-financial corporations (public trading enterprises) sector operating statement (\$million)**

	2007-08 Estimated result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>GFS revenue</b>					
Taxation revenue	—	—	—	—	—
Current grants and subsidies	524	475	463	458	462
Capital grants	43	25	26	27	27
Sales of goods and services	1 418	1 527	1 529	1 684	1 752
Interest income	20	16	17	17	21
Other	140	152	144	142	135
Total revenue	2 145	2 196	2 179	2 328	2 396
<i>less</i>					
<b>GFS expenses</b>					
Gross operating expenses					
Employee expenses	151	158	164	169	176
Depreciation	273	274	288	298	322
Other operating expenses	1 017	1 069	1 063	1 096	1 141
Nominal superannuation interest expense	—	—	—	—	—
Other interest expenses	146	162	192	238	265
Other property expenses	432	475	407	463	416
Current transfers	77	85	64	68	72
Capital transfers	17	9	7	7	7
Total expenses	2 114	2 232	2 185	2 340	2 400
<i>equals</i>					
<b>GFS net operating balance</b>					
	31	-36	-7	-12	-3
<i>less</i>					
<b>Net acquisition of non-financial assets</b>					
Purchases of non-financial assets	507	788	997	1 147	718
less Sales of non-financial assets	201	267	197	289	348
less Depreciation	273	274	288	298	322
plus Change in inventories	—	—	—	—	—
plus Other movements in non-financial assets	—	—	—	—	—
<i>equals Total net acquisition of non-financial assets</i>	33	247	512	559	48
<i>equals</i>					
<b>GFS net lending / borrowing</b>					
	-2	-282	-518	-571	-52

Note: Totals may not add due to rounding.

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**Table A.3: Non-financial public sector operating statement (\$million)**

	2007-08 Estimated result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>GFS revenue</b>					
Taxation revenue	3 310	3 333	3 412	3 546	3 726
Current grants	6 258	6 526	6 763	7 017	7 350
Capital grants	346	408	508	438	339
Sales of goods and services	2 739	2 895	2 952	3 171	3 291
Interest income	159	175	173	192	221
Other	653	661	689	743	749
Total revenue	<b>13 464</b>	<b>13 997</b>	<b>14 497</b>	<b>15 107</b>	<b>15 675</b>
<i>less</i>					
<b>GFS expenses</b>					
Gross operating expenses					
Employee expenses	6 012	6 274	6 484	6 665	6 848
Depreciation	804	868	925	977	1 047
Other operating expenses	3 673	3 860	3 917	4 129	4 329
Nominal superannuation interest expense	276	370	371	372	372
Other interest expenses	319	350	407	500	604
Other property expenses	33	61	40	40	16
Current transfers	1 816	1 952	1 867	1 864	1 899
Capital transfers	143	138	137	138	139
Total expenses	<b>13 076</b>	<b>13 872</b>	<b>14 148</b>	<b>14 685</b>	<b>15 255</b>
<i>equals</i>					
<b>GFS net operating balance</b>					
	388	125	350	422	420
<i>less</i>					
<b>Net acquisition of non-financial assets</b>					
Purchases of non-financial assets	1 495	2 181	2 691	3 005	2 448
less Sales of non-financial assets	286	358	310	424	469
less Depreciation	804	868	925	977	1 047
plus Change in inventories	—	—	—	—	—
plus Other movements in non-financial assets	—	—	—	—	—
equals Total net acquisition of non-financial assets	<b>405</b>	<b>955</b>	<b>1 457</b>	<b>1 604</b>	<b>932</b>
<i>equals</i>					
<b>GFS net lending / borrowing</b>					
	-17	-830	-1 107	-1 182	-512

Note: Totals may not add due to rounding.

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**Table A.4: General government sector balance sheet (\$million)**

	2007-08 Estimated result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Assets</b>					
Financial assets					
Cash and deposits	2 339	2 446	2 584	2 947	3 562
Advances paid	763	749	686	493	190
Investments, loans and placements	129	140	152	164	177
Other non-equity assets	510	514	513	510	503
Equity	15 995	16 584	17 210	17 789	18 475
Total financial assets	19 736	20 433	21 146	21 903	22 907
Non-financial assets					
Land and fixed assets	15 054	15 847	16 840	17 929	18 856
Other non-financial assets	1	1	1	1	1
Total non-financial assets	15 054	15 848	16 841	17 930	18 857
Total assets	34 791	36 281	37 987	39 833	41 764
<b>Liabilities</b>					
Deposits held	451	472	449	460	456
Advances received	651	641	625	609	609
Borrowing	2 211	2 832	3 502	4 212	4 846
Unfunded superannuation liability	6 910	6 992	7 062	7 120	7 164
Other employee entitlements and provisions	1 912	2 011	2 095	2 195	2 307
Other non-equity liabilities	973	909	893	918	954
Total liabilities	13 109	13 856	14 625	15 513	16 337
<b>Net worth (c)</b>	<b>21 682</b>	<b>22 425</b>	<b>23 361</b>	<b>24 320</b>	<b>25 427</b>
Net financial worth (a)(b)(c)(d)	6 627	6 577	6 520	6 390	6 570
Net debt (a)(b)(e)	82	610	1 154	1 677	1 983

Note: Totals may not add due to rounding.

- (a) There is a structural break in 2008 reflecting the transfer of rail assets from TransAdelaide to the general government sector. This results in an increase in net debt of \$66 million in 2007-08, and a reduction in net financial worth of \$630 million, with no impact on net worth.
- (b) There is a structural break in 2008 reflecting the transfer of assets from the Adeade Festival Centre Trust to the general government sector. This results in an increase in net debt of \$28 million in 2007-08, and a reduction in net financial worth of \$76 million, with no impact on net worth.
- (c) There is a structural break in 2008 reflecting the first time recognition on the general government balance sheet of South Australia's share of the net assets of the Murray-Darling Basin Commission. This results in increases in net financial worth and net worth of \$615 million in 2007-08, with no impact on net debt.
- (d) Net financial worth equals total financial assets minus total liabilities.
- (e) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

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**Table A.5: Public non-financial corporations (public trading enterprises) sector balance sheet (\$million)**

	2007-08 Estimated result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Assets</b>					
Financial assets					
Cash and deposits	479	483	434	452	454
Advances paid	54	56	51	46	40
Investments, loans and placements	21	22	23	24	25
Other non-equity assets	146	147	151	153	156
Equity	25	22	20	17	14
Total financial assets	725	731	679	692	689
Non-financial assets					
Land and fixed assets	17 795	18 544	19 615	20 762	21 468
Other non-financial assets	1	2	2	2	2
Total non-financial assets	17 797	18 546	19 617	20 764	21 470
Total assets	18 522	19 277	20 296	21 457	22 159
<b>Liabilities</b>					
Deposits held	—	1	1	2	2
Advances received	736	724	662	469	173
Borrowing	1 765	2 004	2 496	3 224	3 589
Unfunded superannuation liability	—	—	—	—	—
Other employee entitlements and provisions	82	83	85	86	88
Other non-equity liabilities	334	350	373	409	396
Total liabilities	2 918	3 162	3 617	4 189	4 249
<b>Net worth (a)(b)</b>	<b>15 604</b>	<b>16 116</b>	<b>16 679</b>	<b>17 267</b>	<b>17 910</b>
Net financial worth (a)(b)(c)	-2 192	-2 430	-2 938	-3 497	-3 560
Net debt (b)(d)	1 948	2 167	2 651	3 172	3 246

Note: Totals may not add due to rounding.

(a) There is a structural break in 2008 reflecting the transfer of rail assets from TransAdelaide to the general government sector. This results in an increase in net financial worth of \$66 million in 2007-08, and a reduction in net worth of \$564 million.

(b) There is a structural break in 2008 reflecting the amalgamation of the South Australian Community Housing Authority (PFC) with the South Australian Housing Trust (PNFC). This results in an increase in net debt and a decrease in net financial worth of \$98 million in 2007-08, and an increase in net worth of \$688 million.

(c) Net financial worth equals total financial assets minus total liabilities.

(d) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

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**Table A.6: Non-financial public sector balance sheet (\$million)**

	2007-08 Estimated result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Assets</b>					
Financial assets					
Cash and deposits	2 547	2 643	2 762	3 137	3 762
Advances paid	74	68	61	53	38
Investments, loans and placements	151	163	175	188	201
Other non-equity assets	551	565	565	566	564
Equity	416	491	551	538	579
Total financial assets	3 739	3 930	4 114	4 482	5 145
Non-financial assets					
Land and fixed assets	32 849	34 391	36 455	38 691	40 324
Other non-financial assets	2	2	3	3	3
Total non-financial assets	32 851	34 394	36 458	38 694	40 327
Total assets	36 590	38 324	40 571	43 176	45 472
<b>Liabilities</b>					
Deposits held	180	187	193	199	206
Advances received	644	628	611	592	592
Borrowing	3 976	4 835	5 997	7 435	8 434
Unfunded superannuation liability	6 910	6 992	7 062	7 120	7 164
Other employee entitlements and provisions	1 995	2 094	2 179	2 281	2 396
Other non-equity liabilities	1 203	1 163	1 168	1 229	1 254
Total liabilities	14 908	15 899	17 210	18 856	20 045
<b>Net worth (b)</b>	<b>21 682</b>	<b>22 425</b>	<b>23 361</b>	<b>24 320</b>	<b>25 427</b>
Net financial worth (a)(b)(c)	-11 169	-11 969	-13 096	-14 374	-14 900
Net debt (a)(d)	2 029	2 776	3 804	4 849	5 230

Note: Totals may not add due to rounding.

- (a) There is a structural break in 2008 reflecting the amalgamation of the South Australian Community Housing Authority (PFC) with the South Australian Housing Trust (PNFC). This results in an increase in net debt and a decrease in net financial worth of \$98 million in 2007-08, with no impact on net worth.
- (b) There is a structural break in 2008 reflecting the first time recognition on the general government balance sheet of South Australia's share of the net assets of the Murray-Darling Basin Commission. This results in increases in net financial worth and net worth of \$615 million in 2007-08, with no impact on net debt.
- (c) Net financial worth equals total financial assets minus total liabilities.
- (d) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

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**Table A.7: General government sector cash flow statement (\$million)**

	2007-08 Estimated result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Cash receipts from operating activities</b>					
Taxes received	3 558	3 605	3 696	3 836	4 022
Receipts from sales of goods and services	1 543	1 586	1 627	1 711	1 780
Grants received	6 534	6 831	7 205	7 420	7 653
Other receipts	1 135	1 141	1 127	1 263	1 271
Total receipts	<b>12 770</b>	<b>13 164</b>	<b>13 656</b>	<b>14 230</b>	<b>14 726</b>
<b>Cash payments for operating activities</b>					
Payment for goods and services	-9 107	-9 580	-9 859	-10 229	-10 580
Grants and subsidies paid	-2 409	-2 464	-2 399	-2 402	-2 438
Interest paid	-225	-234	-265	-314	-382
Other payments	-42	-116	-98	-91	-83
Total payments	<b>-11 783</b>	<b>-12 394</b>	<b>-12 622</b>	<b>-13 036</b>	<b>-13 482</b>
<b>Net cash flows from operating activities</b>	<b>987</b>	<b>770</b>	<b>1 034</b>	<b>1 194</b>	<b>1 243</b>
<b>Net cash flows from investments in non-financial assets</b>					
Sales of non-financial assets	88	94	113	137	121
Purchases of non-financial assets (a)	-1 005	-1 394	-1 678	-1 605	-1 353
<b>Net cash flows from investments in non-financial assets</b>	<b>-917</b>	<b>-1 300</b>	<b>-1 565</b>	<b>-1 468</b>	<b>-1 232</b>
<b>Net cash flows from investments in financial assets for policy purposes (b)</b>	<b>-15</b>	<b>13</b>	<b>62</b>	<b>194</b>	<b>356</b>
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>-11</b>	<b>-16</b>	<b>-15</b>	<b>-14</b>	<b>-13</b>
<b>Net cash flows from financing activities</b>					
Advances received (net)	-8	-10	-16	-17	1
Borrowing (net)	-180	621	656	457	260
Deposits received (net)	102	21	-24	11	-4
Dividends paid	—	—	—	—	—
Other financing (net)	—	—	—	—	—
<b>Net cash flows from financing activities</b>	<b>-86</b>	<b>632</b>	<b>616</b>	<b>452</b>	<b>257</b>
<b>Net increase in cash held</b>	<b>-42</b>	<b>100</b>	<b>132</b>	<b>358</b>	<b>611</b>
<b>Net cash from operating activities and investments in non-financial assets</b>					
Distributions paid	70	-530	-531	-274	11
Finance leases and similar arrangements (c)	—	—	—	—	—
<b>Surplus / deficit</b>	<b>70</b>	<b>-530</b>	<b>-545</b>	<b>-527</b>	<b>-363</b>

Note: Totals may not add due to rounding.

(a) The ABS disaggregates this item into new and seconhand non-financial assets.

(b) Includes equity acquisitions, disposals and privatisations (net).

(c) Finance leases are shown as a negative as they are deducted in compiling the surplus/deficit.

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**Table A.8: Public non-financial corporations (public trading enterprises) sector cash flow statement (\$million)**

	2007-08 Estimated result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Cash receipts from operating activities</b>					
Taxes received	—	—	—	—	—
Receipts from sales of goods and services	1 402	1 504	1 500	1 657	1 724
Grants/subsidies received	527	478	466	461	462
Other receipts	179	183	178	175	172
Total receipts	2 108	2 165	2 144	2 294	2 358
<b>Cash payments for operating activities</b>					
Payment for goods and services	-693	-672	-699	-711	-801
Grants and subsidies paid	-42	-42	-19	-22	-25
Interest paid	-146	-163	-193	-239	-266
Other payments	-557	-601	-583	-591	-596
Total payments	-1 438	-1 478	-1 494	-1 563	-1 689
<b>Net cash flows from operating activities</b>	<b>670</b>	<b>687</b>	<b>651</b>	<b>731</b>	<b>669</b>
<b>Net cash flows from investments in non-financial assets</b>					
Sales of non-financial assets	201	267	197	289	348
Purchases of non-financial assets (a)	-475	-763	-971	-1 120	-691
<b>Net cash flows from investments in non-financial assets</b>	<b>-275</b>	<b>-496</b>	<b>-774</b>	<b>-831</b>	<b>-343</b>
<b>Net cash flows from investments in financial assets for policy purposes (b)</b>	<b>-34</b>	<b>-2</b>	<b>5</b>	<b>6</b>	<b>6</b>
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Net cash flows from financing activities</b>					
Advances received (net)	8	-13	-61	-193	-296
Borrowing (net)	146	239	492	728	365
Deposits received (net)	—	—	—	—	—
Dividends paid	-395	-413	-363	-424	-403
Other financing (net)	—	—	—	—	—
<b>Net cash flows from financing activities</b>	<b>-240</b>	<b>-186</b>	<b>67</b>	<b>111</b>	<b>-333</b>
<b>Net increase in cash held</b>	<b>122</b>	<b>4</b>	<b>-49</b>	<b>18</b>	<b>1</b>
<b>Net cash from operating activities and investments in non-financial assets</b>					
Distributions paid	395	191	-123	-100	326
Finance leases and similar arrangements (c)	-395	-413	-363	-424	-403
<b>Surplus / deficit</b>	<b>—</b>	<b>-222</b>	<b>-487</b>	<b>-524</b>	<b>-77</b>

Note: Totals may not add due to rounding.

