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EXECUTIVE SUMMARY

The 2003-04 Budget is another significant step towards putting the State's finances on a strong and sustainable basis. It reaffirms the Government's commitment to manage the State's finances responsibly while continuing to direct expenditure to priority areas.

This Budget Statement discusses the State's financial position and outlook to 2006-07. A summary of the highlights in each of the chapters is provided below.

CHAPTER 1 2003-04 BUDGET STRATEGY

The 2003-04 Budget delivers substantial improvements in the general government net lending position. An accrual surplus is expected in 2002-03 and in the forward years, with a small deficit in 2003-04. Strong cash surpluses are also projected in the general government sector across the forward years.

The budget outcome is consistent with the Government's fiscal principles, including its primary fiscal target: to achieve, on average, balanced budgets in the general government sector.

The accrual estimates of net lending surpluses in the budget should however, be viewed in the context of risks to the budget and the State's overall financial position. These factors reinforce the need for continued financial discipline and constraint.

A key feature of the budget is that the Government's budget policy measures have ensured that surpluses are maintained in the forward years. These surpluses are prudent in light of the existence of revenue and expenditure risks that could erode the budget surpluses in future years.

The 2003-04 Budget reflects the Government's priorities of human services, education, safer communities and economic development. Initiatives to improve the long-term security and quality of South Australia's water supply have also received funding.

CHAPTER 2 EXPENDITURE

The 2003-04 Budget includes initiatives in the general government sector totalling \$860 million over the next four years.

The budget includes agency savings and additional agency based revenue measures totalling \$538 million over the next four years.

Savings initiatives in this budget will see some reduction in total employment in the general government sector. The downward effect of this reduction in employment on employee expenses is more than offset by expected increases in employee remuneration. The outcomes of future wage negotiations will be crucial in determining whether the forward estimates of expenditure in this budget can be achieved.

In 2001-02 South Australia's actual expenditures were 16% above the equivalent standardised expenditures. While higher expenditure levels are appropriate where they are justified by the preferences of the South Australian community or economy, they are not justified when government programs are not as efficient as they should be. The Government is committed to regularly reviewing expenditures to ensure that areas of inefficiency are identified and addressed.

CHAPTER 3 REVENUES

Revenue measures are kept to a minimum in this budget.

The most significant revenue measure is the introduction of a River Murray Levy which will be used to fund major policy initiatives aimed at restoring and protecting the River Murray. The levy is forecast to deliver revenue over a full year of \$20 million.

The standard mining royalty rate will be increased from 2.5% to 3.5% by 31 December 2005 to secure the State's current level of royalty revenue from minerals.

Additional resources of \$1.1 million are being provided to RevenueSA to support a higher level of tax compliance across a range of taxes in 2003-04. The new initiatives provide for revenue returns in the region of \$10.5 million from 2003-04.

Rental and mortgage duty rates will be amended to address a tax-induced shift in financing arrangements from commercial hire purchase to chattel mortgages.

There will be no increase in Emergency Services Levy rates payable by property owners in 2003-04.

Government regulated fees and charges will generally increase by 3.9% from 1 July 2003.

CHAPTER 4 INTERGOVERNMENTAL FINANCES

South Australia's per capita relativities for distribution of Commonwealth general-purpose payments to the States were increased in the Commonwealth Grants Commission's 2003 Update. The higher relativities equate to an increase for South Australia in general-purpose payments of \$38.5 million over payments received using the previous relativities.

South Australia is expected to benefit from the revised Commonwealth-State financial arrangements flowing from the Commonwealth's imposition of the GST from 2006-07.

CHAPTER 5 THE BALANCE SHEET

The Government's projected accrual surpluses are forecast to reduce the public sector's liabilities.

General government net worth and net financial worth are forecast to increase over the forward estimates.

General government net debt and superannuation liabilities are expected to decline as a percentage of GSP and relative to other states. Non-financial public sector debt is also forecast to improve over the forward estimates as a result of the GFS cash surpluses in the non-financial sector.

The Government is committed to eliminating unfunded superannuation liabilities by 2034. The unfunded superannuation liability is forecast to increase by around \$500 million in 2003-04. This is primarily due to negative investment returns on domestic and international equity markets.

CHAPTER 6 GOVERNMENT BUSINESSES

The buoyant property market has contributed to estimated above budget results in 2002-03 for Homestart finance, Land Management Corporation, Forestry SA and SA Water.

During 2002-03 the unfunded liability of WorkCover increased significantly mainly due to reassessment of the claims liability and losses on investments. The Government has announced that it is introducing legislative amendments to ensure that WorkCover is more accountable and transparent, and that its finances are rigorously assessed.

CHAPTER 7 RISK STATEMENT

Financial risks may affect both revenue and expenditure forecasts included in the 2003-04 Budget. The ultimate net financial impact of the many sources of risks is by definition uncertain.

The State's revenues (including Commonwealth grants) are affected both by local economic conditions and, with a lag, by economic conditions in other States.

The main expenditure risks relate to the future growth rates of wages and salaries, the largest single component of total expenditure. The expenditure outlook is also subject to a range of other risks, including: interest rates; contingent liabilities; capital costs; share market movements; and various prices, including fluctuations in foreign exchange rates.

Risks that adversely impact upon a public non financial corporation's profitability may affect the corporation's ability to pay dividends and make tax equivalent payments to the Government, thereby impacting on the general government budgetary position.

CHAPTER 8 SOUTH AUSTRALIAN ECONOMY

The South Australian economy continued to experience solid economic growth during the first half of 2002-03, resulting in strong employment growth and further reductions in unemployment.

The trend unemployment rate in South Australia fell to 6% at the end of 2002 — the lowest for 25 years.

In 2002-03, the Department of Treasury and Finance expects South Australia's GSP to grow by around 3¼% - slightly above national Gross Domestic Product (GDP) growth of 3%.

South Australian overseas goods exports increased by 4% in 2002 and, in nominal value, increased 0.5% in the 12 months to February 2003, demonstrating resilience in light of weak international markets, the strengthening Australian dollar and the drought.

Appendix A provides the South Australian Government financial information under the Uniform Presentation Framework.

Appendix B presents the estimated outcome of the non-commercial sector on a cash basis compared with the original budget for 2002-03 and the 2003-04 estimates.

Appendix C provides historical information on the ABS defined general government sector net lending/borrowing aggregates back to 1998-99.

Appendix D provides details of the budgeted receipts and payments in the Consolidated Account for 2002-03 and 2003-04.

Appendix E provides a listing of all South Australian Government entities and the sectors to which they belong under the various reporting frameworks.

Appendix F provides a summary of tax expenditures incurred by the Government of South Australia in 2002-03 and 2003-04.

A glossary and a list of abbreviations are also provided.

Throughout this budget paper, reference is made to real term aggregates and growth rates. All real terms calculations use the Australian Non-Farm GDP price deflators, unless specifically stated otherwise.

CHAPTER 1: 2003-04 BUDGET STRATEGY

OVERVIEW OF 2003-04 BUDGET

The 2003-04 Budget is another significant step towards putting the State's finances on a strong and sustainable basis. This budget builds on the achievements of the Government's first budget. It reaffirms the Government's commitment to manage the State's finances responsibly while continuing to direct expenditure to priority areas.

An accrual surplus is expected in 2002-03 and in the forward years, with a small deficit in 2003-04. This is the first time that accrual surpluses have been forecast by a South Australian Government in a budget since accrual accounting was introduced.

The net lending outcome means that revenues will more than meet general government operating expenses as well as funding all capital expenditure without the necessity of adding to the State's debt. It is consistent with the Government's fiscal strategy, which aims to control the public sector's level of liabilities by ensuring the ongoing operations of the general government sector are fully funded by revenues. The fiscal strategy and principles established by the Government are outlined in the Fiscal Strategy section.

The accrual estimates of net lending surpluses in this budget should be viewed in the context of risks to the budget and the State's overall financial position. These factors reinforce the need for continued financial discipline and constraint.

The Government has made substantial progress in strengthening South Australia's finances. However, while government financial liabilities have been reduced, they are higher than in other major states. Relative revenue and spending levels are also higher in South Australia, and our credit rating is lower than most other States. The Government is committed to improving South Australia's position, by building on the substantial achievements of its first two budgets and delivering sound budgets in the years ahead.

Table 1.1 shows a modest net lending deficit in 2003-04 followed by surpluses thereafter. Strong cash balances are projected across the forward years.

Table 1.1 General government sector aggregates (\$ million)

	2002-03	2003-04	2004-05	2005-06	2006-07
Accrual net lending	312	- 20	77	109	133
Cash surplus	509	83	133	219	224

The budget has benefited from increases in revenue forecasts. These improvements primarily arise from increases in estimates of Commonwealth grants and increases in estimates of conveyancing duty and payroll tax.

Taxation measures in this budget will deliver an additional \$21 million in 2003-04. The most important measure is a levy to fund a range of expenditures aimed at improving the health of the River Murray and securing the State's future water supplies. The problems facing the River Murray, including associated salinity problems, are a major challenge facing the State and must be urgently addressed.

The 2003-04 Budget contains expenditure measures of over \$260 million in 2003-04, principally directed to high priority areas including health, education, social justice, law and order including provision for the construction of a new women's prison and youth detention centre, the River Murray improvement program and economic development. Investing measures include the computer-aided

dispatch project, high performance computing initiative, de-institutionalisation of mental health care, the upgrading of the Glenelg to Victoria Square tramline including new trams and the Port River expressway.

Savings and agency revenue measures totalling \$121.3 million in 2003-04 will be implemented, with savings redirected to fund high priority initiatives. Savings measures will be achieved through a range of agency-based measures, including agency administrative savings, agency revenue measures, more efficient use of resources and a reduction of low priority and low demand services.

The Government remains committed to fully funding superannuation liabilities by 2034, with the budget providing for payments to Funds SA for the annual new service expense and payments to fund the past service liability.

The South Australian economy has continued to experience solid economic growth during the first half of 2002-03, resulting in strong employment growth and further reductions in unemployment. Strong employment growth in South Australia reduced the trend unemployment rate to 6.0% at the end of 2002 – its lowest level for over 25 years.

FISCAL STRATEGY

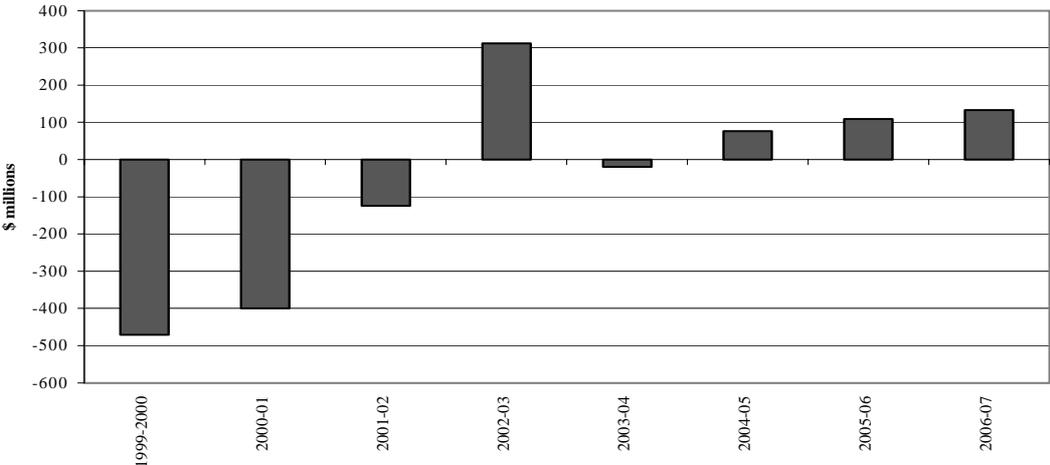
FISCAL TARGETS

The Budget has been framed within the Government’s fiscal responsibility framework. The Government’s performance to date against the announced fiscal targets is summarised in Table 1.2.