(a) The ABS disaggregates this item into new and seconhand non-financial assets.

(b) Includes equity acquisitions, disposals and privatisations (net).

(c) Finance leases are shown as a negative as they are deducted in compiling the surplus/deficit.

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**Table A.9: Non-financial public sector cash flow statement (\$million)**

	2007-08 Estimated result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Cash receipts from operating activities</b>					
Taxes received	3 300	3 313	3 409	3 543	3 722
Receipts from sales of goods and services	2 706	2 861	2 895	3 130	3 249
Grants received	6 525	6 831	7 205	7 420	7 653
Other receipts	843	859	887	961	996
Total receipts	<b>13 374</b>	<b>13 863</b>	<b>14 397</b>	<b>15 053</b>	<b>15 620</b>
<b>Cash payments for operating activities</b>					
Payment for goods and services	-9 578	-10 050	-10 354	-10 733	-11 158
Grants and subsidies paid	-1 925	-2 031	-1 955	-1 966	-2 002
Interest paid	-319	-351	-409	-501	-605
Other payments	-307	-388	-359	-352	-345
Total payments	<b>-12 129</b>	<b>-12 819</b>	<b>-13 076</b>	<b>-13 552</b>	<b>-14 110</b>
<b>Net cash flows from operating activities</b>	<b>1 245</b>	<b>1 044</b>	<b>1 321</b>	<b>1 501</b>	<b>1 510</b>
<b>Net cash flows from investments in non-financial assets</b>					
Sales of non-financial assets	286	358	310	424	469
Purchases of non-financial assets (a)	-1 461	-2 153	-2 649	-2 723	-2 044
<b>Net cash flows from investments in non-financial assets</b>	<b>-1 175</b>	<b>-1 795</b>	<b>-2 339</b>	<b>-2 299</b>	<b>-1 576</b>
<b>Net cash flows from investments in financial assets for policy purposes (b)</b>	-35	5	7	7	68
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	-10	-14	-13	-13	-11
<b>Net cash flows from financing activities</b>					
Advances received (net)	-15	-17	-17	-18	-1
Borrowing (net)	-34	859	1 148	1 185	625
Deposits received (net)	7	6	6	6	6
Dividends paid	—	—	—	—	—
Other financing (net)	—	—	—	—	—
<b>Net cash flows from financing activities</b>	<b>-41</b>	<b>849</b>	<b>1 137</b>	<b>1 173</b>	<b>631</b>
<b>Net increase in cash held</b>	<b>-15</b>	<b>89</b>	<b>113</b>	<b>370</b>	<b>621</b>
<b>Net cash from operating activities and investments in non-financial assets</b>					
Distributions paid	70	-752	-1 018	-798	-66
Finance leases and similar arrangements (c)	—	—	—	—	—
<b>Surplus / deficit</b>	<b>70</b>	<b>-752</b>	<b>-1 032</b>	<b>-1 051</b>	<b>-440</b>

Note: Totals may not add due to rounding.

(a) The ABS disaggregates this item into new and seconhand non-financial assets.

(b) Includes equity acquisitions, disposals and privatisations (net).

(c) Finance leases are shown as a negative as they are deducted in compiling the surplus/deficit.

## APPENDIX A

**Table A.10: General government sector taxes (\$million) (a)**

	2007-08 Estimated result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Taxes on employers' payroll and labour force</b>	893	888	915	969	1 028
<b>Taxes on property</b>					
Land taxes	376	486	503	522	546
Stamp duties on financial and capital transactions	1 009	928	914	930	980
Financial institutions' transaction taxes	—	—	—	—	—
Other	155	163	169	173	176
Total	1 540	1 577	1 587	1 625	1 702
<b>Taxes on the provision of goods and services</b>					
Excises and levies	—	—	—	—	—
Taxes on gambling	409	401	418	440	464
Taxes on insurance	304	314	324	334	343
Total	712	715	742	773	807
<b>Taxes on use of goods and performance of activities</b>					
Motor vehicle taxes	421	435	456	472	489
Total	421	435	456	472	489
<b>Total GFS taxation revenue</b>	3 566	3 615	3 699	3 839	4 026

Note: Totals may not add due to rounding.

(a) Excludes taxes paid by general government entities.

## APPENDIX A

**Table A.11: General government sector expenses by function (\$ million)<sup>(a)(b)</sup>**

	2007-08 Budget	2007-08 Estimated Result	2008-09 Budget
<b>General Public Services</b>	<b>214</b>	<b>216</b>	<b>236</b>
Government superannuation benefits	—	—	—
Other general public services	214	216	236
<b>Defence</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Public order and safety</b>	<b>1 142</b>	<b>1 174</b>	<b>1 254</b>
Police and fire protection services	665	684	744
Law courts and legal services	282	290	298
Prisons and corrective services	184	188	198
Other public order and safety	11	13	14
<b>Education</b>	<b>3 129</b>	<b>3 216</b>	<b>3 321</b>
Primary and secondary education	2 510	2 578	2 649
Tertiary education	436	446	460
Pre-school education and education not definable by level	162	166	177
Transportation of students	20	20	20
Education n.e.c.	1	6	15
<b>Health</b>	<b>3 491</b>	<b>3 635</b>	<b>3 826</b>
Acute care institutions	2 829	2 930	3 085
Mental health institutions	n.a.	n.a.	n.a.
Nursing homes for the aged	n.a.	n.a.	n.a.
Community health services	349	351	376
Public health services	310	346	356
Pharmaceuticals, medical aids and appliances	n.a.	n.a.	n.a.
Health research	n.a.	n.a.	n.a.
Health administration n.e.c.	3	9	9
<b>Social security and welfare</b>	<b>774</b>	<b>810</b>	<b>838</b>
Social security	131	133	143
Welfare services	583	614	632
Social security and welfare services n.e.c.	60	63	63
<b>Housing and community amenities</b>	<b>1 039</b>	<b>1 048</b>	<b>1 161</b>
Housing and community development	526	530	574
Water supply	220	222	200
Sanitation and protection of the environment	258	261	358
Other community amenities	35	35	29
<b>Recreation and culture</b>	<b>277</b>	<b>373</b>	<b>287</b>
Recreation facilities and services	114	186	123
Cultural facilities and services	149	174	148
Broadcasting and film production	6	6	7
Recreation and culture n.e.c.	8	8	8

## APPENDIX A

**Table A.11: General government sector expenses by function (\$ million) *continued***

	2007-08 Budget	2007-08 Estimated Result	2008-09 Budget
<b>Fuel and energy</b>	<b>40</b>	<b>43</b>	<b>42</b>
Fuel affairs and services	21	22	17
Electricity and other energy	2	4	9
Fuel and energy n.e.c.	17	17	16
<b>Agriculture, forestry, fishing and hunting</b>	<b>207</b>	<b>215</b>	<b>218</b>
Agriculture	197	204	206
Forestry, fishing and hunting	10	11	12
<b>Mining and mineral resources other than fuels; manufacturing; and construction</b>	<b>97</b>	<b>100</b>	<b>100</b>
Mining and mineral resources other than fuels	10	12	13
Manufacturing	7	7	6
Construction	80	81	81
<b>Transport and communications</b>	<b>737</b>	<b>741</b>	<b>752</b>
Road transport	400	403	409
Water transport	3	3	3
Rail transport	16	13	13
Air transport	—	—	2
Pipelines	n.a.	n.a.	n.a.
Other transport	303	304	311
Communications	15	18	14
<b>Other economic affairs</b>	<b>210</b>	<b>200</b>	<b>228</b>
Storage, saleyards and markets	n.a.	n.a.	n.a.
Tourism and area promotion	38	38	39
Labour and employment affairs	45	47	47
Other economic affairs	127	115	143
<b>Other purposes</b>	<b>752</b>	<b>681</b>	<b>830</b>
Public debt transactions	214	225	234
General purpose inter-government transactions	100	95	95
Natural disaster relief	154	85	124
Nominal superannuation interest expense	282	276	370
Other purposes n.e.c.	2	—	7
<b>Total GFS expenses</b>	<b>12 110</b>	<b>12 452</b>	<b>13 094</b>

Totals may not add due to rounding.

- (a) Expenses by function data are derived from information submitted by government departments and agencies. The processes for deriving these data are subject to ongoing refinements. Consequently the data may be subject to future revisions. Further to this revision policy, for the 2007-08 Budget data, \$12 million has been reclassified from 'other purposes n.e.c.' to 'other economic affairs'.
- (b) Some functional classifications are not readily distinguishable at agency level. For example in health, mental health cannot be reliably separated from acute care institutions. Similarly nursing homes for the aged, pharmaceuticals and health research cannot be easily separated from the other health categories. Those instances are denoted as not available (n.a.).

## APPENDIX A

**Table A.12: General government sector capital by function (\$ million)<sup>(a)(b)</sup>**

	<b>2007-08 Budget</b>	<b>2007-08 Estimated result</b>	<b>2008-09 Budget</b>
General public services	110	116	136
Defence	—	—	—
Public order and safety	85	83	112
Education	69	86	103
Health	154	134	272
Social security and welfare	8	5	11
Housing and community amenities	20	22	20
Recreation and culture	13	12	29
Fuel and energy	—	—	—
Agriculture, forestry, fishing and hunting	6	8	11
Mining and mineral resources other than fuels; manufacturing; and construction	4	—	4
Transport and communications	397	367	575
Other economic affairs	150	170	116
Other purposes	2	2	5
<b>Total capital expenditure</b>	<b>1 018</b>	<b>1 005</b>	<b>1 394</b>

Totals may not add due to rounding.

- (a) Expenses by function data are derived from information submitted by government departments and agencies. The processes for deriving these data are subject to ongoing refinements. Consequently the data may be subject to future revisions.
- (b) Capital expenditure is equal to the cash payments for purchases of non-financial assets. It differs from purchases of non-financial assets recorded in the operating statement as it excludes the value of contributed assets.

## APPENDIX A

**Table A.13: General government sector net worth (\$ million)**

	2007-08 Estimated result	2008-09 Budget	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
<b>Net worth at beginning of year</b>	<b>22 128</b>	<b>21 682</b>	<b>22 425</b>	<b>23 361</b>	<b>24 320</b>
<b>Change in net worth from operating transactions:</b>					
Net operating balance	373	160	356	434	424
<b>Change in net worth from other economic flows:</b>					
Movement in net assets of PFCs	- 303 <sup>(a)</sup>	59	45	-27	81
Movement in net assets of PNFCs	705 <sup>(a)(b)</sup>	512	563	589	643
Investment in Murray-Darling Basin Commission	615 <sup>(c)</sup>	15	16	16	17
Revaluation of unfunded superannuation liability	-1 795 <sup>(d)</sup>	- 3	- 4	- 4	- 4
Revaluation of long service leave liability	- 40	- 42	- 46	- 48	- 49
Other revaluation adjustments	- 2	42	5	- 2	- 4
<i>Subtotal</i>					
Total other economic flows	- 819	583	580	524	683
<b>Net worth at year end</b>	<b>21 682</b>	<b>22 425</b>	<b>23 361</b>	<b>24 320</b>	<b>25 427</b>

Totals may not add due to rounding.

- (a) From 1 July 2007 the South Australian Community Housing Authority (PFC) was amalgamated with the South Australian Housing Trust (PNFC). This resulted in a reduction in the general government sector's equity in the PFC with an equivalent increase in the equity held in the PNFC sector. Movements in the net assets of the PFC and PNFC sectors shown in this table are net of the effect of the SACHA amalgamation. The net worth of the general government sector is unaffected by this transaction.
- (b) Net of the impact of transfer of TransAdelaide rail assets and AFCT assets to the general government sector.
- (c) South Australia's share of the net assets of the Murray-Darling Basin Commission (MDBC) have been recognised for the first time in 2008 consistent with the treatment by the Australian Bureau of Statistics and other MDBC states.
- (d) Further detail available in Chapter 5, Table 5.6.

## Loan Council arrangements

The Australian Loan Council — a ministerial council established in 1927 comprising the Commonwealth, state and territory Treasurers — requires all jurisdictions to nominate a Loan Council Allocation (LCA) for consideration at its annual meeting.

LCA nominations, prepared in March, are intended to provide an indication of each government's probable call on financial markets over the forthcoming financial year. The Loan Council, having regard to each jurisdiction's fiscal position and reasonable infrastructure requirements, along with the macroeconomic implications of the aggregate figure, then considers the nominations.

Following the endorsement of LCA nominations, jurisdictions are further required to update their nominated LCAs at budget time for changes in economic parameters and policy decisions, and also provide an LCA outcome at the end of the financial year. A tolerance limit of 2 per cent of total public sector revenue, set at nomination time, applies between both the nomination and budget, and the budget and outcome LCAs. If the tolerance limit is exceeded, the Loan Council must be notified and a report detailing the reasons for change released publicly.

Nominated LCAs for 2008-09, for all jurisdictions and in aggregate, were reviewed and endorsed at the 147th meeting of the Australian Loan Council on 14 March 2008.

South Australia's nomination, budget and estimated outcome LCAs for 2007-08 are shown in Table A.14, with nomination and budget time LCAs for 2008-09 shown in Table A.15. These tables are prepared in accordance with the requirements of the accrual UPF, endorsed by the Loan Council in March 2000.

As Table A.14 indicates, South Australia is expecting an LCA surplus of \$98 million for 2007-08. This is higher than the 2007-08 Budget (June 2007) estimated deficit of \$29 million, reflecting the movement to a surplus in the general government sector, offset by lower than expected earnings on superannuation assets in the superannuation memorandum item. On the basis of these estimates, South Australia's 2007-08 LCA outcome will not exceed the 2 per cent of total revenue tolerance limit applied to the June 2007 budget time LCA.

South Australia's 2008-09 Budget LCA, detailed in Table A.15, is an estimated \$114 million deficit. This is a decrease from the \$50 million surplus nominated in March of this year for the Treasurers' Conference, but does not exceed the LCA nomination tolerance limit of \$270 million.

## APPENDIX A

**Table A.14: Loan Council allocation 2007-08 (\$ million)<sup>(a)</sup>**

	Nomination (March 2007)	Budget (June 2007)	Estimated result (June 2008)
General government sector cash deficit/surplus	257	386	-70
PNFC sector cash deficit/surplus	28	53	—
Total non-financial public sector cash deficit/surplus <sup>(b)</sup>	287	439	-70
Net cash flows from investments in financial assets for policy purposes <sup>(c)</sup>	6	4	35
Adjusted total non-financial public sector deficit/surplus	293	443	-35
Memorandum items <sup>(d)</sup>			
Operating leases <sup>(e)</sup>	-43	-50	-61
Recourse asset sales	—	—	—
Superannuation <sup>(f)</sup>	-395	-386	-67
Local government	26	26	36
Home finance schemes	105	-4	29
Total memorandum items	-308	-414	-63
LCA deficit/surplus <sup>(g)(h)</sup>	-14	29	-98

Totals may not add due to rounding.

- (a) For the purposes of this table a surplus amount is represented as a negative number while a deficit is shown as a positive number.
- (b) The sum of the deficits of the general government and PNFC sectors may not equal the non-financial public sector deficit due to intersectoral transfers, which are netted out in the calculation of the total figure. The figures exclude statutory marketing authorities.
- (c) This item is the negative of net advances paid under a cash accounting framework.
- (d) Excludes universities.
- (e) Increase/decrease in the net present value (NPV) of operating leases with a NPV of \$5 million or greater.
- (f) Includes both 'payments in excess of emerging costs of superannuation' and 'interest earnings on employer balances'.
- (g) The 2 per cent of total revenue tolerance limit around South Australia's 2007-08 LCA is \$246 million.
- (h) South Australia has no infrastructure projects with private sector involvement that meet the recognition criteria for 2007-08.

## APPENDIX A

**Table A.15: Loan Council allocation 2008-09 (\$ million)<sup>(a)</sup>**

	<b>Nomination (March 2008)</b>	<b>Budget (June 2008)</b>
General government sector cash deficit/surplus	392	530
PNFC sector cash deficit/surplus	12	222
Total non-financial public sector cash deficit/surplus <sup>(b)</sup>	404	752
Net cash flows from investments in financial assets for policy purposes <sup>(c)</sup>	-6	-5
Adjusted total non-financial public sector deficit/surplus	398	747
Memorandum items <sup>(d)</sup>		
Operating leases <sup>(e)</sup>	-42	-57
Recourse asset sales	—	—
Superannuation <sup>(f)</sup>	-431	-531
Local government	43	43
Home finance schemes	-18	-88
Total memorandum items	-448	-633
LCA deficit/surplus <sup>(g)(h)</sup>	-50	114

Totals may not add due to rounding.

- (a) For the purposes of this table a surplus amount is represented as a negative number while a deficit is shown as a positive number.
- (b) The sum of the deficits of the general government and PNFC sectors may not equal the non-financial public sector deficit due to intersectoral transfers, which are netted out in the calculation of the total figure. The figures exclude statutory marketing authorities.
- (c) This item is the negative of net advances paid under a cash accounting framework.
- (d) Excludes universities.
- (e) Increase/decrease in the net present value (NPV) of operating leases with a NPV of \$5 million or greater.
- (f) Includes both 'payments in excess of emerging costs of superannuation' and 'interest earnings on employer balances'.
- (g) The 2 per cent of total revenue tolerance limit around South Australia's 2008-09 LCA is \$270 million.
- (h) South Australia has no infrastructure projects with private sector involvement that meet the recognition criteria for 2008-09.



# GENERAL GOVERNMENT AND NON-FINANCIAL PUBLIC SECTOR FINANCIAL STATISTICS TIME SERIES

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## General government

The following tables provide historical data on key fiscal aggregates, together with estimates reflected in the 2008-09 Budget. Data provided are sourced for 1998-99 from *Australian Bureau of Statistics Government Finance Statistics 2005-06* (catalogue number 5512.0) and 1999-2000 to 2005-06 from Budget Outcome publications for South Australia. The estimates for 2007-08 onwards are contained in the 2008-09 Budget papers.

Data are provided from 1998-99, the first year for which information is available in the accrual format. Before 1998-99, government finances were measured using a cash-based methodology.

As historical data in this time series has not been back-cast to reflect classification and accounting changes, care must be taken in interpreting the data. These changes include a structural break in the methodology used to value the unfunded superannuation liability between 2002-03 and 2003-04, the amalgamation of the South Australian Government Financing Authority (SAFA) and the South Australian Government Captive Insurance Corporation (SAICORP) on 1 July 2006 and the inclusion of new entities.

**Table B.1: General government key operating statement aggregates**

	Revenue			Expenses			Net operating balance	Net acquisition of non-financial assets	Net lending
	\$m	% real growth	% GSP	\$m	% real growth	% GSP			
1998-99	7 297		16.9	7 505		17.3	-208	19	-227
1999-2000	7 644	2.2	16.8	7 974	3.6	17.5	-330	140	-471
2000-01	8 108	3.0	16.6	8 406	2.3	17.2	-297	102	-399
2001-02	8 538	2.0	16.2	8 713	0.4	16.5	-174	-50	-124
2002-03	9 346	5.2	16.8	8 898	-1.8	16.0	448	34	414
2003-04	9 955	3.4	16.8	9 570	4.4	16.1	385	-38	424
2004-05	10 592	4.0	17.2	10 368	5.9	16.8	224	105	119
2005-06	11 242	2.9	17.2	11 040	3.2	16.9	202	119	83
2006-07	11 757	1.9	16.9	11 547	2.0	16.6	209	139	71
2007-08	12 825	5.7	17.2	12 452	4.5	16.7	373	388	-15
2008-09	13 255	-0.4	16.7	13 094	1.3	16.5	160	709	-548
2009-10	13 722	0.7	16.4	13 366	-0.7	16.0	356	945	-589
2010-11	14 246	1.3	16.2	13 812	0.8	15.7	434	1 045	-611
2011-12	14 741	0.9	15.9	14 317	1.1	15.4	424	884	-460

Table may not add due to rounding.

**Table B.2: General government key balance sheet aggregates (\$ million)**

<b>As at 30 June</b>	<b>Net debt<sup>(a)</sup></b>	<b>Unfunded<sup>(b)</sup> superannuation</b>	<b>Net financial liabilities</b>	<b>Net financial worth</b>	<b>Net worth</b>
1988	859				
1989	694				
1990	854				
1991	1 817				
1992	4 610				
1993	7 884				
1994	7 113				
1995	5 815				
1996	5 512				
1997	4 983				
1998	4 762				
1999	4 780	3 909	9 733	1 892	10 622
2000	1 920	3 543	6 911	2 986	12 447
2001	1 246	3 249	6 094	4 091	14 788
2002	1 303	3 998	6 907	3 559	14 706
2003	666	4 445	6 974	3 500	15 288
2004	224	5 668	7 858	3 842	15 760
2005	144	7 227	9 392	3 853	16 359
2006	- 119	6 146	8 171	5 846	19 703
2007 <sup>(c)</sup>	- 24	5 075	7 254	8 110	22 128
2008 <sup>(d)(e)(f)</sup>	82	6 910	8 710	6 627	21 682
2009	610	6 992	9 330	6 577	22 425
2010	1 154	7 062	9 996	6 520	23 361
2011	1 677	7 120	10 688	6 390	24 320
2012	1 983	7 164	11 179	6 570	25 427

- (a) Net debt data for the years up to and including 1998 are sourced from *Australian Bureau of Statistics, Government Financial Estimates 2003-04* (catalogue number 5501).
- (b) There is a structural break in the methodology used to calculate superannuation liabilities between June 2003 and June 2004. This accounting change, which involved the adoption of the Commonwealth Government bond rate for valuation purposes in line with the accounting standard on employee benefits, resulted in a significant increase in superannuation liabilities.
- (c) There is a structural break in 2007 reflecting the amalgamation of SAFA and SAICORP on 1 July 2006. The transfer of SAICORP's assets and liabilities from the general government sector to the public financial corporations sector resulted in an increase in general government net debt of \$99 million at 1 July 2006 and an increase in net financial liabilities of \$90 million at 1 July 2006.
- (d) There is a structural break in 2008 reflecting the transfer of rail assets from TransAdelaide to the general government sector. This results in an increase in net debt and net financial liabilities of \$66 million in 2007-08, and a reduction in net financial worth of \$630 million, with no impact on net worth.
- (e) There is a structural break in 2008 reflecting the transfer of assets from the Adelaide Festival Centre Trust to the general government sector. This results in an increase in net debt and net financial liabilities of \$28 million in 2007-08, and a reduction in net financial worth of \$76 million, with no impact on net worth.
- (f) There is a structural break in 2008 reflecting the first time recognition on the general government balance sheet of South Australia's share of the net assets of the Murray-Darling Basin Commission. This has no impact on net debt, however results in a reduction in net financial liabilities of \$615 million in 2007-08, and increases in net financial worth and net worth of \$615 million.

**Table B.3: General government sector receipts, payments and surplus (\$ million)<sup>(a)</sup>**

	<b>Receipts</b>	<b>Payments</b>	<b>Cash surplus</b>
1979-80	1 891	1 671	220
1980-81	2 065	1 917	148
1981-82	2 210	2 122	87
1982-83	2 664	2 507	156
1983-84	2 988	2 734	255
1984-85	3 380	3 057	324
1985-86	3 634	3 161	474
1986-87	3 956	3 416	540
1987-88	4 307	3 858	449
1988-89	4 630	3 977	653
1989-90	4 973	4 370	603
1990-91	5 260	4 796	463
1991-92	5 387	5 396	-10
1992-93	5 967	5 456	512
1993-94	6 087	6 024	63
1994-95	6 155	6 220	-66
1995-96	6 405	6 164	241
1996-97	6 379	6 282	97
1997-98	6 988	6 724	264
1998-99	7 165	7 041	123
1999-2000	7 676	7 915	-239
2000-01	8 278	8 387	-108
2001-02	8 698	8 748	-50
2002-03	9 522	8 864	658
2003-04	10 023	9 502	522
2004-05	11 252	11 059	193
2005-06	11 480	11 293	187
2006-07	12 090	12 116	-26
2007-08	12 858	12 788	70
2008-09	13 258	13 788	-530
2009-10	13 769	14 314	-545
2010-11	14 367	14 894	-527
2011-12	14 847	15 210	-363

Table may not add due to rounding.

- (a) There is a break in the series between 1998-99 and 1999-2000. Data for the years up to and including 1998-99 are sourced from the Australian Bureau of Statistics (ABS) and are consistent with ABS GFS reporting requirements on a cash basis. Capital receipts and payments, including payments associated with the provision of financial support for State owned financial institutions (which were treated by the ABS as an 'investment in financial assets for policy purposes') are not included in the series before 1999-2000. After 1998-99, data are derived from an accrual ABS GFS reporting framework, with receipts proxied by receipts from operating activities and sales of non-financial assets, and payments proxied by payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases. Due to the associated methodological and data-source changes, time series data that encompass measures derived under both cash and accrual accounting should be used with caution.

Table B.4: General government sector operating statement (\$ million)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
<b>GFS revenue</b>										
Taxation revenue	2 431	2 806	2 941	2 979	3 250	3 566	3 615	3 699	3 839	4 026
Current grants	4 638	4 906	5 206	5 556	5 714	6 258	6 526	6 763	7 017	7 350
Capital grants	209	191	212	221	271	314	382	482	411	311
Sales of goods and services	997	1 165	1 244	1 333	1 464	1 561	1 601	1 660	1 729	1 798
Interest income	146	172	161	147	167	201	200	198	217	233
Other	925	715	829	1 006	889	925	930	920	1 032	1 022
<i>Total revenue</i>	<i>9 346</i>	<i>9 955</i>	<i>10 592</i>	<i>11 242</i>	<i>11 757</i>	<i>12 825</i>	<i>13 255</i>	<i>13 722</i>	<i>14 246</i>	<i>14 741</i>
<i>less</i>										
<b>GFS expenses</b>										
Gross operating expenses	6 524	7 053	7 907	8 385	8 896	9 533	9 990	10 305	10 713	11 113
Nominal superannuation interest expense	299	354	351	344	316	276	370	371	372	372
Other interest expenses	297	253	248	223	204	225	234	265	314	382
Other property expenses	—	—	—	—	—	—	—	—	—	—
Current transfers	1 724	1 894	1 824	1 975	1 991	2 293	2 372	2 295	2 282	2 317
Capital transfers <sup>(a)</sup>	54	16	38	112	140	126	129	130	131	132
<i>Total expenses</i>	<i>8 898</i>	<i>9 570</i>	<i>10 368</i>	<i>11 040</i>	<i>11 547</i>	<i>12 452</i>	<i>13 094</i>	<i>13 366</i>	<i>13 812</i>	<i>14 317</i>
<i>equals</i>										
<b>GFS net operating balance</b>										
<i>less</i>										
<b>Net acquisition of non-financial assets</b>										
Gross fixed capital formation	433	406	576	573	637	919	1 302	1 582	1 723	1 609
<i>less</i> Depreciation	401	435	453	454	498	531	593	637	678	725
<i>plus</i> Change in inventories	2	- 10	- 18	—	—	—	—	—	—	—
<i>plus</i> Other movements in non-financial assets	—	—	—	—	—	—	—	—	—	—
<i>equals</i> Total net acquisition of non-financial assets	<i>34</i>	<i>- 38</i>	<i>105</i>	<i>119</i>	<i>139</i>	<i>388</i>	<i>709</i>	<i>945</i>	<i>1 045</i>	<i>884</i>
<i>equals</i>										
<b>GFS net lending</b>										
	414	424	119	83	71	- 15	- 548	- 589	- 611	- 460

Totals may not add due to rounding.

(a) In accordance with ABS requirements the First Home Owner Grant has been reclassified from current to capital transfers from 2005-06.

**Table B.5: General government sector balance sheet (\$ million)**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Assets</b>										
Financial assets										
Cash and deposits	2 052	2 178	1 960	2 210	2 384	2 339	2 446	2 584	2 947	3 562
Advances paid	1 167	1 133	959	902	905	763	749	686	493	190
Investments, loans and placements	170	154	170	180	119	129	140	152	164	177
Other non-equity assets	289	386	434	498	510	510	514	513	510	503
Equity	10 479	11 811	13 391	14 190	15 394	15 995	16 584	17 210	17 789	18 475
Total financial assets	14 157	15 661	16 915	17 979	19 311	19 736	20 433	21 146	21 903	22 907
Non-financial assets										
Land and fixed assets	11 710	11 835	12 411	13 840	14 013	15 054	15 847	16 840	17 929	18 856
Other non-financial assets	78	83	94	17	4	1	1	1	1	1
Total non-financial assets	11 788	11 917	12 505	13 857	14 018	15 054	15 848	16 841	17 930	18 857
Total assets	25 945	27 579	29 420	31 836	33 329	34 791	36 281	37 987	39 833	41 764
<b>Liabilities</b>										
Deposits held	329	309	283	282	331	451	472	449	460	456
Advances received	780	733	686	682	659	651	641	625	609	609
Borrowing	2 947	2 648	2 265	2 209	2 394	2 211	2 832	3 502	4 212	4 846
Unfunded superannuation liability <sup>(a)</sup>	4 445	5 668	7 227	6 146	5 075	6 910	6 992	7 062	7 120	7 164
Other employee entitlements and provisions	1 352	1 495	1 599	1 701	1 822	1 912	2 011	2 095	2 195	2 307
Other non-equity liabilities	806	967	1 002	1 113	922	973	909	893	918	954
Total liabilities	10 658	11 819	13 061	12 133	11 201	13 109	13 856	14 625	15 513	16 337
<b>Net worth<sup>(e)</sup></b>	<b>15 288</b>	<b>15 760</b>	<b>16 359</b>	<b>19 703</b>	<b>22 128</b>	<b>21 682</b>	<b>22 425</b>	<b>23 361</b>	<b>24 320</b>	<b>25 427</b>
Net financial worth <sup>(c)(d)(e)</sup>	3 500	3 842	3 853	5 846	8 110	6 627	6 577	6 520	6 390	6 570
Net debt <sup>(b)(c)(d)</sup>	666	224	144	- 119	- 24	82	610	1 154	1 677	1 983

Totals may not add due to rounding.