The Government’s primary fiscal target is to achieve accrual budget balance, on average, in the general government sector. The budget balance is measured by the net lending position of the Government. A surplus means that net financial liabilities are being reduced (before any revaluation effects).

Figure 1.1 illustrates the improvement in the general government sector from a net borrowing to a net lending position, on average, across the forward estimates.

Figure 1.1 General government sector net lending



1999-2000 to 2001-02 actuals; 2002-03 to 2006-07 forecasts

The improved general government sector net lending position for 2002-03 compared to the 2002-03 Budget estimates can be attributed largely to the strength of the South Australian economy, in particular the property market and employment and agency under-expenditure. The Government has carefully examined all agency under-expenditure. Carryover of expenditures into later years will only be allowed where the need for the extra expenditure in later years is clearly established. Lower interest rates have also contributed to the improved budgetary position.

Table 1.2 Progress in achieving fiscal targets

Target	Progress in Achieving Target
<i>To achieve, on average, balanced budgets in the general government sector</i>	The 2003-04 Budget delivers substantial improvements in the general government net lending position. The projected budget outcomes for 2003-04 to 2006-07 clearly achieve this objective. The challenge is to ensure that actual outcomes for these years also meet the objective.
<i>To ensure the State has an effective tax regime having regard to the Government's social and economic objectives</i>	The budget contains revenue measures, including increased emphasis on tax compliance, to improve tax design in specific areas and to improve the effective operation of existing tax bases.
<i>To provide value for money community services and economic infrastructure within available means</i>	Significant funding for priority services has been maintained and where required, increased. The budget also provides necessary infrastructure to enhance service delivery in priority areas.
<i>To fully fund accruing superannuation liabilities and progressively fund past service superannuation liabilities</i>	The Government's target is to fully fund superannuation liabilities by 2034. In addition, the Government requires agencies to fully fund new accruing superannuation liabilities within budget allocations as those liabilities accrue. The Government has increased scheduled cash payments, compared to the 2002-03 Budget, for every year to 2034, to ensure that superannuation liabilities are fully funded by 2034, despite the impact of a sustained downturn in world equity markets in 2002-03.
<i>To ensure risks to State finances are prudently managed, while maintaining at least AA plus credit rating</i>	Risks to State finances are significantly reduced by the measures the Government has taken to constrain the growth in net debt and unfunded superannuation liabilities. The risks facing the State's finances are outlined in Chapter 7 along with a number of policies the Government has adopted to manage those risks. Over the forward estimates South Australia's balance sheet will become comparable to some AAA-rated States
<i>To ensure public non-financial corporations will only be able to borrow where they can demonstrate that investment programs are consistent with commercial returns (including budget funding)</i>	The potential sources of growth in the debt of public corporations are underpinned by commercial returns. During 2002-03, the Government strengthened its capacity to monitor and report on Government businesses, with further reforms proposed for 2003-04.

FISCAL OUTLOOK

KEY BUDGET AGGREGATES AND FISCAL TRENDS

This budget demonstrates significant progress in achieving the Government's target of balanced budgets in the general government sector, on average, over the next four years.

Further details of the budget and forward estimates for the general government sector are provided in Table 1.3. The full suite of accrual statements produced under the Uniform Presentation Framework is provided in Appendix A. Key fiscal trends are summarised in Table 1.4.

Table 1.3 General government sector operating statement — 2002-03 to 2006-07^(a)

	2002-03 Budget	2002-03 Estimated Result	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Operating revenue						
Taxation revenue	2 183	2 373	2 463	2 559	2 609	2 713
Sales of goods and services	832	930	952	981	1 008	1 019
Other State source revenue ^(b)	292	299	294	300	306	298
Commonwealth grants (current)	4 528	4 545	4 671	4 744	4 956	5 142
Commonwealth grants (capital)	153	173	166	158	142	134
Other grants	40	57	58	58	59	59
<i>Total operating revenue</i>	<i>8 027</i>	<i>8 376</i>	<i>8 603</i>	<i>8 800</i>	<i>9 080</i>	<i>9 364</i>
<i>less</i>						
Operating expenses						
Gross operating expenses excluding depreciation	6 179	6 304	6 568	6 629	6 760	6 866
Current transfers	1 500	1 479	1 516	1 581	1 651	1 629
Capital transfers	43	61	23	17	10	10
<i>Total operating expenses</i>	<i>7 723</i>	<i>7 845</i>	<i>8 106</i>	<i>8 227</i>	<i>8 421</i>	<i>8 504</i>
<i>equals</i>						
Current operating surplus before interest, depreciation and dividends	305	531	497	573	659	860
less Net interest expense	164	146	126	125	122	109
less Nominal superannuation interest expense	284	299	337	345	352	360
plus Distributions received from PNFCs and PFCs	635	649	435	418	359	322
less Depreciation	388	406	410	413	424	425
<i>equals</i>						
GFS net operating balance	104	329	58	108	120	288
<i>less</i>						
Net acquisition of non-financial assets						
Gross fixed capital formation	565	420	486	444	434	580
less Depreciation	388	406	410	413	424	425
plus Change in inventories	2	2	2	—	—	—
<i>equals Total net acquisition of non-financial assets</i>	<i>179</i>	<i>17</i>	<i>78</i>	<i>31</i>	<i>11</i>	<i>155</i>
<i>equals</i>						
GFS net lending	- 75	312	- 20	77	109	133

(a) The GFS net operating balance and GFS net lending are consistent with those aggregates produced pursuant to the Uniform Presentation Agreement in Appendix A. Items in the table have been reordered to present the current operating surplus which is comparable to the concept of EBIDD (earnings before interest, dividends and depreciation)

(b) Excluding dividends received from PNFCs and PFCs and capital grants.

Table 1.4 Fiscal trends^(a) — general government — 2001-02 to 2006-07

		2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
		Actual	Estimated	Budget	Estimate	Estimate	Estimate
			Result				
Budget balances							
Net lending	\$m	- 124	312	- 20	77	109	133
Net operating balance	\$m	- 174	329	58	108	120	288
Cash balance	\$m	- 50	509	83	133	219	224
Revenue and expenses							
Total operating expenses real growth	%	2.2	-2.4	1.1	-0.5	0.3	-1.0
Total operating revenue real growth	%	4.4	0.1	0.5	0.3	1.1	1.1
Interest and debt ratios							
Net interest to total revenue ^{(b) (c)}	%	1.7	1.6	1.4	1.4	1.3	1.1
Net interest plus nominal superannuation interest to total revenue ^(c)	%	4.6	4.9	5.1	5.1	5.0	4.8
Net debt to total revenue	%	15.3	8.4	7.8	6.5	4.3	2.4

(a) Adjusted to remove impact of expenditure increases and State tax reductions on account of implementation of *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.

(b) Net interest does not include nominal superannuation interest expense

(c) Total revenue does not include interest income.

The surpluses across the forward estimates are forecast to result in further reductions in general government net debt. This, combined with expected growth in revenues, means that the estimated ratio of net debt to revenues falls across the forward estimates.

Although the gap is being narrowed, South Australia's financial position is not as strong as the average for other States. This is why the Government is aiming to continue reducing debt levels. By keeping debt under control the Government is creating a positive environment for economic growth and investment in South Australia. Lower debt means that South Australia will be better placed in the future to manage the demands of an ageing population. Nevertheless, it is also important to note that small changes in the assumptions underlying the revenue and expenditure estimates, or small changes in future interest rates, could result in a reversal of the forecast trends in net debt to operating revenue ratios.

The Government's fiscal target reflects a commitment to contain liabilities within the general government sector. Table 1.5 and Figure 1.2 show decreases in general government and non financial public sector net debt over the forward estimates. The non-financial public sector includes both the general government sector and public non-financial corporations (such as SA Water). The decreases in net debt reflect both general government sector surpluses and reductions in public non-financial corporation debt.

Table 1.5 Balance sheet indicators — June 2002 to June 2007

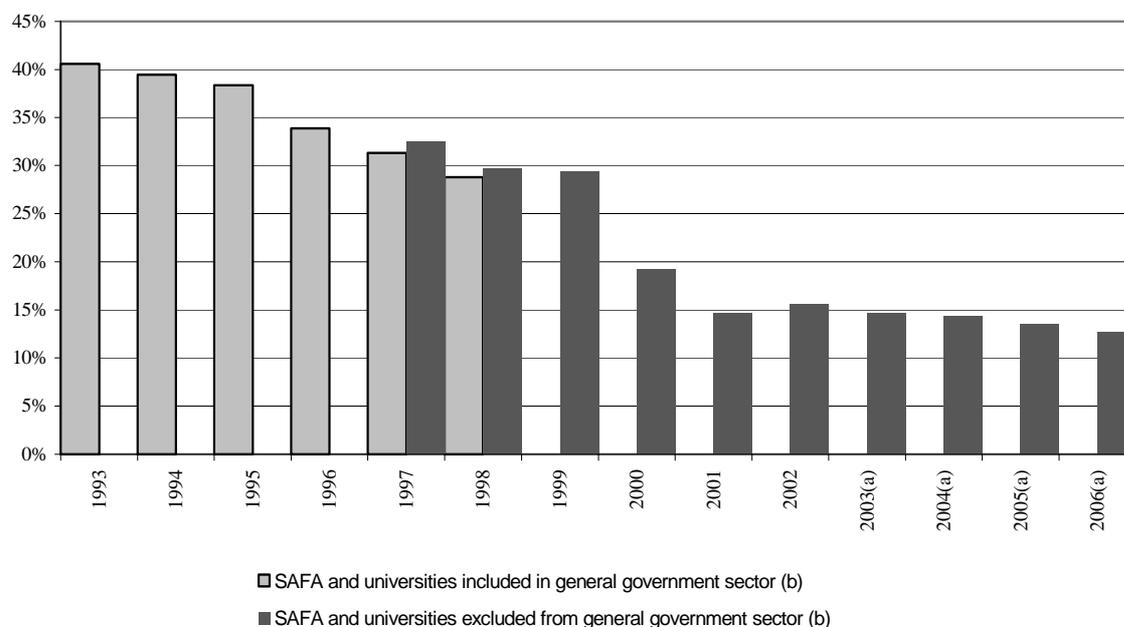
As at 30 June	2002	2003	2004	2005	2006	2007
	Actual	Estimated	Budget	Estimate	Estimate	Estimate
	\$m	Result \$m	\$m	\$m	\$m	\$m
General government						
Net financial worth	3 559	3 090	3 063	3 212	3 485	3 803
Liabilities						
Net debt	1 303	766	719	604	409	232
Unfunded superannuation	3 998	4 494	4 596	4 697	4 793	4 886
Non-financial public sector						
Net debt	3 317	2 824	2 905	2 741	2 525	2 217
Unfunded superannuation	3 998	4 494	4 596	4 697	4 793	4 886

A more complete picture of government liabilities is provided by adding unfunded superannuation to net debt. Indeed, unfunded superannuation liabilities are greater than the level of net debt. These liabilities are estimated to have grown by about \$500 million in 2002-03. This is primarily due to negative investment returns on domestic and international equity markets. Across the forward years unfunded superannuation liabilities are forecast to grow moderately.