- (a) There is a structural break in the methodology used to calculate superannuation liabilities between June 2003 and June 2004. This accounting change, which involved the adoption of the Commonwealth Government bond rate for valuation purposes in line with the accounting standard on employee benefits, resulted in a significant increase in superannuation liabilities.
- (b) There is a structural break in 2007 reflecting the amalgamation of SAFA and SAICORP on 1 July 2006. The transfer of SAICORP's assets and liabilities from the general government sector to the public financial corporations sector resulted in an increase in general government net debt of \$99 million at 1 July 2006.
- (c) There is a structural break in 2008 reflecting the transfer of rail assets from TransAdelaide to the general government sector. This results in an increase in net debt of \$66 million in 2007-08, and a reduction in net financial worth of \$60 million, with no impact on net worth.
- (d) There is a structural break in 2008 reflecting the transfer of assets from the Adelaide Festival Centre Trust to the general government sector. This results in an increase in net debt of \$28 million in 2007-08, and a reduction in net financial worth of \$76 million, with no impact on net worth.
- (e) There is a structural break in 2008 reflecting the first time recognition on the general government balance sheet of South Australia's share of the net assets of the Murray-Darling Basin Commission. This results in increases in net financial worth and net worth of \$615 million in 2007-08, with no impact on net debt.

**Table B.6: General government expenses by function (\$ million)<sup>(a)</sup>**

	2005-06 Outcome	2006-07 Outcome	2007-08 Estimated result	2008-09 Budget
General public services	206	184	216	236
Defence	—	—	—	—
Public order and safety	1 036	1 074	1 174	1 254
Education	2 846	2 940	3 216	3 321
Health	3 064	3 356	3 635	3 826
Social security and welfare	673	748	810	838
Housing and community amenities	933	969	1 048	1 161
Recreation and culture	299	291	373	287
Fuel and energy	44	40	43	42
Agriculture, forestry, fishing and hunting	207	193	215	218
Mining and mineral resources other than fuels; manufacturing; and construction	84	95	100	100
Transport and communications	734	745	741	752
Other economic affairs	176	178	200	228
Other purposes	739	734	681	830
<b>Total expenses</b>	<b>11 040</b>	<b>11 547</b>	<b>12 452</b>	<b>13 094</b>

Totals may not add due to rounding.

- (a) Expenses by function data are derived from information submitted by government departments and agencies. The processes for deriving these data are subject to ongoing refinements. Consequently the data may be subject to future revisions.

**Table B.7: General government sector capital by function (\$ million)<sup>(a)(b)</sup>**

	2005-06 Outcome	2006-07 Outcome	2007-08 Estimated result	2008-09 Budget
General public services	171	137	116	136
Defence	—	—	—	—
Public order and safety	67	65	83	112
Education	69	63	86	103
Health	116	100	134	272
Social security and welfare	12	2	5	11
Housing and community amenities	6	17	22	20
Recreation and culture	14	11	12	29
Fuel and energy	—	—	—	—
Agriculture, forestry, fishing and hunting	10	5	8	11
Mining and mineral resources other than fuels; manufacturing; and construction	1	—	—	4
Transport and communications	237	299	367	575
Other economic affairs	—	50	170	116
Other purposes	1	3	2	5
<b>Total capital expenditure</b>	<b>705</b>	<b>752</b>	<b>1 005</b>	<b>1 394</b>

Totals may not add due to rounding.

- (a) Expenses by function data are derived from information submitted by government departments and agencies. The processes for deriving these data are subject to ongoing refinements. Consequently the data may be subject to future revisions.
- (b) Capital expenditure is equal to the cash payments for purchases of non-financial assets. It differs from purchases of non-financial assets recorded in the operating statement as it excludes the value of contributed assets.

## Non-financial public sector

**Table B.8: Non-financial public sector key operating statement aggregates**

	Revenue			Expenses			Net operating balance	Net acquisition of non-financial assets	Net lending
	\$m	% real growth	% GSP	\$m	% real growth	% GSP			
1998-99	9 474		21.9	9 605		22.2	-131	-115	-16
1999-2000	9 206	-5.2	20.2	9 552	-3.0	21.0	-346	-3 508	3 161
2000-01	9 051	-4.5	18.5	9 279	-5.7	19.0	-228	-1 111	883
2001-02	9 367	0.3	17.7	9 487	-0.9	18.0	-120	-124	5
2002-03	10 172	4.4	18.3	9 696	-1.7	17.5	476	72	405
2003-04	10 707	2.2	18.1	10 294	3.1	17.4	413	33	379
2004-05	11 343	3.5	18.4	11 029	4.7	17.9	314	125	189
2005-06	11 807	0.9	18.1	11 634	2.3	17.9	172	53	119
2006-07	12 321	1.7	17.7	12 175	2.0	17.5	147	173	-26
2007-08	13 464	5.9	18.1	13 076	4.1	17.6	388	405	-17
2008-09	13 997	0.2	17.7	13 872	2.2	17.5	125	955	-830
2009-10	14 497	0.8	17.3	14 148	-0.8	16.9	350	1 457	-1 107
2010-11	15 107	1.7	17.1	14 685	1.3	16.7	422	1 604	-1 182
2011-12	15 675	1.2	16.9	15 255	1.3	16.4	420	932	-512

Table may not add due to rounding.

**Table B.9: Non-financial public sector key balance sheet aggregates (\$ million)**

<b>As at 30 June</b>	<b>Net debt<sup>(a)</sup></b>	<b>Unfunded<sup>(b)</sup> superannuation</b>	<b>Net financial liabilities</b>	<b>Net financial worth</b>	<b>Net worth</b>
1988	4 397				
1989	4 197				
1990	4 457				
1991	5 418				
1992	8 142				
1993	11 610				
1994	10 550				
1995	8 844				
1996	8 432				
1997	8 170				
1998	7 927				
1999	7 658	3 909	13 099	-12 258	10 622
2000	4 355	3 543	9 914	-8 986	12 445
2001	3 223	3 249	8 152	-7 109	14 816
2002	3 317	3 998	8 973	-7 902	14 721
2003	2 696	4 445	9 096	-8 811	15 288
2004	2 285	5 668	10 031	-9 550	15 760
2005	2 126	7 227	11 511	-11 004	16 359
2006	1 786	6 146	10 451	-9 889	19 703
2007 <sup>(c)</sup>	1 989	5 075	9 518	-8 795	22 128
2008 <sup>(d)(e)</sup>	2 029	6 910	10 902	-11 169	21 682
2009	2 776	6 992	11 761	-11 969	22 425
2010	3 804	7 062	12 934	-13 096	23 361
2011	4 849	7 120	14 185	-14 374	24 320
2012	5 230	7 164	14 739	-14 900	25 427

- (a) Net debt data for the years up to and including 1998 are sourced from the *Australian Bureau of Statistics, Government Financial Estimates 2003-04* (catalogue number 5501).
- (b) There is a structural break in the methodology used to calculate superannuation liabilities between June 2003 and June 2004. This accounting change, which involved the adoption of the Commonwealth Government bond rate for valuation purposes in line with the accounting standard on employee benefits, resulted in a significant increase in superannuation liabilities.
- (c) There is a structural break in 2007 reflecting the amalgamation of SAFA and SAICORP on 1 July 2006. The transfer of SAICORP's assets and liabilities from the general government sector to the public financial corporations sector resulted in an increase in non-financial public sector net debt of \$99 million at 1 July 2006 and an increase in net financial liabilities of \$90 million at 1 July 2006.
- (d) There is a structural break in 2008 reflecting the amalgamation of the South Australian Community Housing Authority (PFC) with the South Australian Housing Trust (PNFC). This results in an increase in net debt and net financial liabilities and a decrease in net financial worth of \$98 million in 2007-08, with no impact on net worth.
- (e) There is a structural break in 2008 reflecting the first time recognition on the general government balance sheet of South Australia's share of the net assets of the Murray-Darling Basin Commission. This has no impact on net debt, however results in a reduction in net financial liabilities of \$615 million in 2007-08, and increases in net financial worth and net worth of \$615 million.

**Table B.10: Non-financial public sector receipts, payments and surplus (\$ million)<sup>(a)</sup>**

	<b>Receipts</b>	<b>Payments</b>	<b>Cash surplus</b>
1979-80	2 681	2 388	292
1980-81	2 877	2 649	228
1981-82	3 145	2 963	182
1982-83	3 651	3 356	295
1983-84	4 383	4 014	369
1984-85	4 887	4 356	531
1985-86	5 172	4 415	757
1986-87	5 542	4 790	752
1987-88	6 078	5 299	780
1988-89	6 946	5 784	1 162
1989-90	7 517	6 465	1 052
1990-91	7 830	6 839	991
1991-92	8 352	7 969	383
1992-93	8 939	7 946	993
1993-94	8 761	8 119	642
1994-95	8 570	8 142	428
1995-96	8 985	8 654	331
1996-97	8 908	8 532	375
1997-98	9 426	8 895	532
1998-99	9 301	8 692	609
1999-2000	13 014	9 501	3 513
2000-01	10 572	9 414	1 158
2001-02	9 726	9 722	4
2002-03	10 439	9 805	634
2003-04	10 891	10 403	488
2004-05	12 051	11 786	265
2005-06	12 239	11 868	370
2006-07	12 684	12 809	-125
2007-08	13 660	13 590	70
2008-09	14 221	14 973	-752
2009-10	14 707	15 739	-1 032
2010-11	15 478	16 529	-1 051
2011-12	16 088	16 528	-440

Table may not add due to rounding.

- (a) There is a break in the series between 1998-99 and 1999-2000. Data for the years up to and including 1998-99 are sourced from the ABS and are consistent with ABS GFS reporting requirements on a cash basis. Capital receipts and payments, including payments associated with the provision of financial support for State owned financial institutions (which were treated by the ABS then as an 'investment in financial assets for policy purposes') are not included in this series. After 1998-99, data are derived from an accrual ABS GFS reporting framework, with receipts proxied by receipts from operating activities and sales of non-financial assets, and payments proxied by payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases. Due to the associated methodological and data-source changes, time series data that encompass measures derived under both cash and accrual accounting should be used with caution.

Table B.11: Non-financial public sector operating statement (\$ million)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
<b>GFS revenue</b>										
Taxation revenue	2 272	2 629	2 731	2 749	3 009	3 310	3 333	3 412	3 546	3 726
Current grants	4 641	4 909	5 206	5 562	5 708	6 258	6 526	6 763	7 017	7 350
Capital grants	237	215	257	287	331	346	408	508	438	339
Sales of goods and services	2 272	2 446	2 481	2 494	2 610	2 739	2 895	2 952	3 171	3 291
Interest income	103	125	135	113	155	159	175	173	192	221
Other	648	382	533	601	508	653	661	689	743	749
<i>Total revenue</i>	<i>10 172</i>	<i>10 707</i>	<i>11 343</i>	<i>11 807</i>	<i>12 321</i>	<i>13 464</i>	<i>13 997</i>	<i>14 497</i>	<i>15 107</i>	<i>15 675</i>
<i>less</i>										
<b>GFS expenses</b>										
Gross operating expenses	7 689	8 219	8 798	9 205	9 772	10 489	11 002	11 326	11 770	12 224
Nominal superannuation interest expense	299	354	351	344	316	276	370	371	372	372
Other interest expenses	374	315	333	310	290	319	350	407	500	604
Other property expenses	3	15	23	13	9	33	61	40	40	16
Current transfers	1 276	1 375	1 486	1 641	1 646	1 816	1 952	1 867	1 864	1 899
Capital transfers <sup>(a)</sup>	54	16	38	121	142	143	138	137	138	139
<i>Total expenses</i>	<i>9 696</i>	<i>10 294</i>	<i>11 029</i>	<i>11 634</i>	<i>12 175</i>	<i>13 076</i>	<i>13 872</i>	<i>14 148</i>	<i>14 685</i>	<i>15 255</i>
<i>equals</i>										
<b>GFS net operating balance</b>										
<i>less</i>										
<b>Net acquisition of non-financial assets</b>										
Gross fixed capital formation	666	687	806	746	928	1 209	1 823	2 381	2 581	1 979
<i>less</i> Depreciation	603	651	682	692	755	804	868	925	977	1 047
<i>plus</i> Change in inventories	9	-3	1	—	—	—	—	—	—	—
<i>plus</i> Other movements in non-financial assets	—	—	—	—	—	—	—	—	—	—
<i>Total net acquisition of non-financial assets</i>	<i>72</i>	<i>33</i>	<i>125</i>	<i>53</i>	<i>173</i>	<i>405</i>	<i>955</i>	<i>1 457</i>	<i>1 604</i>	<i>932</i>
<i>equals</i>										
<b>GFS net lending</b>										
	405	379	189	119	- 26	- 17	- 830	- 1 107	- 1 182	- 512

Totals may not add due to rounding.

(a) In accordance with ABS requirements the First Home Owner Grant has been reclassified from current to capital transfers from 2005-06.

Table B.12: Non-financial public sector balance sheet (\$ million)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Assets</b>										
Financial assets										
Cash and deposits	2 124	2 250	2 129	2 372	2 566	2 547	2 643	2 762	3 137	3 762
Advances paid	192	186	80	83	34	74	68	61	53	38
Investments, loans and placements	182	164	180	204	139	151	163	175	188	201
Other non-equity assets	294	356	376	482	563	551	565	565	566	564
Equity	309	618	684	761	781	416	491	551	538	579
Total financial assets	3 100	3 574	3 450	3 902	4 084	3 739	3 930	4 114	4 482	5 145
Non-financial assets										
Land and fixed assets	24 074	25 285	27 338	29 564	30 917	32 849	34 391	36 455	38 691	40 324
Other non-financial assets	24	24	25	28	6	2	2	3	3	3
Total non-financial assets	24 098	25 309	27 363	29 592	30 922	32 851	34 394	36 458	38 694	40 327
Total assets	27 199	28 883	30 813	33 494	35 006	36 590	38 324	40 571	43 176	45 472
<b>Liabilities</b>										
Deposits held	148	122	155	147	159	180	187	193	199	206
Advances received	780	733	719	715	659	644	628	611	592	592
Borrowing	4 267	4 030	3 642	3 583	3 910	3 976	4 835	5 997	7 435	8 434
Unfunded superannuation liability <sup>(a)</sup>	4 445	5 668	7 227	6 146	5 075	6 910	6 992	7 062	7 120	7 164
Other employee entitlements and provisions	1 419	1 586	1 693	1 795	1 903	1 995	2 094	2 179	2 281	2 396
Other non-equity liabilities	853	984	1 019	1 404	1 172	1 203	1 163	1 168	1 229	1 254
Total liabilities	11 911	13 124	14 454	13 790	12 878	14 908	15 899	17 210	18 856	20 045
<b>Net worth<sup>(d)</sup></b>	<b>15 288</b>	<b>15 760</b>	<b>16 359</b>	<b>19 703</b>	<b>22 128</b>	<b>21 682</b>	<b>22 425</b>	<b>23 361</b>	<b>24 320</b>	<b>25 427</b>
Net financial worth <sup>(c)(d)</sup>	-8 811	-9 550	-11 004	-9 889	-8 795	-11 169	-11 969	-13 096	-14 374	-14 900
Net debt <sup>(b)(c)</sup>	2 696	2 285	2 126	1 786	1 989	2 029	2 776	3 804	4 849	5 230

Totals may not add due to rounding.

- (a) There is a structural break in the methodology used to calculate superannuation liabilities between June 2003 and June 2004. This accounting change, which involved the adoption of the Commonwealth Government bond rate for valuation purposes in line with the accounting standard on employee benefits, resulted in a significant increase in superannuation liabilities.
- (b) There is a structural break in 2007 reflecting the amalgamation of SAFA and SAICORP on 1 July 2006. The transfer of SAICORP's assets and liabilities from the general government sector to the public financial corporations sector resulted in an increase in non-financial public sector net debt of \$99 million at 1 July 2006.
- (c) There is a structural break in 2008 reflecting the amalgamation of the South Australian Community Housing Authority (PFC) with the South Australian Housing Trust (PNFC). This results in an increase in net debt and a decrease in net financial worth of \$98 million in 2007-08, with no impact on net worth.
- (d) There is a structural break in 2008 reflecting the first time recognition on the general government balance sheet of South Australia's share of the net assets of the Murray-Darling Basin Commission. This results in increases in net financial worth and net worth of \$615 million in 2007-08, with no impact on net debt.



# CONSOLIDATED ACCOUNT

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**Table C.1: Summary of receipts and payments**

	<b>2008-09</b> <b>Budget</b> <b>\$000</b>	2007-08 Estimated result \$000	2007-08 Budget \$000
<b>Receipts</b>			
Taxation	<b>3 381 931</b>	3 398 827	3 065 774
Commonwealth general purpose grants	<b>4 143 500</b>	3 946 600	3 854 600
Commonwealth specific purpose grants	<b>35 564</b>	46 871	46 829
Contributions from State undertakings	<b>466 705</b>	452 154	411 736
Fees and charges	<b>299 313</b>	292 771	272 106
Recoveries	<b>58 772</b>	141 900	68 808
Royalties	<b>163 450</b>	144 350	125 800
Other receipts	<b>278 446</b>	366 234	276 154
<b>Total receipts</b>	<b>8 827 681</b>	8 789 707	8 121 807
<b>Payments</b>			
Appropriation Act	<b>9 313 022</b>	8 487 259	8 356 078
Specific appropriation authorised in various Acts	<b>127 072</b>	124 512	124 675
<b>Total payments</b>	<b>9 440 094</b>	8 611 771	8 480 753
Consolidated Account financing requirement	<b>612 413</b>	- 177 936	358 946
Borrowing from (+) repayment to (-) South Australian Government Financing Authority	<b>612 413</b>	- 177 936	358 946

## APPENDIX C

**Table C.2: Estimates of payments**

	<b>2008-09 Budget</b>	2007-08 Estimated result	2007-08 Budget
	<b>\$000</b>	\$000	\$000
<b>Payments from Appropriation Act</b>			
Premier and Cabinet			
Department of the Premier and Cabinet	<b>149 901</b>	169 548	152 701
Administered Items for the Department of the Premier and Cabinet	<b>18 780</b>	30 964	31 964
Office of Public Employment	—	—	1 646
State Governor's Establishment	<b>3 181</b>	2 939	2 909
Arts SA	<b>114 661</b>	110 829	109 602
Tourism			
South Australian Tourism Commission	<b>51 963</b>	48 698	46 642
Minister for Tourism	<b>4 527</b>	55 277	5 277
Auditor-General			
Auditor-General's Department	<b>11 569</b>	11 338	11 412
Treasury and Finance			
Department of Treasury and Finance	<b>102 968</b>	82 152	98 924
Administered Items for the Department of Treasury and Finance	<b>1 393 139</b>	1 165 077	1 065 167
Independent Gambling Authority	<b>1 526</b>	1 486	1 486
Trade and Economic Development			
Department of Trade and Economic Development	<b>59 925</b>	56 862	67 366
Office of the Venture Capital Board	<b>3 122</b>	2 729	2 679
Port Adelaide Maritime Corporation	—	17 931	162 302
Defence SA	<b>137 948</b>	125 125	—
Primary Industries and Resources			
Department of Primary Industries and Resources	<b>153 487</b>	152 961	164 061
Administered Items for the Department of Primary Industries and Resources	<b>5 054</b>	4 794	4 886
Justice			
Attorney-General's Department	<b>95 378</b>	85 709	85 288
Administered Items for the Attorney-General's Department	<b>55 673</b>	48 083	50 841
Courts Administration Authority	<b>80 533</b>	78 996	78 745
Department for Correctional Services	<b>172 455</b>	159 943	159 845
South Australia Police	<b>548 495</b>	481 263	490 795
Administered Items for South Australia Police	<b>362</b>	354	354
State Electoral Office	<b>3 973</b>	2 225	2 253

## APPENDIX C

**Table C.2: Estimates of payments (continued)**

	<b>2008-09 Budget</b>	2007-08 Estimated result	2007-08 Budget
	<b>\$000</b>	\$000	\$000
Health			
Department of Health	<b>2 162 750</b>	1 878 651	1 893 087
Families and Communities			
Department for Families and Communities	<b>794 327</b>	750 860	722 219
Administered Items for the Department for Families and Communities	<b>139 551</b>	125 546	125 949
Education and Children's Services			
Department of Education and Children's Services	<b>1 755 505</b>	1 739 045	1 700 459
Administered Items for the Department of Education and Children's Services	<b>163 546</b>	159 531	157 399
Further Education, Employment, Science and Technology			
Department of Further Education, Employment, Science and Technology	<b>291 559</b>	271 636	284 428
Environment and Conservation and the River Murray			
Department for Environment and Heritage	<b>134 416</b>	129 445	134 717
Administered Items for the Department for Environment and Heritage	<b>4 889</b>	23 743	3 606
Department of Water, Land and Biodiversity Conservation	<b>94 888</b>	96 812	92 038
Administered Items for the Department of Water, Land and Biodiversity Conservation	<b>6 332</b>	15 647	15 078
Environment Protection Authority	<b>6 960</b>	4 799	4 331
Transport, Energy and Infrastructure			
Department for Transport, Energy and Infrastructure	<b>552 881</b>	358 387	390 173
Administered Items for the Department for Transport, Energy and Infrastructure	<b>12 399</b>	12 139	11 539
TransAdelaide	<b>2 009</b>	2 335	2 720
Legislature			
House of Assembly	<b>7 708</b>	8 280	7 296
Joint Parliamentary Services	<b>9 676</b>	9 274	9 285
Legislative Council	<b>5 006</b>	5 846	4 609
<b>Total payments appropriated for administrative units, statutory authorities and Ministers</b>	<b>9 313 022</b>	8 487 259	8 356 078
Payments for which specific appropriation is authorised in various Acts	<b>127 072</b>	124 512	124 675
<b>Total Consolidated Account payments</b>	<b>9 440 094</b>	8 611 771	8 480 753

## APPENDIX C

**Table C.2: Estimates of payments (continued)**

	<b>2008-09 Budget</b>	2007-08 Estimated result	2007-08 Budget
	<b>\$000</b>	\$000	\$000
<b>Payments for which specific appropriation is authorised in various Acts</b>			
<b>Salaries and allowances</b>			
Agent-General — <i>Pursuant to Agent-General Act 1901</i>	212	175	175
Auditor-General — <i>Pursuant to Public Finance and Audit Act 1987</i>	257	251	248
Commissioners of Environment, Resource and Development	890	863	874
Court and Commissioners of Industrial Relations — <i>Pursuant to Remuneration Act 1990</i> <sup>(a)</sup>			
Commissioner of Police — <i>Pursuant to Police Act 1998</i>	256	251	251
State Coroner and Deputy Coroner — <i>Pursuant to Remuneration Act 1990</i> <sup>(a)</sup>	679	658	620
Electoral Commissioner and Deputy Electoral Commissioner — <i>Pursuant to Electoral Act 1985</i>	298	292	292
Employee Ombudsman — <i>Pursuant to Industrial and Employee Relations Act 1994</i>	85	83	98
Governor — <i>Pursuant to Constitution Act 1934</i>	224	291	221
Judges — <i>Pursuant to Remuneration Act 1990</i>			
Chief Justice	548	531	512
Judges and Masters	18 263	17 293	16 949
Magistrates — <i>Pursuant to Remuneration Act 1990</i> <sup>(a)</sup>	11 815	11 404	11 786
Members of Various Standing Committees — <i>Pursuant to Parliamentary Remuneration Act 1990 and Parliamentary Committees (Miscellaneous) Act 1991</i>	737	670	640
Ombudsman — <i>Pursuant to Ombudsman Act 1972</i>	262	258	252
Parliamentary Salaries and Electorate Other Allowances — <i>Pursuant to Parliamentary Remuneration Act 1990</i>	12 540	12 357	11 867
Ministers, Officers and Members of Parliament			
Senior Judge and Judges of the Industrial Relations Commission — <i>Pursuant to Remuneration Act 1990</i>	1 864	1 893	1 501
Solicitor-General — <i>Pursuant to Solicitor-General Act 1972</i>	464	451	443
Valuer-General — <i>Pursuant to Valuation of Land Act 1971</i>	143	132	113
<b>Total salaries and allowances</b>	<b>49 537</b>	47 853	46 842
<b>Other</b>			
Compensation for injuries resulting from criminal acts — <i>Pursuant to Criminal Injuries Compensation Act 1978</i>	6 815	6 639	6 633
First Home Owner Grant — <i>Pursuant to First Home Owner Grant Act 2000</i>	70 720	70 020	71 200
<b>Total other</b>	<b>77 535</b>	76 659	77 833
<b>Total payments for which specific appropriation is authorised in various Acts</b>	<b>127 072</b>	124 512	124 675

(a) Payments from Consolidated Account relating to Commissioners of Environment, Resource and Development Court and Commissioners of Industrial Relations and State Coroner and Deputy Coroner were previously included in the salaries and allowances of Magistrates. The remuneration of these officers are now shown separately. The 2007-08 budget has been restated to reflect these revised classifications.

## APPENDIX C

**Table C.3: Estimates of receipts**

	<b>2008-09 Budget</b>	2007-08 Estimated result	2007-08 Budget
	<b>\$000</b>	\$000	\$000
<b>Taxation receipts</b>			
Payroll tax	<b>1 061 100</b>	1 072 800	1 033 000
Commonwealth places mirror payroll tax <sup>(b)</sup>	<b>18 700</b>	18 800	18 100
Stamp duties	<b>1 398 130</b>	1 503 630	1 188 630
Commonwealth places mirror stamp duties <sup>(b)</sup>	<b>500</b>	600	900
Land tax	<b>476 500</b>	369 600	395 500
Commonwealth places mirror land tax <sup>(b)</sup>	<b>1 400</b>	1 000	1 100
Other taxes on property	<b>10</b>	24	10
Save the River Murray Levy	<b>22 800</b>	22 000	21 800
Gaming machines tax	<b>296 300</b>	300 000	295 000
Contribution from Lotteries Commission of South Australia	<b>76 568</b>	77 007	77 837
Contribution from casino operations	<b>20 300</b>	20 500	21 700
Contribution from South Australian Totalizator Agency Board	<b>7 500</b>	10 800	10 500
Contribution from on-course totalizators, bookmakers and small lotteries	<b>1 923</b>	1 866	1 497
Recoup from Recreation and Sport Fund	<b>200</b>	200	200
<b>Total taxation receipts</b>	<b>3 381 931</b>	3 398 827	3 065 774
<b>Commonwealth general purpose payments</b>			
Competition grants	—	3 000	—
GST revenue grants	<b>4 143 500</b>	3 943 600	3 854 600
<b>Total Commonwealth general purpose payments</b>	<b>4 143 500</b>	3 946 600	3 854 600
<b>Commonwealth specific purpose payments<sup>(c)</sup></b>			
Companies code — fees	—	12 885	12 885
Concessions to pensioners and others	<b>21 728</b>	20 345	20 345
Legal Aid	<b>13 836</b>	13 641	13 599
<b>Total Commonwealth specific purpose payments</b>	<b>35 564</b>	46 871	46 829

(b) Taxes akin to State taxes are levied on activities conducted on Commonwealth places under the authority of Commonwealth mirror tax legislation. Revenue is retained by the State.

(c) Refers only to those Commonwealth specific purpose payments paid to the Consolidated Account and not those paid directly to agencies.