The Government is committed to ensuring all superannuation liabilities are funded by 2034. In order to ensure this target is met, the Government has increased scheduled cash payments for future years following the investment setbacks encountered in 2002-03.

Chapter 5 provides more information on the management of superannuation assets and liabilities.

Figure 1.2 South Australian non-financial public sector net debt plus unfunded superannuation liabilities as a percentage of GSP



(a) 2003 onwards based on estimates

(b) Until 1997-98 the Australian Bureau of Statistics (ABS) classified SAFA and universities as belonging to the general government sector. Since that time SAFA has been classified to the public financial institutions, and universities have been removed from individual State finance statistics and are treated as belonging to a 'multi-jurisdictional' category.

Table 1.6 Interstate comparison of key budget aggregates (figures for 2002-03)^(a)

Indicators	NSW	Vic	Qld	WA	SA	Tas	ACT	NT ^(b)
General government net lending (\$m)	86	314	-976	52	312	37	121	-140
General government net financial worth/per capita (\$)	3619	1917	3037	4849	2027	2949	8135	-8601
Non-financial public sector net debt/GSP (%)	5.7	1.4	0.2	7.0	5.6	17.2	0.7	19.7
Non financial public sector net debt & superannuation liabilities/total revenue (%)	67	57	50	72	74	131	72	122
Credit rating	AAA	AAA	AAA	AAA	AA+	AA	AAA	na

(a) Vic, WA and ACT data is based on information contained in their 2003-04 Budget Statements. Other states/territories data has been sourced from 2002-03 Mid Year Review Papers.

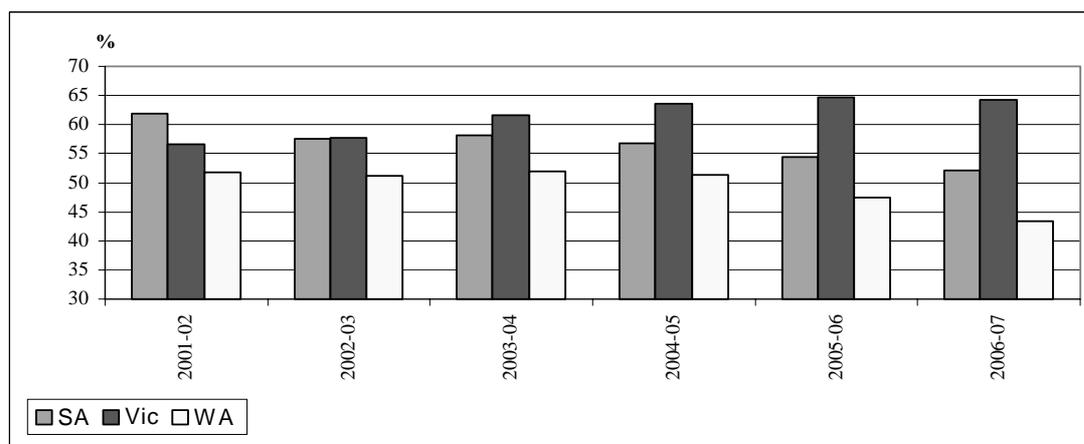
(b) No credit rating has been provided to Northern Territory

While South Australia's net debt and unfunded superannuation liabilities are forecast to reduce, these liabilities are currently higher as a percentage of total revenues when compared against the average of other states.

South Australia's expenditure in 2001-02 is estimated to be 16% higher than the Commonwealth Grants Commission's estimate of the cost for South Australia to deliver services at a level comparable with the national average. Actual expenditure on education and health in 2001-02 was estimated to be in the order of 19% and 16% higher respectively than the estimated standardised national average expenditure. Similarly, South Australia's relative tax effort continues to be well above the national average in 2001-02.

The 2003-04 Budget is an important building block in putting the State's balance sheet on a stronger basis and achieving a fiscal position comparable with other Australian mainland states. Figure 1.3 shows that based on the forecasts contained in the 2003-04 State budgets released to date, South Australia's general government net debt and superannuation liabilities fall across the forward estimates. In fact, over the period, the ratio of South Australia's net debt and superannuation liabilities to total revenue falls below that of Victoria and the gap with Western Australia is reduced. Both of these States have AAA ratings.

Figure 1.3 General government net debt and superannuation liabilities to total revenue



Source: 2003-04 Budget Statements

VARIATION TO NET LENDING ESTIMATES

Table 1.7 provides a reconciliation of the 2003-04 Budget estimates with the corresponding estimates published in the 2002-03 Budget and 2002-03 Mid-Year Review.

The table shows that the budget estimates have improved significantly since the 2002-03 Budget and further since the 2002-03 Mid-Year Review on account of favourable movements in parameters underlying the budget. Prior to taking into account any revenue and expenditure measures, the no policy change estimates show reasonable surpluses.

Estimates of taxation revenues have increased substantially as a result of continued strength in the South Australian economy, in particular in the property market. Estimates of Commonwealth grants receipts have also increased significantly as a result of improved Commonwealth Grants Commission relativities, increased population estimates and increased CPI estimates. Other favourable parameter improvements include lower interest expenses resulting from estimates of lower interest rates and lower debt levels, and improved transaction volumes underlying State fees and charges. Interest rates have fallen during 2002-03, including since the Mid-Year Review. This benefits the budget but interest rates are forecast to increase above present levels over the forward estimates.

The favourable parameter movements have been offset to some extent by increased estimates of superannuation interest expense due to increases in superannuation liabilities. Further details on superannuation liabilities are provided in Chapter 5. Other unfavourable movements include downward revisions in estimates of royalty receipts.

The budget includes the funding of \$49 million of policy measures in 2002-03 taken by the Government since the Mid-Year Review. These policy initiatives include, amongst others, the Government's recent offer to South Australian salaried medical officers made during the negotiation of a new enterprise agreement; additional funding for metropolitan public hospitals and the TAFE sector; and funding for additional staff to ensure safe staffing in Correctional Services.

A key feature of this budget is that the Government's policy measures in the budget have ensured that strong surpluses are maintained in the forward years. These surpluses are prudent in light of revenue and expenditure risks that could erode the budget surpluses in future years. Spending measures in this budget have been largely funded from savings, revenue measures or the use of provisions set aside in the 2002-03 Budget.

Table 1.7 Reconciliation statement — general government net borrowing

	2002-03 Estimated result \$m	2003-04 Budget \$m	2004-05 Budget \$m	2005-06 Budget \$m	2006-07 Budget \$m
2002-03 Budget	-75	-88	-65	-96	n.a.
Parameter and other variations					
Revenue	151	73	110	138	n.a.
Operating expenses ^(a)	-9	-2	-13	-24	n.a.
Net effect of parameter and other variations	143	71	97	114	n.a.
Policy measures					
Revenue	-6	-11	-12	-12	n.a.
Operating expenses ^(a)	-14	-27	-8	-14	n.a.
Net effect of policy measures	-19	-38	-20	-26	n.a.
2002-03 Mid Year Review ^(b)	48	-54	12	-8	-34
Parameter and other variations					
Revenue - taxation	42	56	49	58	60
Revenue - other	20	50	67	81	127
Operating expenses ^(a)	120	-2	-15	-13	21
Capital investment expenditure	97	-52	-23	-12	-2
Net effect of parameter and other variations	278	52	79	114	206
Policy measures up to the Budget					
Operating expenses ^(a)	-49	-28	-17	-8	-16
Net effect of policy measures up to the Budget	-49	-28	-17	-8	-16
Policy measures in the Budget					
Revenue - taxation	0	21	29	33	41
Revenue - other	0	82	13	29	21
Operating expenses ^(a)	-1	-66	-68	-45	-46
Capital investment expenditure	-3	-88	-51	-252	-26
Use of provisions set aside in the 2002-03 Budget	38	62	80	246	-13
Net effect of policy measures in the Budget	35	11	3	12	-23
2003-04 Budget	312	-20	77	109	133

(a) Excluding depreciation

(b) The 2006-07 starting point was not included in the 2002-03 Mid Year Review, but has been presented on a comparable basis

BUDGET PRIORITY AREAS

The 2003-04 Budget reflects the Government's priorities of health, social inclusion, education, economic development and ensuring the security and safety of the South Australian community. Initiatives to improve the long-term security and quality of South Australia's water supply have also received funding.

STRONGER HEALTH SYSTEM AND SOCIAL INCLUSION

In 2003-04 \$3 330.8 million will be directed to support the delivery of human services (including housing services provided by the South Australian Housing Trust). This is an increase in the Human Services budget of \$125.6 million over the 2002-03 estimated outcome. On a per capita basis this equates to expenditure of \$2 160 in 2003-04, an increase of \$81.

The Human Services budget includes new initiatives of \$176 million over four years including:

- \$66.4 million over four years – additional nursing costs (\$6.7 million per annum), increased Intensive Care Unit activity (\$7.5 million per annum), and the protection of vital blood supplies (\$2.4 million per annum)
- \$20.9 million over four years for services for disabled people
- \$12.0 million over four years for child protection initiatives
- \$16.6 million over four years for additional support to alternative care.

Other initiatives that have received funding include:

- \$12.0 million over four years to assist the homeless
- \$12.0 million over four years for Anangu Pitjantjatjara Lands strategies.

COMMITMENT TO EDUCATION

The Government has increased spending in the schools sector by \$66.0 million between the 2002-03 estimated result and the 2003-04 Budget (or \$71.9 million including growth in State grants to non-government schools). Including non-government school grants this represents growth of 1.9% in real terms. Expenditure per public school student will rise by at least 2.9% in real terms. (Total DECS expenditure divided by projected enrolments in public schools.)

The Government is also supporting growth in the further education sector with an increase in expenditure for further education, employment, science and technology of \$21.1 million between the 2002-03 estimated result and the 2003-04 Budget or 2.8% in real terms (this includes the addition of \$13.7 million added to 2002-03 expenditure in April 2003).

New initiatives in education amount to \$56.4 million over four years and include:

- \$16.7 million over the next three years for essential maintenance and capital improvements in TAFE infrastructure
- \$2.0 million in 2003-04 for system-wide facilities maintenance in schools
- \$18.6 million over four years for various new initiatives/cost pressures in the TAFE system
- \$4.0 million over four years in response to recommendations from the Kirby Report for enhanced financial management capacity and infrastructure in TAFE institutes
- \$8.0 million over four years for the employment of school counsellors.

SAFER COMMUNITIES

Expenditure within the Justice portfolio amounts to \$865 million in 2003-04, an increase of \$61.9 million between the 2002-03 estimate result and the 2003-04 Budget, an increase of 5.3% in real terms.

Police expenditure will increase by 4.7% in real terms between the 2002-03 estimated result and the 2003-04 Budget.

New initiatives of \$124.9 million over four years support a range of initiatives in the justice area, including:

- \$23.5 million over four years for operational policing expenses
- \$13.8 million over four years to standardise and modernise dispatch systems within Police, SA Ambulance and the SA Metropolitan Fire System
- \$11.4 million over four years for the SA Metropolitan Fire Service
- \$7.2 million over four years to increase staffing and reduce workloads in Correctional Services.

ECONOMIC STRENGTH

The former Industry and Trade portfolio has been restructured with the abolition of the Department of Industry and Trade and the creation of the Office of Economic Development (OED) and the Department for Business, Manufacturing and Trade (DBMT). The OED has been established to support the Economic Development Board (EDB) and implement the State's Economic Development Framework including:

- establishment of a Venture Capital Board and Venture Capital Fund to develop the venture capital sector in South Australia at a cost of \$11.4 million over four years
- \$14.2 million over four years on Innovation, Science and Technology initiatives, including \$1 million per annum to establish the Premier's Research and Innovation Fund and \$3.1 million in 2003-04 to develop High Performance Computing facilities in South Australia including education, expertise and industry diffusion programs
- \$8.4 million over four years for the establishment of a Broadband Telecommunications Task Force and an infrastructure fund to develop the State's broadband telecommunications.