## APPENDIX C

**Table C.3: Estimates of receipts (continued)**

	<b>2008-09 Budget</b>	2007-08 Estimated result	2007-08 Budget
	<b>\$000</b>	\$000	\$000
<b>Contributions from State undertakings</b>			
Arrangements with private electricity entities			
Local government rate equivalent	199	192	195
Attorney-General's Department			
Income tax equivalent	11	11	11
Defence SA			
Local government rate equivalent	164	160	160
Department of the Premier and Cabinet			
Income tax equivalent	—	—	70
Department of Trade and Economic Development			
Dividend	—	—	1 124
Department for Transport, Energy and Infrastructure			
Dividend	19 006	21 773	21 773
Income tax equivalent	2 924	2 928	2 928
Local government rate equivalent	748	730	730
Department of Treasury and Finance			
Income tax equivalent	112	109	109
Distribution Lessor Corporation			
Dividend	—	—	1 472
ForestrySA			
Dividend	23 027	19 101	19 487
Income tax equivalent	10 662	8 794	10 645
Funds SA			
Local government rate equivalent	160	155	154
Generation Lessor Corporation			
Dividend	—	266	304
HomeStart Finance			
Dividend	5 503	5 797	—
Income tax equivalent	2 371	1 845	1 590
Land Management Corporation			
Dividend	69 418	61 355	28 396
Income tax equivalent	30 884	22 900	15 956
Local government rate equivalent	366	257	257
Lotteries Commission of South Australia			
Income tax equivalent	7 221	7 681	7 909
Local government rate equivalent	5	4	4
Police Security Services			
Income tax equivalent	—	—	140
Public Trustee Office			
Dividend	1 508	1 290	1 290
Income tax equivalent	754	701	765
Local government rate equivalent	—	—	30

## APPENDIX C

**Table C.3: Estimates of receipts (continued)**

	2008-09 Budget	2007-08 Estimated result	2007-08 Budget
	\$000	\$000	\$000
SA Water Corporation			
Dividend	<b>185 357</b>	188 194	189 375
Income tax equivalent	<b>85 646</b>	87 467	85 742
Local government rate equivalent	<b>2 055</b>	2 005	2 005
South Australian Asset Management Corporation			
Dividend	<b>4 000</b>	4 000	4 000
South Australian Government Employee Residential Properties			
Dividend	<b>1 156</b>	1 156	1 156
Income tax equivalent	<b>1 956</b>	1 956	1 956
South Australian Government Financing Authority			
Dividend	<b>7 728</b>	10 917	7 600
Income tax equivalent	<b>3 200</b>	—	3 300
TransAdelaide			
Local government rate equivalent	<b>90</b>	90	90
Transmission Lessor Corporation			
Dividend	<b>—</b>	—	572
West Beach Trust			
Income tax equivalent	<b>474</b>	320	441
<b>Total contributions from State undertakings</b>	<b>466 705</b>	452 154	411 736
<b>Fees and charges<sup>(d)</sup></b>			
Auditor-General's Department — fees for audit and other sundry receipts	<b>9 423</b>	9 137	9 137
Court fines	<b>29 669</b>	24 728	31 365
Court regulatory fees	<b>22 999</b>	22 999	22 999
Land Services regulatory fees	<b>142 473</b>	143 261	120 732
Department of Water, Land and Biodiversity Conservation — Natural Resources Management penalties	<b>1 104</b>	1 077	1 077
Guarantee fees	<b>19 027</b>	19 434	20 261
Infringement Notice Schemes — Expiation fees	<b>74 063</b>	71 595	65 911
Small lotteries	<b>527</b>	512	596
Sundry fees	<b>28</b>	28	28
<b>Total fees and charges</b>	<b>299 313</b>	292 771	272 106
<b>Recoveries</b>			
Child Abuse Protection program — intrasector grants received	<b>200</b>	200	200
Contribution to the cost of private plated vehicles	<b>10</b>	10	10
Essential Services Commission of South Australia	<b>6 837</b>	6 583	5 383
Department for Transport, Energy and Infrastructure — Indentured Ports	<b>3 986</b>	3 275	3 875
Department of Water, Land and Biodiversity Conservation — Qualco Sunlands	<b>250</b>	250	250
Helicopter service — recovery of costs and sponsorships	<b>1 050</b>	1 050	1 050
Independent Gaming Authority contribution to Gamblers	<b>1 500</b>	1 500	1 500
Rehabilitation Fund			
National Tax Equivalent Program	<b>50</b>	50	50
Return of cash to Consolidated Account — Cash Alignment Policy	<b>11 030</b>	75 401	3 909
Return of deposit account balances — Accrual Appropriation Excess Fund	<b>—</b>	18 800	18 800
Return of deposit account balances — Motor Accident Commission	<b>—</b>	1 000	—

(d) Refers to only those fees and charges paid to the Consolidated Account.

## APPENDIX C

**Table C.3: Estimates of receipts (continued)**

	<b>2008-09 Budget</b>	2007-08 Estimated result	2007-08 Budget
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Return of deposit account balances — Superannuation	30 000	30 000	30 000
Sale of evidence/transcripts	1 235	1 235	1 235
Sale of Government Publications	162	158	158
Sundry recoupment	131	128	128
Unclaimed monies	1 807	1 775	1 775
United Water	524	485	485
<b>Total recoveries</b>	<b>58 772</b>	141 900	68 808
<b>Royalties</b>			
Department of Primary Industries and Resources	163 450	144 350	125 800
<b>Total royalties</b>	<b>163 450</b>	144 350	125 800
<b>Other receipts</b>			
<b>Interest</b>			
Interest on investments	153 149	142 684	107 890
Interest recoveries from general government entities	9 673	9 639	7 470
Interest recoveries from public non-financial corporations	34 760	50 748	52 946
Interest recoveries from the private sector	67	186	146
<b>Repayment of advances</b>			
Adelaide Entertainment Centre	—	3 725	3 725
Administered Items for the Department for Transport, Energy and Infrastructure	—	—	172
Basketball Association of South Australia	—	31	—
Department of Health	1 644	1 191	1 191
Department of Primary Industries and Resources	1 000	1 000	1 000
Department for Environment and Heritage	—	38 054	38 054
Land Management Corporation	107	107	107
Minister for Education and Children's Services	—	1 460	1 460
Renmark Irrigation Trust	105	100	195
SA Country Arts Trust	20	20	20
South Australian Housing Trust	20 712	20 040	20 040
South Australian Tourism Commission	180	169	169
TransAdelaide	—	8 071	2 690
Other recoveries	5	5	5
<b>Repayment of equity capital contributions</b>			
Defence SA	3 730	533	—
Department for Transport, Energy and Infrastructure	35 604	35 604	35 604

## APPENDIX C

**Table C.3: Estimates of receipts (continued)**

	<b>2008-09 Budget</b>	<b>2007-08 Estimated result</b>	<b>2007-08 Budget</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b><i>Other</i></b>			
Department of the Premier and Cabinet — Agent Generals refit	—	4 720	—
Department of the Premier and Cabinet — Cranfield University	—	401	—
Mitsubishi Limited Grant Payment	—	35 000	—
Other recoveries	161	160	160
Sale of land and buildings	17 529	12 586	3 110
<b>Total other receipts</b>	<b>278 446</b>	366 234	276 154
<b>Total Consolidated Account receipts</b>	<b>8 827 681</b>	8 789 707	8 121 807



# SOUTH AUSTRALIAN STATE PUBLIC SECTOR ORGANISATIONS

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	General Govt. Sector	Public Non-Financial Corporations Sector	Public Financial Corporations Sector
Adelaide Cemeteries Authority .....		*	
Adelaide Convention Centre Corporation.....		*	
Adelaide Entertainments Corporation (trading as Adelaide Entertainment Centre) .....		*	
Adelaide Festival Centre Trust .....		*	
Adelaide Festival Corporation .....	*		
Adelaide Film Festival .....	*		
Adelaide and Mount Lofty Ranges Natural Resources Management Board.....	*		
Alinytjara Wilurara Natural Resources Management Board .....	*		
Art Gallery Board, The.....	*		
Attorney-General's Department.....	*		
Auditor-General's Department.....	*		
Australian Children's Performing Arts Company (trading as Windmill Performing Arts).....	*		
Bio Innovation SA.....	*		
Carrick Hill Trust.....	*		
Correctional Services, Department for .....	*		
Courts Administration Authority .....	*		
Dairy Authority of South Australia.....	*		
Defence SA .....	*		
Distribution Lessor Corporation.....		*	
Education Adelaide .....	*		
Education and Children's Services, Department of .....	*		
Electricity Supply Industry Planning Council .....	*		
Environment and Heritage, Department for.....	*		
Environment Protection Authority .....	*		
Essential Services Commission of South Australia .....	*		
Eyre Peninsula Natural Resources Management Board .....	*		
Families and Communities, Department for .....	*		
Further Education, Employment, Science and Technology, Department of .....	*		
Generation Lessor Corporation .....		*	
Government Schools.....	*		
Health, Department of .....	*		
History Trust of South Australia .....	*		
HomeStart Finance .....		*	

**APPENDIX D**

	General Govt. Sector	Public Non-Financial Corporations Sector	Public Financial Corporations Sector
House of Assembly .....	*		
Independent Gambling Authority .....	*		
Joint Parliamentary Services .....	*		
Justice, Department of .....	*		
Kangaroo Island Natural Resources Management Board .....	*		
Land Management Corporation .....		*	
Legislative Council .....	*		
Libraries Board of South Australia .....	*		
Lotteries Commission of South Australia (trading as SA Lotteries) .....		*	
Motor Accident Commission .....			*
Museum Board .....	*		
Northern and Yorke Natural Resources Management Board .....	*		
Outback Areas Community Development Trust .....	*		
Playford Centre .....	*		
Premier and Cabinet, Department of the .....	*		
Primary Industries and Resources, Department of .....	*		
Public Trustee .....		*	
RESI Corporation .....		*	
Senior Secondary Assessment Board of South Australia .....	*		
South Australia Police (also known as South Australian Police Department, SAPOL) .....	*		
South Australian Ambulance Service .....	*		
South Australian Arid Lands Natural Resources Management Board .....	*		
South Australian Asset Management Corporation .....			*
South Australian Centre for Trauma and Injury Recovery Incorporated (trading as TRACsa) .....	*		
South Australian Country Arts Trust .....	*		
South Australian Country Fire Service .....	*		
South Australian Film Corporation .....	*		
South Australian Fire and Emergency Services Commission (trading as SAFECOM) .....	*		
South Australian Forestry Corporation (trading as ForestrySA) .....		*	
South Australian Government Employee Residential Properties .....		*	
South Australian Government Financing Authority (trading as SAFA) .....			*
South Australian Housing Trust .....		*	
South Australian Local Government Grants Commission .....	*		
South Australian Metropolitan Fire Service .....	*		
South Australian Motor Sport Board .....		*	
South Australian Murray Darling Basin Natural Resources Management Board .....	*		

**APPENDIX D**

	General Govt. Sector	Public Non-Financial Corporations Sector	Public Financial Corporations Sector
South Australian State Emergency Service (trading as SES).....	*		
South Australian Tourism Commission .....	*		
South Australian Water Corporation (trading as SA Water) .....		*	
South East Natural Resources Management Board.....	*		
South Eastern Water Conservation and Drainage Board .....	*		
State Electoral Office.....	*		
State Governor's Establishment.....	*		
State Opera of South Australia .....	*		
State Procurement Board .....	*		
State Theatre Company of South Australia .....	*		
Superannuation Funds Management Corporation of South Australia (trading as Funds SA) .....			*
Trade and Economic Development, Department of.....	*		
TransAdelaide .....		*	
Transmission Lessor Corporation.....		*	
Transport, Energy and Infrastructure, Department for .....	*		
Treasury and Finance, Department of.....	*		
Venture Capital Board, Office of the .....	*		
Venue Management, Office of .....	*		
Water, Land and Biodiversity Conservation, Department of .....	*		
West Beach Trust (trading as Adelaide Shores).....		*	
WorkCover Corporation of South Australia.....			*
Zero Waste SA.....	*		

## APPENDIX D

	General Govt. Sector	Public Non-Financial Corporations Sector	Public Financial Corporations Sector
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### **Changes since the 2007-08 Budget:**

#### **Dissolved Entities since the previous Budget:**

Port Adelaide Maritime Corporation ..... \*  
Abolished 30 August 2007, effective 1 September 2007.

2007 World Police and Fire Games Corporation ..... \*  
Pursuant to the organisation's charter the entity was officially dissolved effective 31 December 2007.

#### **New Entities created since the previous Budget:**

Defence SA ..... \*  
Established 23 August 2007, effective 1 September 2007.

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# TAX EXPENDITURE STATEMENT

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## Overview

This statement provides a summary of tax expenditures incurred by the Government of South Australia in 2006-07 and 2007-08.

## What are tax expenditures?

The term ‘tax expenditure’ refers to differential tax treatment where the difference constitutes a departure from the tax standard or benchmark.

Examples of tax expenditures can include revenue forgone from:

- tax exemptions;
- reduced rates of taxation;
- tax rebates or deductions; and
- deferral of the payment of tax liabilities.

Thus a tax expenditure is a reduction in tax revenue resulting from ‘preferential’ tax treatment. In practice, differentiating preferential tax treatment from tax differences that are integral to efficient revenue-raising design is not always straightforward.

In the design of expenditure and revenue policy, governments observe various principles of fairness and equity. Such principles apply to decisions on taxation policies as well as decisions that underpin the direction of public expenditure. As a result, a number of differential tax treatments across a broad spectrum of taxpayers and particular activities may arise. Differential treatment afforded to certain taxpayers to achieve social and political objectives rather than tax design objectives constitutes a tax expenditure.

## Why measure tax expenditures?

The immediate and direct impact of preferential tax relief is to reduce the revenue yield from a given tax. In the absence of concessions and exemptions, governments would be able to support a higher level of government spending *or* reduce the severity of their tax rates *or*, if expenditures and revenues remain unchanged, reduce their borrowing requirements.

The provision of preferential tax relief is indisputably a cost to the budget and may also impose additional costs on non-favoured taxpayers. It is often a hidden cost. By explicitly publishing estimates on the magnitude of this tax relief, transparency is increased and the community is made more fully aware of the government’s fiscal priorities. The government should also be better placed to ensure that resources, in total, are committed to the areas that clearly reflect policy priorities.

## Valuation of tax expenditures

Tax expenditures in this appendix are calculated according to the *revenue forgone* method, which involves applying the general structure of a tax to a tax base (that is, a group of people or activities) that is currently exempt from the tax or subject to concessional treatment.

This static approach does not take into account possible behavioural changes which may result from the removal of a tax concession – that is, the revenue forgone approach assumes that taxpayer behaviour will remain unchanged if concessions are removed. Therefore, tax expenditures measured using this approach are likely to be only a broad indication of actual revenue impacts and, more specifically, this approach is likely to overstate the actual revenue forgone as a result of an individual tax concession.

Some qualifications apply to the estimates contained in this statement. Aside from the absence of assumptions about behavioural responses, the estimates are in many cases approximations, reflecting data limitations and the use of proxy indicators to measure the size of revenue bases relevant to tax concessions.

## **Benchmark for measuring tax expenditures**

Tax expenditures should be quantified by comparing the existing tax structure with a benchmark tax structure based entirely on taxation design principles. In practice deciding on such a structure does involve some judgements. For example, the benchmark structure used for payroll tax is a flat tax at the current rate with no threshold. There is no particular merit in the current rate from the point of view of tax design but it has been adopted because it is the existing rate. Further, a zero threshold would probably not be desirable from a tax design point of view because the administrative costs of collecting revenue from very small employers might well exceed the revenue collected. However, for the sake of simplicity, a zero threshold has been adopted in this exercise.

## **Summary**

The view has been taken that the extent of tax relief provided through the availability of exemptions, concessions, rebates and allowable deductions is sufficiently important to warrant documentation even if (a) the benchmark against which the tax expenditure is assessed could be argued to be imperfectly defined, (b) the measurement of those imperfectly defined expenditures is also subject to qualification and (c) the value of many tax expenditures cannot be quantified.

Many tax expenditures have not been able to be quantified. In particular, there are a large number of exemptions from stamp duties that are not reflected in the estimates due to a lack of information on the size of the affected tax bases. Similarly, a number of exemptions relating to some payroll tax exemptions have not been quantified. As such, the aggregate total of the estimates contained in Table E.1 does not represent the total value of assistance provided by tax expenditures.

The two largest tax expenditures are the payroll and land tax thresholds and the land tax exemptions for the principal place of residence, primary production and a range of other land uses.

The following is a brief summary of the individual tax expenditures quantified.

### **Payroll tax**

Total quantified tax expenditures relating to payroll tax for 2007-08 (\$580 million) represent 65 per cent of payroll tax revenue collections (excluding government). This represents an increase of \$13 million from 2006-07.