The Higher Education Council and the Defence Industry Advisory Board are significant development-related activities.

The DBMT will continue to provide business with advice and assistance on development opportunities, accessing export markets, training and business plans.

The Government will increase the number of skilled migrants who settle in South Australia through the Business Establishment Incentive Package and Skilled on Arrival programs.

THE RIVER MURRAY

The Government has introduced a broad based levy to fund critical expenditure needed to ensure the health of the River Murray. Details of the levy are presented in Chapter 3. The levy will support the following initiatives totalling \$79.2 million over the next four years:

- \$39.5 million for the new River Murray Water Trust to increase environmentally crucial waterflows
- \$24.1 million for the implementation of the River Murray water allocation plan, salinity reduction, funding more water-efficient ways to irrigate, wetland management, water quality improvement, conserving the River Murray's ecology, upgrading the River's waste disposal stations and drainage disposal system and river management
- additional State contributions to the Murray Darling Basin Commission of \$15.6 million over the next four years.

Further information on each of the operating and investing initiatives is provided in Chapter 2.

FISCAL RESPONSIBILITY FRAMEWORK

As part of its Honesty and Accountability in Government policy, the Government has established a framework to ensure that the current and future governments manage South Australia's finances with transparency and accountability.

The framework comprises: an amended Public Finance and Audit Act; a Charter of Budget Honesty; fiscal principles (as described in the Fiscal Strategy section); reporting requirements of budget papers, mid-year review, outcome report and pre-election update.

CHARTER OF BUDGET HONESTY

The *Public Finance and Audit (Honesty and Accountability in Government) Amendment Bill 2002*, which was introduced into Parliament in May 2002, will require the Treasurer to prepare a Charter of Budget Honesty within three months of the commencement of the Bill. The Bill is currently before the Legislative Council.

The Government will present South Australia's first Charter of Budget Honesty to both Houses of Parliament in compliance with the provisions of the Bill when the Bill has been enacted.

The primary objective of the charter is to improve the transparency of the Government's fiscal management thereby improving the accountability of the Government to the public and to Parliament.

As required under the *Public Finance and Audit (Honesty and Accountability in Government) Amendment Bill 2002*, the charter will detail the fiscal principles, the primary fiscal target and the reporting requirements for this Government's financial plan.

COMPARISON OF FISCAL RESPONSIBILITY FRAMEWORK TO OTHER JURISDICTIONS

South Australia is one of the last Australian jurisdictions not to have enacted fiscal responsibility legislation. The proposed fiscal responsibility framework proposed by the Government will bring South Australia into line with other Australian jurisdictions. The table below summarises key elements of other jurisdictions' framework.

	NSW	Vic	Qld	WA	SA	ACT	NT
Fiscal responsibility legislation	Yes	Yes	Yes	Yes	Before Parliament	Yes	Yes
Legislated fiscal target ^(a)	Yes	No	No	No	No	No	No
Non-legislative fiscal target	No	Yes	Yes	Yes	Yes	Yes	Yes
Pre-election budget update	No ^(b)	Yes	No	Yes	Before Parliament	Yes ^(c)	Yes
Charter of budget honesty	No	No ^(d)	Yes	No	Yes	No	No

(a) A number of States' fiscal responsibility legislation includes financial management principles. Non-legislative fiscal targets relate to those principles.

(b) NSW release a Half-Yearly Budget Review (HYBR). With fixed four year election terms in NSW, in an election year there will always be a HYBR that has been recently published.

(c) Requirement for a pre-election budget update is not legislated.

(d) Victoria's Financial Management (Financial Responsibility) Act includes similar requirements to those included in a Charter.

CHAPTER 2: EXPENDITURE

OVERVIEW

This chapter describes the decisions, priorities and trends in general government expenditure. The 2003-04 Budget includes initiatives in the general government sector totalling \$860 million over the next four years. A summary of both the operating and investing expenditure initiatives is shown in Table 2.1.

Table 2.1 General government expenditure initiatives

	2003-04 Budget \$m	2004-05 Estimate \$m	2005-06 Estimate \$m	2006-07 Estimate \$m
Operating initiatives ^(a)	166.7	176.1	166.9	159.9
Investing initiatives	93.6	51.3	19.7	25.8
Total	260.3	227.4	186.6	185.7

(a) Excluding depreciation

The 2003-04 Budget includes agency savings and additional agency-based revenue measures totalling \$538 million over the next four years. A summary is shown in Table 2.2. These measures represent the outcome of difficult choices by the Government between competing priorities. In the absence of these savings measures the Government would not have been able to afford many of the new expenditures announced in this Budget. Further details on the individual operating, investing and savings initiatives of this Budget for each portfolio are provided in Tables 2.7–2.19.

Table 2.2 General government savings

	2003-04 Budget \$m	2004-05 Estimate \$m	2005-06 Estimate \$m	2006-07 Estimate \$m
Agency savings	94.5	108.2	122.2	105.9
Agency revenue measures	26.8	26.4	26.3	27.9
Total	121.3	134.6	148.5	133.8

General Government Expenditure

General government expenditure is \$368 million (or a real 1.9%) higher in the 2003-04 budget than the 2002-03 estimated result. This reflects decisions to increase spending in priority areas and parameter effects on expense items. The detailed explanations of trends in expenditure (defined as expenses less depreciation plus capital investment) are contained later in this Chapter.

The key drivers of growth in expenditure by type are:

- employee expenses, up by \$184 million or 2.4% in real terms as a result of recent enterprise agreements
- other operating expenses increase by \$80 million or 1.1% in real terms as a result of growth in goods and services expenses and the effect of new spending and savings decisions taken during 2002-03 and in the 2003-04 Budget
- partially offset by lower interest expenses arising from cash surpluses.

KEY COMPONENTS OF EXPENSES

EXPENSES BY TYPE

Forward estimates of general government expenses by type are shown in Table 2.3.

Table 2.3 General government expenses — forward estimates^(a)

	2002-03 Budget	2002-03 Estimated result	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Employee expenses						
Salaries and wages	3 317	3 414	3 562	3 647	3 780	3 871
Other employee entitlements	496	489	525	509	511	521
Operating expenses						
Depreciation expense	388	406	410	413	424	425
Transfers	1 543	1 541	1 538	1 598	1 661	1 639
Interest expense	320	273	249	255	262	269
Nominal superannuation interest expense	284	299	337	345	352	360
Other	2 367	2 401	2 481	2 472	2 469	2 474
Total expenses	8 714	8 823	9 103	9 239	9 459	9 558
<i>less</i>						
Depreciation expense	- 388	- 406	- 410	- 413	- 424	- 425
<i>plus</i>						
Purchases of property, plant and equipment	604	440	532	468	455	595
Total expenditure on net lending basis	8 931	8 857	9 225	9 294	9 491	9 728

(a) Table may not add due to rounding.

Employee and other operating expenses

The variation between the 2002-03 estimated result and Budget is mainly due to employee expenses (\$90 million) and other operating expenses (\$34 million). The major variations to expenses include:

- reclassification of approximately \$60 million from purchases of property, plant and equipment to operating expenses according to Australian Accounting standards (offset in purchases of property, plant and equipment)
- additional wage and salary costs of \$21 million for the remuneration offer to salaried medical officers
- adjustments to correctly reflect inter-agency transfers and associated transactions in and between the Arts entities of the Government as well as appropriately accounting for transactions between the Department of Administrative and Information Services business units
- other policy decisions taken by Cabinet during 2002-03 including additional funding for public hospitals, the TAFE sector and Correctional Services, expenditure associated with the National Wine Centre, Solar Hot Water Rebate Scheme and the eradication of *Caulerpa Taxifolia*.

Savings initiatives in this budget will see some reduction in total employment in the general government sector. Given the importance of employee expenses as a proportion of Government expenditure it is very difficult to achieve expenditure reductions without also reducing employment. The downward effect of this reduction in employment on employee expenses is more than offset by expected increases in employee remuneration.

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

In March 2003 the enterprise agreement between the Government and South Australian Salaried Medical Officers expired. Negotiations for a new agreement are currently being held, however no agreement has yet been reached. The full cost of the Government's offer to salaried medical officers is included in the 2003-04 Budget and forward estimates.

The 2003-04 Budget fully funds current enterprise agreements until they expire. Provisions have also been made in the budget figuring for estimated remuneration increases after existing enterprise agreements expire.

Transfers

Table 2.4 provides details of transfer payments 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
- appropriation for the South Australian Housing Trust and TransAdelaide
- community service obligation payments to SA Water and Forestry SA.

Table 2.4 General government transfer and subsidy payments^(a)

	2002-03 Estimated Result \$m	2003-04 Budget \$m	2004-05 Estimate \$m	2005-06 Estimate \$m	2006-07 Estimate \$m
<i>Current transfers</i>					
Subsidy payments					
To public non-financial corporations					
Community service obligation payments	96	101	103	103	110
Other subsidies	359	373	389	387	360
To public financial corporations	35	35	34	61	31
To other	822	865	853	534	554
Current grant expenses	68	30	100	462	467
Other current transfer payments	98	111	101	104	106
Total	1 478	1 516	1 580	1 651	1 628
<i>Capital transfers</i>					
Capital grant expenses	59	21	14	9	9
Other capital transfer payments	2	1	2	0	0
Total	61	23	17	10	10

(a) Table may not add due to rounding.

Subsidy payments rise in 2005-06 due to the timing of Commonwealth assistance for debt redemption. Assistance payments under the *Financial Agreement Act 1994* are based on the maturing levels of debt outstanding for each of the States and Territories.

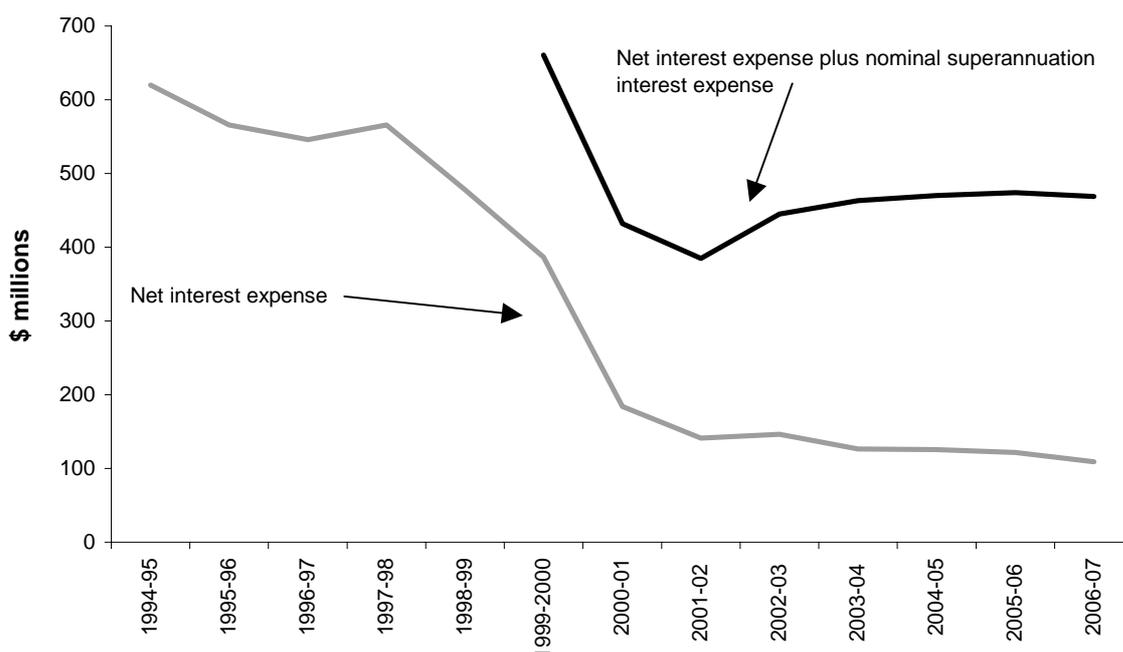
There is also a reclassification between subsidy payments and current grant expenses in 2005-06.

Net interest expense

The time series of actual and forecast net interest expense in Figure 2.1 highlights the decrease in interest costs between 1997-98 and 2000-2001. The lower level of debt resulting from applying privatisation proceeds to debt reduction has lessened the sensitivity of the budget to interest rate movements. However privatisation has also eliminated past revenues received as dividends and tax equivalents from the privatised businesses.

Interest expenses continue to decline over the forward estimates. This is largely due to improvements in net interest expenses in the general government sector as a result of cash surpluses, and the resulting lower net debt levels, across the forward estimates.

Figure 2.1 General government sector net interest expense 1994-95 to 2006-07



Superannuation

Nominal interest expense on superannuation liabilities has increased significantly compared to the estimates published in the 2002-03 Budget. This is largely a result of poorly performing international markets reducing expected returns on superannuation assets managed by Funds SA. The negative returns have resulted in increases in the State's unfunded superannuation liability. The nominal superannuation interest expense recognised in the general government operating statement is calculated on the balance of the unfunded superannuation liability. The higher nominal superannuation expense reflected in Table 2.3 is a consequence of the increased superannuation liability arising from negative asset returns.

The Government is committed to the policy of ensuring that all superannuation liabilities are fully funded by 2034. As a result of the negative asset returns referred to earlier, the Government has increased scheduled cash payments by around \$30 million per annum from 2003-04 to ensure that all superannuation liabilities are fully funded by 2034.

Further information on the management of superannuation assets and liabilities can be found in Chapter 5.

Public sector employment

The estimated aggregate workforce levels in the State public sector for the periods ending 30 June 2003 and 2004 are shown in Table 2.5.

Table 2.5 Public sector employment numbers

	Full Time Equivalent Employees	
	30 June 2003	30 June 2004
	Estimate	Estimate
General government sector	66 891	66 581
Public non financial corporations sector	4 226	4 255
Estimated total public sector employment	71 117	70 836

(a) The coverage of Table 2.5 is wider than that included in the 2002-03 Budget and now aligns with the annual survey of the State's public sector workforce conducted by the Commissioner for Public Employment.

In the year to 30 June 2004 employment in the State's general government sector is estimated to reduce by 310 full time equivalents.

A Targeted Voluntary Separation Payment (TVSP) scheme operated during 2002-03 to separate surplus employees as a result of the Government's savings strategy announced in the 2002-03 Budget.

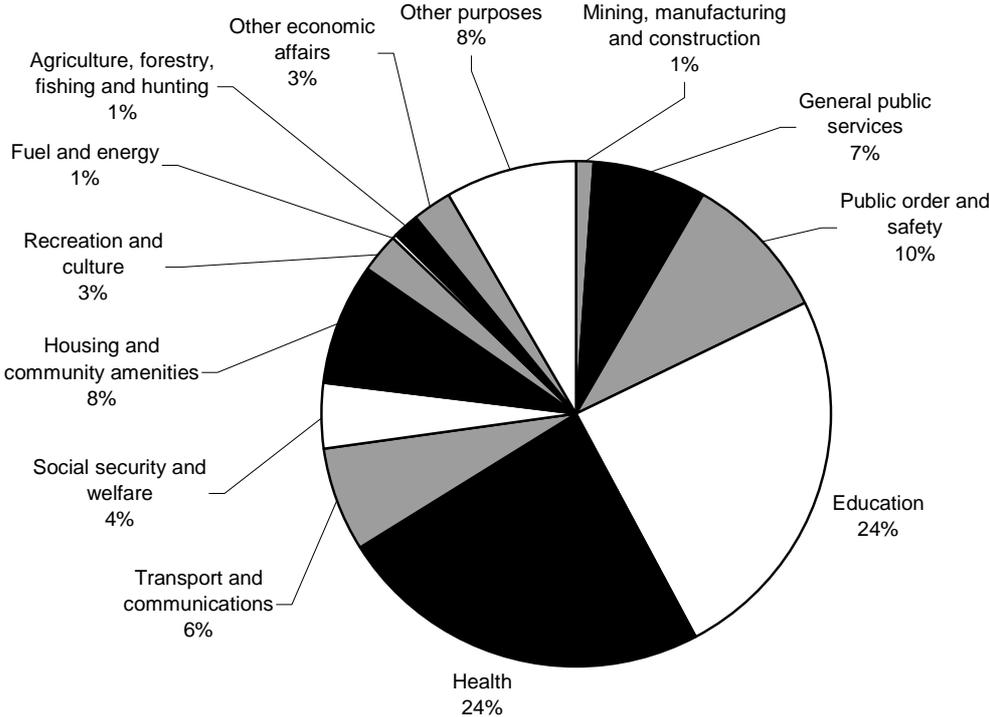
As at the time of the budget, approximately 350 separations have been offered and 100 accepted under the existing TVSP scheme. Accepted separations have cost approximately \$8 million and provisions for the scheme have been reduced from \$42 million down to \$10 million in 2002-03. The lower level of TVSPs than funded at the time of the 2002-03 Budget may reflect staff reductions through natural attrition or redeployment to higher priority activities. A provision of \$25 million has been made for TVSPs in 2003-04. The on-going savings from TVSPs in terms of lower employee costs are sufficient to offset the costs of the separation payments after two years.

EXPENSES BY PURPOSE

Expenses by purpose are shown in Figure 2.2 (and Appendix A) according to the Australian Bureau of Statistics Government Purpose classification.

Health and education expenditures account for 48% of Government expenditures.

Figure 2.2 Expenses by purpose — 2003-04 Budget



INTERSTATE COMPARISONS

The Commonwealth Grants Commission (CGC) provides expenditure benchmarking data for each State. The CGC estimates are subject to some data and methodology qualifications but are the most comprehensive basis for comparing expenditure on delivery of services between States. For South Australia, substantial above-average expenditure is indicated.

The CGC produces an estimate of the level of standardised expenditure for each State for the full range of State functions. The standardised expenditure on any function for South Australia is the CGC’s estimate of what it would cost South Australia to deliver a level of services in respect of that function in line with the national average. This estimate takes account of cost differences attributable to South Australia’s circumstances.

For example, in respect of government schools education, the CGC estimates South Australia’s standardised expenditure as \$1146.5 million in 2001-02, the latest year for which CGC estimates are available. This is its estimate of what it would cost for South Australia to deliver this service at a level comparable to the national average. This estimate recognises the particular circumstances of South Australia by taking account of such things as the low population densities in some rural areas and the proportion of students from disadvantaged and indigenous backgrounds. It abstracts from any policy differences between the States.

The actual expenditure by South Australia on government schools education is estimated by the CGC at \$1541.6 million, or \$395.1 million greater than the standardised expenditure. There are three possible explanations for this difference:

- South Australia delivers a sufficiently higher standard of education services than the national average to justify this higher expenditure

- The CGC methodology is incorrect — while there are always criticisms that can be made of both data and methodology, this methodology has been developed over a long period of time and is the subject of intense scrutiny by States
- South Australia is inefficient in its delivery of this service.

Table 2.6 compares actual and standardised expenditures for South Australia for a range of functions or services. In aggregate South Australia's actual expenditures in 2001-02 were \$841 million or 16% above the equivalent standardised expenditures. Actual exceeded standardised expenditures in all major areas other than welfare and economic affairs and other purposes.

Higher expenditure levels are appropriate where they are justified by the preferences of the South Australian community. However, they are not justified when governments programs are not as efficient as they should be. The Economic Development Board has identified public sector efficiency as an issue that needs to be examined. Accordingly, the Government is committed to regularly reviewing expenditures to ensure that areas of inefficiency are identified and addressed. This will ensure that resources are applied to delivering priority services for the community.

Table 2.6 Commonwealth Grants Commission expenditure assessments, South Australia

	2001-02	
	Difference between actual and standardised expenditure	
	\$m	%
Education	331.4	18.6
Health	254.2	15.8
Law, order and public safety	116.7	19.3
Welfare	-131.8	-26.5
Concessions and other payments	92.3	40.7
Culture and recreation	111.3	63.1
General public services ^(a)	105.5	43.5
Services to industry	120.5	53.8
Transport	33.6	8.5
Economic affairs and other purposes ^(b)	-46.2	-36.5
Less user charges ^(c)	146.4	28.5
Total expenditure	841.1	15.7

(a) Excludes superannuation.

(b) Excludes debt charges and depreciation.

(c) Revenue item; difference indicates SA's user charges revenue exceeds average.

Source: CGC Report on State Revenue Sharing Relativities 2003 Update.

BUDGET INITIATIVES BY PORTFOLIO AND AGENCY

The information in this section focuses on the savings and spending initiatives by portfolio — that is, classified according to the operational and administrative structure of the Government.

The operating expenses of each portfolio as a whole are summarised in Attachment 1. The capital investment program for each portfolio is summarised in Attachment 2.

This section, including tables 2.7–2.19, details the 2003-04 Budget savings and expenditure initiatives for each portfolio over the forward estimates period. Attachment 3 shows the net effect of these measures in summary form for each portfolio. Expenditures are recorded as a negative while savings or revenue initiatives are recorded as a positive.

LEGISLATURE

Additional funding has been provided for the establishment of the Aboriginal Lands Committee and phase 2 of the upgrade of the Hansard production system.

Table 2.7 Legislature — savings and expenditure initiatives

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Joint Parliamentary Services				
Operating initiatives				
Parliament House Heritage Conservation — maintenance	-500	-500	-500	-500
Investing initiatives				
Hansard Production System — phase 2 of upgrade	-1 640	—	—	- 240
Administered items for Joint Parliamentary Services				
Operating initiatives				
Parliamentary Standing Committee — establishment of Aboriginal Lands committee	-217	-222	-227	-233
Operating initiatives	-717	-722	-727	-733
Investing initiatives	-1 640	—	—	-240
Total impact on budget balance	-2 357	-722	-727	-973

PREMIER AND CABINET

The Social Inclusion Board is overseeing the development of programs to address homelessness. These programs will be funded partly through additional funding and partly through reprioritisation of existing funding. The additional funding proposal in this budget is shown as an initiative in the portfolio of Premier and Cabinet.

The savings measures within the portfolio are in the main focused on better targeting of expenditure and the rationalisation of administrative activities across the portfolio. Some lower priority activities have also been removed.

Further details of both the savings and initiatives within the portfolio are presented in the following table.