The largest payroll tax expenditure relates to the tax threshold. Payroll tax is levied on wages paid by employers and is applied at a rate of 5.25 per cent (to be reduced to 5.0 per cent from 1 July 2008 and then reduced further to 4.95 per cent from 1 July 2009) above an annual threshold of \$504 000 (to be increased to \$552 000 from 1 July 2008, then increased further to \$600 000 from 1 July 2009). The threshold exemption results in a large number of small businesses not being liable for payroll tax. In

addition, those businesses that are liable for payroll tax do not have tax liabilities in respect of annual wages below the threshold.

It is estimated that the tax revenue forgone as a result of the existence of the threshold is \$425 million for 2007-08 in respect of private sector employers. This comprises \$312 million in revenue forgone from small businesses that are not liable for payroll tax, and \$113 million in respect of employers who are liable for payroll tax but benefit from not paying tax on the first \$504 000 of wages per annum.

Several other groups of taxpayers are exempt from payroll tax liabilities, many of which have not been able to be quantified in terms of tax expenditures. Of those that have been calculated, the largest tax expenditure relates to the exemption for public hospitals which is estimated to amount to \$80 million in 2007-08. Other expenditures include local government councils (\$23 million), non-profit schools (\$13 million) and non-profit hospitals and providers of health services (\$11 million).

The government also offers schemes whereby businesses can claim payroll tax rebates in respect of trainees (\$13 million) and export activity (\$7 million).

### **Stamp duties**

Stamp duties apply to a range of transactions including conveyances, mortgages, insurance and rental transactions. There are a large number of exemptions contained in stamp duty legislation, many of which cannot be quantified. The total tax expenditure in 2007-08 for stamp duties (\$119 million) is equivalent to 8 per cent of gross stamp duty revenues.

Conveyance duty tax expenditures amount to \$47 million in 2007-08. First homebuyers are currently eligible for a full stamp duty concession on home purchases valued up to \$80 000. A partial concession applies for first home purchases valued between \$80 000 and \$250 000. The total cost of this exemption in 2007-08 is estimated to be \$6 million. For first home contracts entered into on or after 5 June 2008, this stamp duty concession will be abolished and replaced with a first home bonus grant. The stamp duty exemption for family farm transfers is estimated to cost \$12 million in 2007-08. Stamp duty relief for corporate reconstructions is estimated to cost \$21 million in 2007-08 compared to \$3 million in 2006-07; the increase in 2007-08 mainly relates to one large transaction. General remissions are also expected to cost \$8 million in 2007-08.

Mortgage duty relief is estimated to cost \$44 million in 2007-08 reflecting the exemptions available for residential loans for owner occupation, including first homes, and loan refinancing. Strong growth in residential property values has impacted on the cost of the exemption for residential loans for owner occupation but this is masked, in 2007-08, by the first of three rate reductions as mortgage duty is phased out with full abolition to take effect from 1 July 2009.

Approximately \$19 million of stamp duty tax expenditures in 2007-08 relate to exemptions given in respect of the \$60 stamp duty fee payable on the combined renewal certificate for vehicle registration and compulsory third party (CTP) insurance. Of this, \$12 million relates to pensioners and State concession card holders. The balance mainly relates to conditionally registered vehicles (eg historic and left hand drive vehicles, special purpose vehicles such as fork lifts, tractors, self propelled farm implements and mobile cranes), government vehicles registered under the Continuous Government Registration Scheme and vehicles owned by councils.

### **Land tax**

Total land tax expenditures are estimated at \$665 million in 2007-08. This represents 177 per cent of land tax collections (including from government).

Land tax is calculated on the aggregate taxable value of all land held by a person as at 30 June preceding the assessment year. No tax is payable if the total taxable value of all land is less than the

threshold level of \$110 000. A marginal tax rate structure applies above this threshold; with increasing marginal tax rates applied as the value of landholdings increases.

The 2007-08 tax expenditures associated with land tax include:

- the tax-free threshold — estimated to cost \$44 million;
- the principal place of residence exemption (provided the land is owned by a natural person as distinct from a corporate body) — estimated to cost \$188 million;
- the primary production exemption (provided it meets certain criteria) — estimated to cost \$338 million; and
- other specific exemptions provided in Sections 4 and 5 of the *Land Tax Act 1936*. Exempt categories include caravan parks, residential parks, supported residential facilities, land used for religious purposes, State-subsidised hospitals, libraries, parklands, conservation of native flora and fauna, sporting activities and so on. The cost of these exemptions amounts to approximately \$95 million in 2007-08.

## **Gambling taxes**

Tax expenditures for gambling taxes arise from the gambling tax threshold and the differential tax treatment of non-profit venues and hotels.

In South Australia, gambling tax is levied on net gambling revenue above an annual threshold of \$75 000. In addition, non-profit venues are subject to a tax structure that is relatively less severe than that applicable to hotels.

In 2007-08, it is estimated that the revenue foregone as a result of the existence of the threshold is \$11 million. The benefit to non-profit venues of the tax differential is estimated to be \$8 million in 2007-08. The combined costs of gambling tax expenditures represent approximately 5 per cent of gambling tax collections in 2007-08.

## **Emergency services levy**

The Emergency Services Levy (ESL) was originally intended to provide a comprehensive method of funding emergency services by raising sufficient funds from property holders to support aggregate expenditure on emergency services. In practice, property owners (fixed and mobile) now collectively contribute just over half of the total levy proceeds. The remaining levy proceeds are provided by government in the form of remissions, pensioner concessions and the levy payable on the government's own property. The tax expenditure costings measure the difference between standard levy rates and post remission levy rates which vary depending on land use code and location (for fixed property) and by class of vehicle (for mobile property).

The ESL is a complex tax with differential rates of levy on land use types and regions. The motivation for the differential levy rates appears to lie in a desire to achieve some alignment with relative risk of property types, the value of the service provided (related to property value) and regional variation in service levels. The effect of remissions for the variable property value element of the ESL means the ESL for residential property is predominantly a flat amount per property.

## **Save the River Murray levy**

The Save the River Murray Levy was introduced to fund specific measures aimed at improving the long-term security and quality of South Australia's water supply.

The levy is imposed at a flat rate on SA Water customers and is indexed annually to movements in the Adelaide Consumer Price Index. Consideration of the impact the levy would have on different sections of the community was taken into account before the introduction of the levy. To relieve the burden placed upon low income earners, pensioners who are eligible for a concession on their SA Water rates and charges are exempt from the levy. This exemption amounts to an estimated tax expenditure of almost \$5 million in 2007-08, or 21 per cent of revenue raised from the Save the River Murray Levy.

Primary producers who own land that is not contiguous, but is farmed as a single farming enterprise, are allowed to amalgamate their Save the River Murray Levy liabilities in certain circumstances. This limits their Save the River Murray Levy liability to the non-residential charge applicable on one property. However, it is not possible to quantify expenditure for this exemption

### **Growth in tax expenditures**

The cost of tax expenditures has increased in 2007-08 mainly in respect of:

- *stamp duty* – reflecting a higher level of corporate reconstructions and general remissions;
- *land tax* — reflecting growth in land values; and
- *payroll tax* — reflecting growth in payrolls.

**Table E.1: Summary of tax expenditures**

<b>Tax expenditures (\$m)</b>	<b>2006-07<sup>(a)</sup></b>	<b>2007-08</b>
<b>PAYROLL TAX</b>		
Threshold exemption	414.3	425.0
<i>of which:</i>		
<i>benefit to existing taxpayers with payrolls above the threshold</i>	108.2	112.6
<i>benefit to employers with payrolls below the threshold</i>	306.1	312.5
Export rebates	5.1	7.0
Trainee rebates <sup>(b)</sup>	9.9	13.4
Firm specific relief	6.7	0.5
Public benevolent institutions	4.5	4.7
Public hospitals exemption	77.4	80.5
Non-profit schools or colleges at or below secondary level	12.3	12.8
Non-profit hospital and health providers exemption	11.1	11.5
Child care centres	0.3	0.3
Local government council exemption	21.9	22.8
Assistance for motion picture production companies	<0.1	1.5
General remissions	3.3	0.1
<b>TOTAL FOR PAYROLL TAX</b>	<b>566.8</b>	<b>580.1</b>
<b>STAMP DUTIES</b>		
Conveyance duty		
Family farm exemption	11.0	11.8
First home owner concessions <sup>(c)</sup>	8.6	5.8
Corporate reconstruction relief	3.1	21.4
Inner city housing rebate	0.2	0.1
General remissions	1.5	7.9
Bushfire relief	<0.1	—
Mortgage duty		
First home exemption	7.2	8.6
Exemption for residential loans for owner occupation, refinancing and mortgage discharges	37.6	34.8
Primary producer loans and rural branch bank closures	<0.1	—
Bushfire relief	<0.1	<0.1
Drought relief	0.4	0.8
General remissions	0.1	0.1
Stamp duty on renewal certificate for motor vehicle registration and compulsory third party insurance (CTP) - exemptions for:		
The Crown and vehicles registered under the Continuous Government Registration Scheme	1.2	1.2
Hire vehicles with more than 12 seats	0.1	0.1
Councils	0.4	0.4
Conditionally registered vehicles	4.1	4.2
Incapacitated ex-servicemen and other persons	0.2	0.2
Pensioner and State concession card holders	12.1	12.4
Share duty		
Corporate reconstruction relief	—	0.4
General remissions	—	1.1
Rental duty		
Differential treatment of hire purchase arrangements	6.8	7.2
General remissions	0.9	0.4
Stamp duty on motor vehicle registrations		
General remissions	0.1	0.1
<b>TOTAL FOR STAMP DUTIES</b>	<b>95.5</b>	<b>118.9</b>

**Table E.1: Summary of tax expenditures (continued)**

<b>Tax expenditures (\$m)</b>	<b>2006-07<sup>(a)</sup></b>	<b>2007-08</b>
<b>LAND TAX</b>		
Threshold exemption	43.2	44.4
Rebates <sup>(d)</sup>	<0.1	<0.1
Principal place of residence exemption	162.1	187.6
Primary production exemption	320.8	338.4
Caravan parks and residential parks exemption	0.7	0.6
Supported residential facilities exemption	0.2	0.2
Other exemptions <sup>(e)</sup>	86.3	94.1
<b>TOTAL FOR LAND TAX</b>	<b>613.3</b>	<b>665.4</b>
<b>GAMBLING TAXES</b>		
Threshold exemption	11.2	11.1
Differential treatment of non-profit businesses	7.9	8.2
General remissions	0.1	0.1
<b>TOTAL FOR GAMBLING TAXES</b>	<b>19.2</b>	<b>19.4</b>
<b>OTHER TAXES ON PROPERTY</b>		
Save the River Murray Levy		
Pensioner concessions	4.4	4.6
Emergency services levy		
Pensioner concessions	6.1	6.0
General remissions		
fixed property	69.3	83.3
mobile property	9.2	9.8
<b>TOTAL FOR OTHER TAXES ON PROPERTY</b>	<b>89.1</b>	<b>103.7</b>

- (a) Costings of specific exemptions for 2006-07 differ from those published in the 2007-08 Budget reflecting final data.
- (b) 2006-07 and 2007-08 costs include prior year adjustments.
- (c) Relates to the first homeowner stamp duty relief scheme. In addition, since July 2000, in accordance with undertakings under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, the State Government administers and funds grants under the First Home Owner Grant Scheme. These grants are reported on the expenditure side of the Budget.
- (d) As part of the land tax relief package, rebates were paid in respect of 2004-05 land tax assessments. Some rebate payments have carried over to 2006-07 and 2007-08.
- (e) Includes a wide range of exemptions provided to land used for a number of specific activities under Section 4 of the *Land Tax Act 1936*. Some of these include land used for religious purposes, state subsidised hospitals, libraries, parklands, conservation of native flora and fauna, sporting activities and so on.



# **GLOSSARY OF TERMS USED IN THE BUDGET PAPERS**

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*Accrual accounting:* The accounting approach by which income, expenses, equity, assets and liabilities are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

*Accrual budget:* The preparation of a budget based on accrual Government Finance Statistics (GFS) accounting principles.

*Accrual GFS principles:* Principles based on accrual standards established by the Australian Bureau of Statistics.

*Administered items:* Resources over which an agency has legal custody, but which the agency does not control because it cannot deploy them to meet its own objectives.

*Assets:* Resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

*Australian Equivalents to International Financial Reporting Standards:* Accounting Standards issued by the Australian Accounting Standards Board that are equivalent to Standards issued by the International Accounting Standards Board. These standards are binding on SA Government entities by authority of Treasurer's Instruction 19 *Financial Reporting*.

*Balance Sheet:* A statement showing the financial position (at a specific time) of a reporting entity in terms of its recognised assets, liabilities and equity at the end of a reporting period.

*Capital Investment Program* comprises projects and programs that result in the capitalisation of assets on the balance sheet. They include the acquisition and construction of, or addition to non-current assets, including property, plant and equipment and other productive assets. Examples include roads, hospitals, medical equipment and schools.

*Cash Flow Statement:* A statement showing the inflows and outflows of cash and cash equivalents of a reporting entity during the reporting period. Cash flows are classified as operating, investing and/or financing activities.

*Commonwealth General Purpose Payments:* Untied grants provided by the Commonwealth to the States and the Territories to assist in meeting recurrent outlays. This is the major form of Commonwealth assistance to the States and the Territories.

*Commonwealth Specific Purpose Payments:* Commonwealth payments to the States and the Territories for a designated purpose.

*Consolidated Account:* The Government's main operating account, from which appropriations are paid and revenues of the state are credited, created pursuant to the *Public Finance and Audit Act 1987*.

*Consumer Price Index:* A general indicator of the rate of change in prices paid by households for consumer goods and services published by the Australian Bureau of Statistics.

*Contingent asset:* A possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the entity.

*Contingent liability:* A possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the entity; or a liability that does not meet the recognition criteria.

*Controlled items:* Resources that an agency is able to control and deploy to meet its objectives.

*Depreciation:* The systematic allocation of the depreciable amount of an asset over its useful life.

*Deposit account:* An account authorised by the Treasurer under Section 8 (special deposit account) or Section 21 of the *Public Finance and Audit Act 1987*. In 1991-92 the accounting operations of most budget sector agencies were transferred from the Consolidated Account to deposit accounts. These accounts are used by agencies for expenditure and receipts as part of their normal operations.

*Equity:* The residual interest in the assets of an entity after deducting all liabilities.

*Equity contribution:* The investment of additional cash in an agency to increase its asset base or reduce its debt.

*Expense:* A decrease in economic benefits during the accounting period in the form of outflows or depletion of assets or incurrence of liabilities that result in decreases of equity other than those relating to distributions to owners. (Also see *GFS transactions*).

*Financial Reports:* Under Australian equivalents to International Financial Reporting Standards, there are four financial statements produced by reporting entities, being the Income Statement, Balance Sheet, Statement of changes in equity and Cash Flow Statement. Financial Reports for the various sectors of the public sector are also produced in accordance with the *Uniform Presentation Framework*. These are the Operating Statement, Balance Sheet and Cash Flow Statement.

*Gains:* Part of income. Gains represent items other than revenue items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an entity.

*General government:* The sector of Government that includes all government agencies that provide services free of charge or at prices significantly below the cost of production or provide regulatory services.