Table 2.8 Premier and Cabinet — savings and expenditure initiatives

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Department of the Premier and Cabinet				
Savings initiatives				
Administrative costs — reduction across the Department	643	643	643	643
Bringing Them Back Home — this initiative has been replaced by broader proposals to boost migration into South Australia	500	—	—	—
Community Cabinet — savings to be achieved through reducing the cost of community Cabinet meetings	150	150	150	150
Ethics Education — reduced support materials and forums	50	50	50	50

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Executive Management — reduction in the level and cost of the Executive Management function	15	15	15	15
Human resources training programs — reduced number of training places	80	80	80	80
Information Services — reduced staffing budget	25	25	25	25
Information technology expenditure — reduction in the level of IT expenditure across the agency; reduce EDS cost based on outcome of market price review	354	55	155	156
Legal fees — reduction in the level of legal fees across the agency	100	100	100	100
Organisational review — staff reductions	812	699	640	640
Premier's Community Initiatives Fund — reduction in grant funding	300	300	150	150
Protocol — reduction in the level and cost of protocol activities	85	85	85	85
Telecommunications — savings as a result of revised telecommunications contract	30	30	30	30
Unattached Unit — reduced funding	250	250	250	250
Operating initiatives				
Accommodation — accommodation changes in the Department of Premier and Cabinet	-250	—	—	—
Agent General — increases in office rental costs	-94	-94	-94	-94
Green City — Sustainable Adelaide Project to protect our natural environment and improve the urban environment	-500	-500	-500	—
Intergovernment relations — increased administrative support for Premier and Minister for Federal State Relations	-59	-59	-59	-59
Leadership SA — second phase of leadership and management development initiatives	-1 000	-1 000	-1 000	-1 000
Security and Emergency Coordination — accelerated requirement for national and State counter-terrorism and emergency management planning and preparedness	-75	-75	-75	-75
Social Inclusion Unit — drug summit initiatives	-185	-185	-185	-185
Volunteer Partnership - Advancing the Community Together — promote volunteering	-200	-150	-150	-150
Investing initiatives				
Security review — improved security for the State Administration Centre	-617	—	—	—
Administered items for the Department of the Premier and Cabinet				
Savings initiatives				
Promotion of the State — reduced and better focussed initiatives	761	818	876	935
Operating initiatives				
Homelessness — range of initiatives to decrease homelessness and assist the homeless	-3 000	-3 000	-3 000	-3 000
Social Inclusion Unit — drug summit initiatives	-1 862	-1 445	-1 488	-1 532
Arts SA				
Savings initiatives				
Board fees for arts organisations	—	125	250	250
Corporate services — rationalisation of corporate services resources	200	500	500	500
Administrative savings and governance efficiencies	123	126	129	131
Reduction in funding to grants programs	875	975	975	975

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Operating initiatives				
Adelaide Festival Centre — operating funding to meet deficit	-500	—	—	—
Adelaide Film Festival — funds to commission new works	-500	-500	-500	-500
Art Gallery — funding to employ curator for the Asian collection	-75	-75	-75	-75
Art Gallery — security and video surveillance upgrade	-200	—	—	—
Live Music Fund — funds to support contemporary music development	-500	-500	-500	-500
Investing initiatives				
Regional theatres — maintenance work in regional theatres	-500	—	—	—
State Governor's Establishment				
Operating initiatives				
Government House - maintenance	-200	—	—	—
Saving initiatives				
Saving initiatives	5 353	5 026	5 103	5 165
Operating initiatives	-9 200	-7 583	-7 626	-7 170
Investing initiatives	-1 117	—	—	—
Total impact on budget balance	-4 964	-2 557	-2 523	-2 005

BUSINESS, INVESTMENT AND TRADE

Additional funding has been provided for the development of the State's broadband telecommunications, to promote venture capital investment and to further develop defence support industries in the State. Additional funding has also been provided to boost business and skilled migrants.

The major saving in the portfolio is a reduction in funding for the Industry Investment Attraction Fund, which will operate in a more targeted fashion in future. Other savings measures focus on the rationalisation of administrative functions as the organisations within the portfolio change focus and restructure.

Further details of both the savings and initiatives within the portfolio are presented in the following table.

Table 2.9 Business, Investment and Trade — savings and expenditure initiatives

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Office of Economic Development				
Savings initiatives				
Telecommunications — savings as a result of revised telecommunications contract	11	11	11	11
Operating initiatives				
Broadband Telecommunications Task Force — establish task force and infrastructure fund to develop the State's broadband telecommunications	-1 380	-2 330	-2 330	-2 330

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Defence Industry Advisory Board and Defence Task Force — high level leadership of the State's effort to further develop the defence sector	-965	-828	-828	-828
Venture Capital Board — to assist the development of the venture capital sector	-350	-10 350	-350	-350
Department for Business, Manufacturing and Trade				
Savings initiatives				
Industry Investment Attraction Fund (IIAF) — reduction in funding to operate a smaller more targeted industry assistance scheme in accordance with Government policy	7 851	7 804	7 756	7 707
Organisational review — staffing reduction	1 874	1 921	1 969	2 018
Telecommunications — savings as a result of revised telecommunications contract	32	32	32	32
Operating initiatives				
Adelaide Darwin Railway — increase in the SA contribution required for AustralAsia Railway Corporation operational funding	-150	—	—	—
Immigration SA — strategy to attract increased numbers of business and skilled migrants	-1 000	-1 000	-1 000	-1 000
Regional Skilled Migration — funding for Regional Development Boards to work with local employers to identify regional skill shortages and inform employers of the available migration options	-428	-428	-428	—
Administered items for the Department for Business, Manufacturing and Trade				
Savings initiatives				
Motor Sport Board — savings as a result of revised telecommunications contract	2	2	2	2
Operating initiatives				
Motor Sport Board — enhanced security, patron and competitor safety and patron amenities for Clipsal 500	-570	-593	-617	-642
Investing initiatives				
Motor Sport Board — enhanced security, patron and competitor safety and patron amenities for the Clipsal 500	-180	-180	-50	—
Saving initiatives	9 770	9 770	9 770	9 770
Operating initiatives	-4 843	-15 529	-5 553	-5 150
Investing initiatives	-180	-180	-50	—
Total impact on budget balance	4 747	-5 939	4 167	4 620

TREASURY AND FINANCE

Additional funding has been provided to boost the tax compliance effort, which is expected to result in the collection of \$10 million of previously uncollected revenue. Funding has also been provided to fund additional staff to support members of the House of Assembly. \$25 million has been provided to meet the cost of TVSPs in 2003-04. The savings in employee costs expected to result from TVSPs are recorded as part of the savings initiatives of individual portfolios.

The savings measures within the portfolio are focused on the rationalisation of administrative activities and accommodation across the portfolio. The State's Passenger and Light Commercial Vehicle Fleet is presently funded under leasing arrangements with the Commonwealth Bank of Australia (CBA) put in place by the previous Government. At the time the expectation was that this leasing arrangement would generate savings to the State compared with its normal funding arrangements. Following its implementation, changes in assumptions underlying the leasing arrangement have resulted in the expected savings not being achieved. As a result of reviews of the leasing arrangement it has been determined that it would be more advantageous to the State to terminate the arrangement than to allow for it to continue.

The South Australian Government Financing Authority (SAFA) is negotiating the termination of the leasing arrangement with the CBA on the basis of alternative funding arrangements going forward. This will result in significant savings for the State.

Further details of both the savings and initiatives within the portfolio are presented in the following table.

Table 2.10 Treasury and Finance — savings and expenditure initiatives

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Department of Treasury and Finance				
Savings initiatives				
Accommodation — consolidation from multiple CBD locations to a single location	250	550	550	550
Administrative costs — reduction across various branches	242	242	242	242
EDS — reduced cost based on outcome of market price review	29	33	36	40
Energy savings — implementation of various energy efficiency initiatives within the State Administration Centre	10	10	10	10
Staff reductions — department-wide savings	410	821	821	821
Telecommunications — savings as a result of revised telecommunications contract	70	70	70	70
Operating initiatives				
Energy Consumer Council — to advise the Government on energy policy issues	-150	-150	-150	-150
Gas Full Retail Competition — appointment of an independent technical advisor	-150	—	—	—
SNI Interconnector Appeal — cost of appeals before the Supreme Court of Victoria	-88	—	—	—
Taxation compliance — administrative costs of increased taxation compliance effort	-1 144	-1 129	-1 150	-1 171
Investing initiatives				
Youth Detention Centre/Women's Prison — PPP investigation expenditure	-400	-300	—	—
Administered items for the Department of Treasury and Finance				
Savings initiatives				
Administrative costs — reduction in SAFA administration costs	77	77	77	77
Fleet financing — revised arrangements for financing the State's motor vehicle fleet	5 400	5 400	5 400	5 400
National Wine Centre — operating deficit funding no longer required as a result of transfer to Adelaide University	500	250	255	258

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Revenue initiatives				
Taxation compliance — additional revenue from an increased taxation compliance effort	10 500	10 500	10 500	10 500
Operating initiatives				
Targeted Voluntary Separation Packages — to achieve savings outlined in 2003-04 Budget	-25 000	—	—	—
Essential Services Commission of SA				
Savings initiatives				
Ports Consultancy — reduction in ports regulation consultancy	—	—	50	50
Telecommunications — savings as a result of revised telecommunications contract	2	2	2	2
Operating initiatives				
Ports — review of Ports pricing and access regime	-100	—	—	—
Tarcoola to Darwin Railway — costs associated with first Ministerial review of Tarcoola to Darwin Railway pricing and access regime	—	—	—	-112
Independent Gambling Authority				
Operating initiatives				
Gaming Machines Information Booklet — production and mass distribution of an information booklet	-100	—	—	—
Technical Regulator				
Savings initiatives				
Telecommunications — savings as a result of revised telecommunications contract	2	2	2	2
Support Services to Parliamentarians				
Operating initiatives				
Electorate Offices — increased administrative support	-107	-112	-118	-123
Staffing - House of Assembly — staff increase for Members	-1 079	-1 101	-1 123	-1 145
Saving initiatives	6 992	7 457	7 515	7 522
Revenue initiatives	10 500	10 500	10 500	10 500
Operating initiatives	-27 918	-2 492	-2 541	-2 701
Investing initiatives	-400	-300	—	—
Total impact on budget balance	-10 826	15 165	15 474	15 321

JUSTICE

Additional operational funding has been provided for Police, Emergency Services and Correctional Services. Specific funding has also been committed to acquire specialised equipment for counter terrorism and disaster response, the handgun buyback scheme and completion of the Elizabeth and Golden Grove fire stations.

The savings measures within the portfolio are primarily focused on the establishment of revised fee structures across a range of Court's and Attorney-General's charges and the implementation of more efficient practices within the Magistrates Court. The Mt Barker Police station will now be implemented as a Public Private Partnership (PPP) initiative.

Further details of both the savings and initiatives within the portfolio are presented in the following table.

Table 2.11 Justice — savings and expenditure initiatives

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Department of Justice				
Savings initiatives				
Fleet management — fleet procurement and management savings	229	343	343	343
Library services — introduction of online services and rationalisation of existing library facilities	301	486	486	486
Magistrates Court — reduction in adjournments/remands	550	1 100	1 100	1 100
Shared services — investigate and implement	-1 500	-1 356	1 721	1 721
Video Conferencing in Magistrates Courts — reduced transport and supervision for remandees	-600	750	750	750
South Australia Police				
Savings initiatives				
EDS — reduced cost based on outcome of market price review	442	499	552	602
Mt Barker Police Station — construction funding not required as project to be implemented as a PPP	2 300	8 250	26	—
Telecommunications — savings as a result of revised telecommunications contract	156	156	156	156
Operating initiatives				
AP Lands Policing — program of policing initiatives for Anangu Pitjantjatjara communities	-250	-250	-250	-250
Call centre — expand the SAPOL Call Centre to a 24 hour 7 day a week operation	-510	-520	-530	-541
Handgun Buyback — compensation program	-2 260	- 440	- 440	- 440
National Criminal Database — increased contribution to the national criminal database	-313	-313	-313	-313
Operating cost pressures — funding to meet cost pressures in South Australian Police	-3 500	-3 600	-3 600	-3 700
Police Stations — operating cost of PPP arrangements for stations at Mt Barker, Port Lincoln, Victor Harbor and Gawler	—	-1 150	-2 358	-2 416
Road Safety Enforcement	-878	-878	-878	-878
State Protective Security Branch — coordination of security intelligence, emergency and event management	-300	-300	-300	-300
Investing initiatives				
Aircraft replacement — replacement of Cessna 402 aircraft	—	-2 728	- 78	- 78
Counter Terrorism and State Disaster Response — specialised equipment	-2 457	-190	-190	-190
Fingerprint scanning — implementation of Livescan technology	-890	-940	-100	-100
Administered items for South Australia Police and Emergency Services				
Savings initiatives				
Ambulance Degree — increased cost sharing arrangements for the joint Flinders University and SAAS degree program	-255	235	220	225
Ambulance cover — ensure private health insurance companies pay SA Ambulance for services provided	-300	800	800	800
Revenue initiatives				
Road safety initiative — rate increase for Traffic Infringement Notice fines	1 187	1 187	1 187	1 187

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Operating initiatives				
Ambulance cover — revised arrangements for the scheme	-34	-282	-540	-572
Ambulance Service — funding increased workload	-400	-381	-397	-392
Ambulance Service — adjustment for 27th pay	—	—	-2 400	—
State rescue helicopter — renewed contractual arrangements	-736	-712	-948	-1 029
Emergency Services Administrative Unit				
Savings initiatives				
Telecommunications — savings as a result of revised telecommunications contract	6	6	6	6
South Australian Metropolitan Fire Service				
Savings initiatives				
EDS — reduced cost based on outcome of market price review	12	13	14	16
Engineering Division — relocate Deeds Road workshops to Angle Park	1 250	230	230	230
Telecommunications — savings as a result of revised telecommunications contract	3	3	3	3
Revenue initiatives				
Fee increases — including fire alarm monitoring and false alarm response	82	82	82	82
Operating initiatives				
Chemical Biological and Radiological Unit — establishment of a new unit	-170	-177	-184	-191
Community Fire Safety Education — continuation of existing program, now funded by Government	-845	-879	-915	-951
Operational support staff — additional resource	-107	-110	-114	-119
Professional Development Programs — development and delivery of programs	-420	-431	-441	-452
Staff Development — structured training framework	-337	-443	-454	-465
Training department staff — additional dedicated staffing resources for training department	-296	-689	-1 089	-1 132
Investing initiatives				
Elizabeth and Golden Grove fire stations — completion of fire stations	-2 500	—	—	—
General Purpose Pump Appliance — replacement of ageing appliance for metropolitan operations	-450	—	—	—
Country Fire Service				
Savings initiatives				
Communications — replacement of response system	235	235	235	235
Telecommunications — savings as a result of revised telecommunications contract	5	5	5	5
Operating initiatives				
Group Officer Support — appointment of six regional management officers to alleviate operational work pressures	-410	-418	-427	-435
Courts Administration Authority				
Savings initiatives				
EDS — reduced cost based on outcome of market price review	360	407	450	491
Telecommunications — savings as a result of revised telecommunications contract	56	56	56	56
Revenue initiatives				
Bailiff fees — increase fees for executing civil processes	250	250	250	250

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Operating initiatives				
Accommodation — fit out costs associated with accommodation of staff displaced by Tram Barn sale	-520	—	—	—
Court Diversion Program — expansion to include both suburban and regional courts and increased program demand	-350	-350	-350	-350
Court security — ongoing funding of additional court security officers	-160	-160	-160	-160
Administered items for Courts Administration Authority				
Revenue initiatives				
Civil lodgement and daily trial fees — increases in Supreme Court and District Court jurisdictions	1 700	1 700	1 700	1 700
Criminal lodgement fees — increase	960	960	960	960
Local Government fine payment costs — increased recoveries	250	250	250	250
Road safety — increase in court revenue from new road safety package	2 000	2 000	2 000	2 000
State Electoral Office				
Operating initiatives				
State Election — expected increased cost of conducting 2006 election	—	—	-500	—
Investing initiatives				
Computer equipment — replacement	—	—	-100	—
Attorney-General's Department				
Savings initiatives				
EDS — reduced cost based on outcome of market price review	1 228	1 387	1 536	1 675
Telecommunications — savings as a result of revised telecommunications contract	166	166	166	166
Revenue initiatives				
Building and Occupational Services — partial cost recovery of professional and trade registration	1 120	1 215	1 263	1 310
Casino regulators — recovery of cost	800	1 100	1 100	1 100
Corporate Affairs — improved compliance arrangements and associated fee revenue	—	135	1 142	2 756
Land and Business (Sale and Conveyancing) Act — introduction of fees for Ministerial exemptions	11	11	11	11
Office of Consumer and Business Affairs — fee increases	150	150	150	150
Trade measurement — partial cost recovery of professional and trade registration	—	350	361	372
Operating initiatives				
Director of Public Prosecutions — additional staff to address increased workload	-275	-282	-289	-296
Limitation of Liability Act — administration costs	-286	-196	-70	-70
Prudential Management Group — additional staff to address increased workload	-259	-265	-272	-279
Redeployees — ongoing cost of Fire Equipment Services redeployees	-537	-395	-403	-415
Investing initiatives				
Integrated Justice Program — enhanced case tracking system	-600	-430	-100	-100

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Administered items for the Attorney-General's Department				
Savings initiatives				
Community Emergency Services Fund — one-off saving in contingencies	1 424	—	—	—
Operating initiatives				
Child Protection — program for the rehabilitation of sex offenders	-1 500	-1 500	-1 500	-1 500
Emergency Services — adjustment for 27th pay	-2 800	—	—	—
Limitation of Liability Act — recovery of administration costs	33	33	—	—
Investing initiatives				
Computer Aided Dispatch — replace obsolete and disparate emergency dispatch systems within Police, Fire and Ambulance, with a common system	-2 063	-4 176	-5 280	-2 214
Radio and telecommunications — additional costs in emergency services	-3 000	-1 000	-2 000	-1 000
Department for Correctional Services				
Savings initiatives				
EDS — reduced cost based on outcome of market price review	21	23	26	28
Telecommunications — savings as a result of revised telecommunications contract	15	15	15	15
Operating initiatives				
Additional staffing — funding to address safety recommendations	-500	-510	-520	-531
DNA Testing — testing procedures in prisons	-20	—	—	—
Information systems — cost increase	-142	-146	-149	-153
Mount Gambier Prison — price escalation for prison operations contract	-139	-168	-198	-230
Prisons — increased funding for staffing in the State's prison system	-1 286	-1 291	-1 298	-1 304
Investing initiatives				
Adelaide Remand Centre — replacement of air treatment units	-250	-125	—	—
Adelaide Remand Centre — replacement of elevators	—	-800	—	—
Cadell Training Centre — upgrade of facility	-350	—	—	—
Minor Works and Maintenance — expansion of the existing program	—	—	-600	—
Prisons — eliminate hanging points	-200	-200	-160	—
Prisons — upgrade of security and building management systems	-600	-550	-850	-990
Women's Prison — PPP operating payments for new prison	—	—	—	-5 777
Youth Detention Centre/Women's Prison — PPP investigation expenditure	-316	-316	—	—
Saving initiatives	6 104	13 809	8 896	9 109
Revenue initiatives	8 510	9 390	10 456	12 128
Operating initiatives	-20 507	-17 203	-22 287	-19 864
Investing initiatives	-13 676	-11 455	-9 458	-10 449
Total impact on budget balance	-19 569	-5 459	-12 393	-9 076

PRIMARY INDUSTRIES AND RESOURCES

Additional funding has been provided for the accelerated implementation of the National Livestock Identification Scheme, to meet demands for the Solar Hot Water Rebate Scheme and ongoing fisheries compliance activities.

The savings measures within the portfolio are focused on better targeting of current expenditure and the rationalisation of administrative and related activities across the portfolio. A reduction in some lower priority research activity as well as improved returns from research facilities are also a focus of the savings initiatives.

Further details of both the savings and initiatives within the portfolio are presented in the following table.

Table 2.12 Primary Industries and Resources — savings and expenditure initiatives

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Department of Primary Industries and Resources				
Savings initiatives				
Resource Industry — reduction in Aboriginal heritage and regional infrastructure assessments	153	153	153	153
Administration and Corporate Support — reduction in corporate services, marketing, sponsorships, system closures, improved IT service delivery models and IT access restrictions that reduce costs	259	1 013	1 210	1 210
Document storage and Geoscience library — decommissioning of existing services	-51	-4	-7	236
EDS — reduced cost based on outcome of market price review	32	37	41	44
Energy SA — administrative cost reduction resulting from review of Energy SA	213	466	466	466
Industry support — reduction in provision of industry assistance	700	700	700	700
Petroleum exploration — realignment of exploration program	260	260	260	260
Remote Areas Energy Supply Scheme — reduction in operating costs	187	375	375	375
Research and Industry Development — saving resulting from increased industry support, improved commercialisation returns and recovery of costs for providing facilities and support services	90	448	498	498
State Energy Research and Advisory Committee — reduction in level of grants provided through the committee	65	65	65	65
Telecommunications — savings as a result of revised telecommunications contract	91	91	91	91
Operating initiatives				
Fisheries Compliance Services — continued support for fisheries inspectors post-June 2004	—	-1 000	-1 025	-1 050
Food Safety — continuation of program post-June 2003	-300	-300	-300	-300
River Murray Improvement Program — new funding for research that will lead to improvements in environmental flows, better management of salinity and more sustainable irrigation	-350	-900	-1200	-900
Solar Hot Water Rebate Scheme — expansion of funding to meet demand for rebates which has now exceeded original expectations	—	-1 100	-1 100	-1 100
National Livestock Identification Scheme — accelerated implementation of scheme	-3 200	-2 505	-1 615	1 185
SA Water community service obligation (CSO) — increased CSO payments related to SA Water regional water supply	—	—	—	-7 420

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Investing initiatives				
Remote Areas Energy Supply Scheme — infrastructure to maintain State-owned power generators providing reliable electricity to remote communities	-300	-300	-300	-300
Saving initiatives	1 999	3 604	3 852	4 098
Operating initiatives	-3 850	-5 805	-5 240	-9 585
Investing initiatives	-300	-300	-300	-300
Total impact on budget balance	-2 151	-2 501	-1 688	-5 787

ADMINISTRATIVE AND INFORMATION SERVICES

Additional funding has been provided to significantly increase the occupational health, safety and welfare inspectorial function of the portfolio to reduce workplace injuries.

The savings measures within the portfolio are focused on better targeting of current expenditure and the rationalisation of administrative and related activities across the portfolio. A significant reduction in the cost of the Government Radio Network due to changes in project scope and cost has also been realised.

Further details of both the savings and initiatives within the portfolio are presented in the following table.