*Government Finance Statistics (GFS):* Statistics that measure the financial activities of governments and reflect the impact of those activities on other sectors of the economy. GFS is based on international statistical standards.

*GFS Transactions:* Changes to assets, liabilities and equity that arise from mutually agreed interactions between entities. (Also see *Other economic flows*).

*Government Purpose Classification:* A system used to classify expenses and net acquisition of non-financial assets of the public sector in terms of the purposes for which the transactions are made.

*Gross fixed capital formation:* The value of acquisitions less disposals of new and existing produced assets that can be used in production, other than inventories.

*Gross State Product:* The total market value of goods and services produced in the state within a given period after deducting the cost of goods and services used up in the process of production, but before deducting allowances for the consumption of fixed capital.

*Hedging:* Any technique designed to reduce or eliminate financial risk; for example, taking two positions that will offset each other if prices change.

*Horizontal Fiscal Equalisation:* The principle underlying the Commonwealth Grants Commission's assessment of per capita relativities, which are the basis for the interstate distribution of general

revenue grants. Under this principle, grants are distributed so as to give each state and territory the capacity to provide public services at an average standard and level of efficiency, for comparable revenue effort.

*Income:* Comprised of revenues and gains (refer to these respective definitions). Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contribution by owners.

*Income tax equivalent payments:* Payments equivalent to income tax that certain public authorities or business units (if a legal entity) would be liable to pay under the Commonwealth's *Income Tax Assessment Act 1997*, were that public authority or business unit (if a legal entity) not an instrumentality of the Crown in right of the State of South Australia.

*Investment income:* Income received and receivable on financial assets.

*Liabilities:* Present obligations arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

*Modified duration:* A measure of the sensitivity of a portfolio of interest bearing securities to changing interest rates. It is derived from the discounted average term to maturity of all cash flows.

*Net debt:* The sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

*Net financial liabilities:* Total liabilities less financial assets, other than equity in non-financial public corporations and in public financial corporations. This measure is broader than net debt as it includes significant liabilities other than borrowings, such as unfunded superannuation and long service leave entitlements.

*Net financial worth:* Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus liabilities. It differs from net financial liabilities in that equity in non-financial public corporations and public financial corporations are included as assets.

*Net lending/borrowing position:* A GFS measure of the net operating balance, less acquisition of non-financial assets, plus consumption of fixed capital (depreciation). Measures the extent to which accruing operating expenses (less depreciation) and investment expenditures are funded by revenues.

*Net operating balance:* A GFS measure of the operating result of a sector of government. It is the excess of GFS revenue over GFS expenses.

*Net worth:* Net worth is calculated as total assets (both financial and non-financial) minus total liabilities, shares and other contributed capital. Net worth incorporates a government's non-financial assets, such as land and other fixed assets, as well as financial assets and liabilities not captured by the net debt measure, most notably accrued employee superannuation liabilities, debtors and creditors.

*Non-financial public sector:* The consolidation of the general government sector and public non-financial corporations sector.

*Operating Statement:* The financial statement disclosing all income and expenses (and their sources) of a reporting entity recognised in the reporting period unless an accounting standard requires otherwise. Also referred to as the Income Statement.

*Other economic flows:* Changes to assets, liabilities and equity that are not the result of GFS transactions. (Also see *GFS transactions*).

*Public financial corporation (PFC):* Government controlled entity that is mainly engaged in financial intermediation or the provision of auxiliary financial services.

*Public non-financial corporation (PNFC):* Government controlled entity that is mainly engaged in the production of market goods and/or non-financial services, which recovers a significant portion of its costs through user charges.

*Put Option:* A contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying security at a specified price within a specified time.

*Real terms:* Estimates of financial aggregates in real terms reflect adjustments made in order to take account of the impact of rising prices on the purchasing power of money. Throughout this budget paper, reference is made to real term aggregates and growth rates. All real terms calculations use the Adelaide Consumer Price Index (CPI), unless specifically stated otherwise.

*Revenue:* Part of income. The gross inflow of economic benefits during the period arising in the course of the ordinary activities of the entity when those inflows result in an increase in equity, other than increases relating to contributions by owners. (Also see *GFS transactions*).

*Sector:* An ABS national accounting concept used to group entities with similar economic characteristics. Sectors comprising the public sector are general government, public non-financial corporations and public financial corporations.

*Statement of Changes in Equity:* A statement showing the changes in an entity's equity between two reporting dates and reflects the increase or decrease in net assets during the period except for changes resulting from transactions with owners.

*Strategic resource allocation:* The allocation of resources based on identified policy priorities of Government, usually over the medium term.

*Unfunded Superannuation Liability:* The amount by which the liabilities of a superannuation scheme or schemes, (measured as the present value of expected future superannuation benefits that have accrued to members), at the reporting date exceeds the value of assets held by the superannuation scheme or schemes to meet those benefits.

*Uniform Presentation Framework (UPF):* The reporting framework agreed by the Commonwealth, State and Territory Governments, to ensure all governments provide a common 'core' of financial information in their budget papers (refer to Appendix A).

*Value at Risk:* A technique used to estimate the probability of portfolio losses based on the statistical analysis of historical price trends and volatilities.

# **ABBREVIATIONS USED IN THE BUDGET PAPERS**

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AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ABARE	Australian Bureau of Agricultural and Resource Economics
ABS	Australian Bureau of Statistics
ACAT	Aged Care Assessment Team
ACC	Adelaide Convention Centre
ACCC	Australian Competition and Consumer Commission
ACPFG	Australian Centre for Plant Functional Genomics
AEMC	Australian Energy Market Commission
AFCT	Adelaide Festival Centre Trust
AGL	Australian Gas and Light
AHA	Aboriginal Housing Authority
AHCA	Australian Health Care Agreement
AHIF	Affordable Housing Innovations Fund
AHIU	Affordable Housing Innovations Unit
AIFRS	Australian equivalents to International Financial Reporting Standards
AIS	Australian Institute of Sport
ANCOLD	Australian National Committee On Large Dams
ANCOR	Australian National Child Offender Register
ANTA	Australian National Training Authority
APY	Anangu Pitjantjatjara Yankunytjatjara
AQF	Australian Qualifications Framework
AQTF	Australian Quality Training Framework
ASEAN	Association of South East Asian Nations
ASO	Adelaide Symphony Orchestra
ASX	Australian Stock Exchange
ATE	Australian Tourism Exchange

ATLAS	automated Torrens Lands Title Administration System
ATO	Australian Taxation Office
AWD	Air Warfare Destroyer
BDF	Broadband Development Fund
CAD	Computer Aided Dispatch
CBA	Commonwealth Bank of Australia
CBSA	Community Benefit SA
CCTV	Closed Circuit Television
CESF	Community Emergency Services Fund
CFS	Country Fire Service
CGC	Commonwealth Grants Commission
CHSA	Country Health SA
CIO	Chief Information Officer
CMU	Carnegie Mellon University
CN	competitive neutrality
CNAHS	Central Northern Adelaide Health Service
CNG	Compressed Natural Gas
CNRM	Centre for Natural Resources Management
COAG	Council of Australian Governments
COPEs	Commonwealth Own-Purpose Expenses
CPA	Competition Principles Agreement
CPI	Consumer Price Index
CRC	COAG Reform Council
CRCs	Cooperative Research Centres
CRTs	Community Response Teams
CSHA	Commonwealth–State Housing Agreement
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CSO	community service obligation
CSTDA	Commonwealth-State/Territory Disability Agreement
CTP	compulsory third party

CUF	Common User Facility
CYWHS	Children, Youth and Women's Health Service
DAIS	Department for Administrative and Information Services
DASSA	Drug and Alcohol Services South Australia
DCS	Department for Correctional Services
DDA	Disability Discrimination Act
DECS	Department of Education and Children's Services
DEH	Department for Environment and Heritage
DEST	Department of Education, Science and Training
DEWR	Department of Employment and Workplace Relations
DFC	Department for Families and Communities
DFD	Domestic Final Demand
DFEEST	Department of Further Education, Employment, Science and Technology
DH	Department of Health
DHP	Disability Housing Program
DLC	Distribution Lessor Corporation
DNA	Deoxyribonucleic acid
DPC	Department of the Premier and Cabinet
DPP	Director of Public Prosecutions
DSO	Disability Service Organisations
DSTO	Defence Science and Technology Organisation
DTED	Department of Trade and Economic Development
DTEI	Department for Transport, Energy and Infrastructure
DTF	Department of Treasury and Finance
DWLBC	Department of Water, Land and Biodiversity Conservation
EC	Exceptional Circumstances
EDB	Economic Development Board
EOI	Expression of Interest
EMA	Emergency Management Australia
EOC	Equal Opportunity Commission

EPA	Environment Protection Authority
ERBCC	Expenditure Review and Budget Cabinet Committee
ESCOSA	Essential Services Commission of South Australia
ESL	Emergency Services Levy
FBT	Fringe Benefits Tax
FHOG	First Home Owner Grant
FOI	Freedom of Information
FRC	Financial Reporting Council
FTE	full time equivalent
Funds SA	Superannuation Funds Management Corporation of South Australia
GAMD	Group Asset Management Division
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GL	gigalitre
GLC	Generation Lessor Corporation
GMA	Guaranteed Minimum Amount
GoGO	Greening of Government Operations
GP	General Practitioner
GRF	Gamblers Rehabilitation Fund
GRN	Government Radio Network
GSP	Gross State Product
GST	Goods and Services Tax
HACC	Home and Community Care
HFE	horizontal fiscal equalisation
HoTs	Heads of Treasuries
HOTARAC	Heads of Treasuries Accounting & Reporting Advisory Committee
HPI	hourly paid instructors
IAP	Intelligent Access Program
IAS	International Accounting Standard
ICANs	Innovative Community Action Networks

ICT	Information Communication and Technology
IDSC	Intellectual Disability Services Council
IGA	<i>Intergovernmental Agreement on the Reform of Commonwealth State Financial Relations</i>
ILUA	Indigenous Land Use Agreement
IMF	International Monetary Fund
IMVS	Institute of Medical and Veterinary Science
INRM	Integrated Natural Resource Management
IT	Information Technology
ITAA	Income Tax Assessment Act
ITSSED	Information Technology Services and State Economic Development
KPI	key performance indicator
LCA	Loan Council Allocation
LGA	Local Government Association
LGFA	Local Government Finance Authority of South Australia
LMC	Land Management Corporation
LMH	Lyell McEwin Hospital
LSL	long service leave
LWOP	leave without pay
MAC	Motor Accident Commission
MDC	Metropolitan Domiciliary Care
MFS	Metropolitan Fire Service
MYBR	Mid-Year Budget Review
MYEFO	Mid Year Economic & Fiscal Outlook
NAP	National Action Plan for Salinity and Water Quality
NCC	National Competition Council
NCP	National Competition Policy
NCRIS	National Collaborative Research Infrastructure Strategy
NCVER	National Centre for Vocational Education and Research
NDCA	National Data Collection Agency
NEM	National Electricity Market

NEMMCO	National Electricity Market Management Company Ltd
NEPM	National Environment Protection Measures
NFD	non-Farm deflator
NFL	net financial liabilities
NFPS	non-financial public sector
NGASA	Natural Gas Authority of South Australia
NGOs	Non Government Organisations
NGR	net gambling revenue
NHT	Natural Heritage Trust
NPPs	National Partnerships payments
NPSF	New Prisons and Secure Facilities
NPV	net present value
NQC	National Quality Council
NRA	National Reform Agenda
NRM	National Resources Management
NTER	National Tax Equivalent Regime
NWR	net wagering revenue
OCBA	Office of Consumer and Business Affairs
ODPP	Office of the Director of Public Prosecutions
OFV	Office for Volunteers
OfY	Office for Youth
OHSW	Occupational Health Safety & Welfare
OLGC	Office of the Liquor and Gambling Commissioner
OMPI	Office of Major Projects and Infrastructure
OPA	Office of the Public Advocate
OPC	Office of Parliamentary Counsel
OPE	Office of Public Employment
OVCB	Office of the Venture Capital Board
PAMC	Port Adelaide Maritime Corporation
PFC	public financial corporation

PIRSA	South Australian Department of Primary Industries and Resources
PNFC	public non-financial corporation
PPP	Public Private Partnership
PSM Act	Public Sector Management Act
PSRC	Premier's Science and Research Council
PSRF	Premier's Science and Research Fund
RAAP	Road Accident and Awareness Prevention Program
RAES	Remote Areas Energy Supplies
RAH	Royal Adelaide Hospital
RBA	Reserve Bank of Australia
RCCC	Regional Communities Consultative Council
RDB	Regional Development Board
RDIF	Regional Development Infrastructure Fund
RDNS	Royal District Nursing Service
REC	renewable energy certificate
REES	Residential Energy Efficiency Scheme
REMCO	Retail Market Administrator (gas)
RISTEC	Tax Revenue Management System Project
ROGS	Report on Government Services
SA	South Australia
SAAMC	South Australian Asset Management Corporation
SAAP	Supported Accommodation Assistance Program
SABREnet	South Australian Broadband Research and Education Network.
SACE	South Australian Certificate of Education
SACHA	South Australian Community Housing Authority
SACOSS	South Australian Council of Social Services
SAFA	South Australian Government Financing Authority
SAFE	Secure Australian Facilities Environment
SAFECOM	South Australian Fire and Emergency Services Commission
SAFSA	Structural Adjustment Fund for South Australia

SAGERP	South Australian Government Employee Residential Properties
SAHS	Southern Adelaide Health Service
SAHT	South Australian Housing Trust
SAICORP	South Australian Government Captive Insurance Corporation
SAIPAR	South Australian Independent Pricing and Access Regulator
SAMFS	South Australian Metropolitan Fire Service
SAMIS	Strategic Asset Management Information System
SAPE	South Australian Private Equity
SAPOL	South Australia Police
SARDI	South Australian Research Development Institute
SARI	South Australian Racing Industry
SASI	South Australian Sports Institute
SATC	South Australian Tourism Commission
SATSS	South Australian Transport Subsidy Scheme
SECUF	Secure Electronic Common User Facility
SEO	State Electoral Office
SES	State Emergency Service
SFD	State Final Demand
SFO	Senior Finance Officers
SNA93	United Nations System of National Accounts 1993
S&P	Standard and Poor's
SPP	specific purpose payment
SPSA	Secure Partnerships SA
SRF	Supported Residential Facilities
SSABSA	Senior Secondary Assessment Board of South Australia
SSRO	Shared Services Reform Office
TAFE	Technical and Further Education
TCP	Torrens Corrections Partnership
TER	Tax Equivalent Regime
TLC	Transmission Lessor Corporation

TRACsa	South Australian Centre for Trauma & Injury Management
Triple S	Southern State Superannuation
TRT	Temporary Relieving Teachers
TVSP	targeted voluntary separation package
UPF	Uniform Presentation Framework
VCB	Venture Capital Board
VERIS	Volunteer Emergency Recovery Information System
VET	vocational education and training
VICs	Visitor Information Centres
VSP	voluntary separation package
VTE	Vocational and Technical Education
WCH	Women's and Children's Hospital
WCI	Wage Cost Index





**Government  
of South Australia**