Table 2.13 Administrative and Information Services — savings and expenditure initiatives

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
State Aboriginal Affairs				
Savings initiatives				
Anangu Pitjantjatjara Roads — capital expenditure to support road maintenance	100	100	100	100
Efficiency measures — reduction in operating costs across the agency	300	418	427	436
Essential services — operational efficiencies	94	142	144	146
Landholding Authority Coalition — savings as a result of efficiencies	25	100	100	100
Telecommunications — savings as a result of revised telecommunications contract	5	5	5	5
Operating initiatives				
Aboriginal Reconciliation — ongoing funding support for Reconciliation SA	-120	-123	-126	-130
Anangu Pitjantjatjara Lands Electrical Safety — provision of licensed electrical operators	-151	-212	-217	-217
Bringing Them Home — funding to assist in reuniting indigenous families in accordance with recommendations of the 'Bringing Them Home' report	-100	-102	-104	-106

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Department for Administrative and Information Services				
Savings initiatives				
Commercial properties — reduction in annual maintenance, upgrade and replacement expenditure	1 500	1 500	—	—
EDS — reduced cost based on outcome of market price review	785	886	981	1 070
Efficiency measures — reduction in operating costs across the agency	480	950	1 170	1 500
Electronic Government — reduction in resources for the promotion and development of electronic services across government	1 100	1 100	1 100	1 100
Equipment replacement — reduction in annual provisions	1 700	1 700	—	—
Government Radio Network — savings resulting from revised costs of project implementation	8 110	33	16 042	—
Land Services Group — rationalisation of services in line with system developments	405	882	1 000	1 000
Major Projects Group — rationalisation of services	92	610	856	1 100
Ministerial support — restructure of support services for Minister for Administrative and Information Services	70	200	200	200
SA Government Information Centre — rationalisation of services	160	333	343	313
Telecommunications — savings as a result of revised telecommunications contract and dividend offset to agency savings	-554	-554	-554	-554
Operating initiatives				
Cross-portfolio savings initiatives — development of business cases	-1 000	—	—	—
DNA — resourcing requirements for Forensic Science to handle additional testing	-1 665	-1 330	-1 360	-1 392
ICT service arrangements — procurement and transition of future information and communication technology (ICT) service arrangements	-2 216	-2 216	—	—
Network Security — network systems disaster recovery strategy and implementation	-1 500	-1 500	—	—
Supply SA Warehouse — removal of expected profit never achieved	-3 502	-3 568	-3 655	-3 732
Investing initiatives				
Government office accommodation refurbishment — Education Centre facade and Holden Hill Police Complex air-conditioning works	-1 080	—	—	—
Land Ownership and Tenure System (LOTS) — progressive replacement	—	—	-2 000	-2 000
Office for Recreation and Sport				
Savings initiatives				
Efficiency measures — reduction in operating costs across the agency	210	112	114	116
SASl program efficiency measures and restructuring of sports programs in line with the national structure	60	161	163	165

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Operating initiatives				
Adelaide Aquatics Centre — ongoing subsidies to Council to support aquatic sports	-210	-210	-210	-210
SANTOS Stadium — subsidy to offset annual operating costs	-100	-100	-100	-100
SA Superdome — subsidy to offset annual operating costs	-100	-100	-100	-100
State Physical Activity Strategy — development of strategy and education initiatives	-170	-280	—	—
Investing initiatives				
State Aquatic Centre — provision for operating payments under PPP arrangement	—	—	-500	-500
State Sporting Facilities Strategy — development of strategy	-100	—	—	—
Workplace Services				
Savings initiatives				
Efficiency measures — reduction in operating costs across the agency	174	174	174	174
Employee ombudsman — general administrative savings	15	50	50	50
Industrial Relations Court and Commission — general administrative savings	263	290	400	400
Telecommunications — savings as a result of revised telecommunications contract	22	22	22	22
Operating initiatives				
Andrew Knox scholarship — research scholarship in the area of industrial/labour relations	-24	-24	-24	-24
Award and agreement modernisation	-100	-200	-200	-100
Increased Occupational Health and Safety and Welfare Inspectorial Function — strategy to reduce workplace injuries	-2 500	-3 500	-3 500	-3 500
Major Hazardous Facilities — implementation of legislation and compliance framework	-250	-450	-450	-450
Saving initiatives	15 116	9 214	22 837	7 443
Operating initiatives	-13 708	-13 915	-10 046	-10 061
Investing initiatives	-1 180	—	-2 500	-2 500
Total impact on budget balance	228	-4 701	10 291	-5 118

HUMAN SERVICES

Additional funding has been targeted to areas of increased activity in hospitals and to support increased nursing costs. In addition the Government is supporting priority areas by putting additional funding into the Commonwealth State and Territory Disability Agreement, alternative care, child protection and mental health areas. Funding has also been provided to continue the protection of vital blood supplies.

The savings measures within the portfolio are focused on the rationalisation of administrative activities across the portfolio.

Further details of both the savings and initiatives within the portfolio are presented in the following table.

Table 2.14 Human Services — savings and expenditure initiatives

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Department of Human Services				
Savings initiatives				
Agency Staffing — reduction in the usage of clerical agency staff	1 000	1 000	1 000	1 000
Efficiency measures — reduction in operating costs across the agency	134	169	168	167
EDS — reduced cost based on outcome of market price review	1 540	1 739	1 925	2 099
Redeployee management — reduce the number of redeployees	3 400	3 400	3 400	3 400
Shared services — reduction in administrative expenses through a shared service arrangement with disability service organisations	-137	607	625	644
Telecommunications — savings as a result of revised telecommunications contract	399	399	399	399
Travel and accommodation — reducing non-service related expenditure	3 650	3 650	3 650	3 650
Operating initiatives				
Alternative care — additional funding for children's payments	-2 000	-2 050	-2 101	-2 154
Alternative care — increased services for children and young people with extreme support needs	-1 000	-1 025	-1 051	-1 077
Alternative care — strategy for placement prevention interventions	-1 000	-1 025	-1 051	-1 077
Ambulance charges — increased allocation	-1 047	-1 073	-1 100	-1 128
Anangu Pitjantjatjara Lands — improved health and wellbeing for AP communities	-1 000	-2 000	-2 000	-2 000
Anangu Pitjantjatjara Lands — regional office and rehabilitation / respite infrastructure	-650	-215	-158	-140
Child protection — early intervention and prevention	-3 000	-3 000	-3 000	-3 000
Commonwealth State Territory Disability Agreement — additional State funding to provide accommodation and support for people with disabilities and their carers	-349	-5 010	-6 075	-9 425
General medical support — increase in support costs for public hospitals	-1 100	-1 100	-1 100	-1 100
Intensive care — increase in activity levels	-7 500	-7 500	-7 500	-7 500
Mental health — includes institutional, community, legislative and workforce reforms	-1 000	-1 000	-1 000	-1 000
Non-government organisations funding — increased indexation	-577	-1 185	-1 826	-2 502
Nursing — additional employment costs	-6 700	-6 700	-6 700	-6 700
Premier's Council for Women — ongoing program to provide Government with information and reports on progress in areas of concern to women	-108	-110	-114	-116
Protecting vital blood supplies — introduction of Biostate Factor VIII and improvements in donor haemoglobin	-2 400	-2 400	-2 400	-2 400
Renal dialysis — increase in activity levels	-1 300	-1 300	-1 300	-1 300
Strathmont Centre — redevelopment and transfer to community accommodation	-50	-1 690	-4 270	-5 330
Youth Detention Centre — PPP operating payment for new facility	—	—	—	-4 508
Investing initiatives				
Capital program — rescheduling of major works to accommodate a number of priority initiatives	-5 916	14 541	12 775	-3 000

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Magill Youth Training Centre — ongoing sustainment of the aging infrastructure at Magill pending replacement	-500	-500	—	—
Murray Bridge Hospital redevelopment — upgrade of building facilities	-1 500	-500	—	—
Strathmont Centre — redevelopment and transfer to community accommodation	-700	-6 500	-6 600	-1 600
The Queen Elizabeth Hospital — ongoing sustainment of the ageing Tower Block	-1 000	-1 000	—	—
Administered items for the Department of Human Services				
Operating initiatives				
Electricity concessions — cost of administering concessions in the deregulated electricity market	-781	-801	-821	-841
South Australian Housing Trust				
Operating initiatives				
Housing Stock — increased maintenance	-1 600	-1 640	-1 575	-1 615
Saving initiatives				
Operating initiatives	9 986	10 964	11 167	11 359
Investing initiatives	-33 162	-40 824	-45 142	-54 913
Total impact on budget balance	-32 792	-23 819	-27 800	-48 154

EDUCATION AND CHILDREN'S SERVICES

Additional funding has been provided for system-wide facilities maintenance within schools. The Government has also provided funding in future years to ensure the portfolio has the capacity to respond to new demands and opportunities.

The savings measures within the portfolio include ensuring greater compliance with existing school card criteria to ensure only those families that are eligible receive funding. Savings will also be achieved in administrative activities.

Further details of both the savings and initiatives within the portfolio are presented in the following table.

Table 2.15 Education and Children's Services — savings and expenditure initiatives

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Department of Education and Children's Services				
Savings initiatives				
EDS — reduced cost based on outcome of market price review	304	343	380	414
SSABSA — administrative measures	800	800	800	800
State office and administrative measures — savings on Microsoft software licensing	800	600	400	400
State office and administrative measures — office restructuring	350	700	700	700

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
State office and administrative measures — new Centrelink crosscheck of School Card eligibility	2 100	2 100	2 100	2 100
Telecommunications — savings as a result of revised telecommunications contract	200	200	200	200
Revenue initiatives				
School buses — proceeds from sale of replaced school buses	—	—	200	200
Operating initiatives				
Child protection — employment of school counsellors in primary schools	-2 000	-2 000	-2 000	-2 000
Increased school retention — coordinated cross agency approach to increase school retention	-398	-467	—	—
Funding capacity to respond to new demands and opportunities	—	-578	-1 195	-1 395
Social Inclusion in the Early Years — improved access to preschool for high needs children	-235	-500	-350	-350
Special Interest (Ship) Secondary School Program — reinstatement of the Gifted Students program at three schools	-265	-255	-255	-255
Investing initiatives				
Asset maintenance — system-wide funding for urgent facilities maintenance	-2 000	—	—	—
Social inclusion in the early years — aims to restore early childhood infrastructure in high need communities	—	-400	-200	—
Saving initiatives	4 554	4 743	4 580	4 614
Revenue initiatives	—	—	200	200
Operating initiatives	-2 898	-3 800	-3 800	-4 000
Investing initiatives	-2 000	-400	-200	—
Total impact on budget balance	-344	543	780	814

ENVIRONMENT AND CONSERVATION AND THE RIVER MURRAY

The major component of the River Murray Improvement Program, funded by the River Murray Levy, has been provided for within this portfolio. Other components of the program are included within the Department of Primary Industries and Resources. Additional funding has been provided for essential fire management works throughout the State, a package of works to encourage the sustainable management and use of stormwater and the acceleration of asset replacement and maintenance in Environment and Heritage. Funding has also been provided to ensure the sustainable operations of the Environment Protection Authority.

The savings measures within the portfolio are in the main focused on the rationalisation of administrative activities across the portfolio and better targeting of current expenditure. Some lower priority activities have also been removed.

Further details of both the savings and initiatives within the portfolio are presented in the following table.

Table 2.16 Environment and Conservation and the River Murray — savings and expenditure initiatives

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Department for Environment and Heritage				
Savings initiatives				
Coast Protection Fund — reduce grants	250	250	250	250
Rationalisation of services — aerial photography, photo laboratory, mapping, design publishing, environment shop and marine heritage survey	1 215	1 255	1 255	1 255
Efficiency measures — reduction in operating costs across corporate and divisional service and policy areas	2 550	2 550	2 550	2 550
Rationalisation/divestment of management responsibilities for selected operational sites	304	404	404	404
Sand management — deferral of sand replenishment pending further public consultation and impact assessment	1 000	—	—	—
Telecommunications — savings as a result of revised telecommunications contract	66	66	66	66
Operating initiatives				
Adelaide Dolphin Sanctuary — improve environmental conditions in the Port River and Barker Inlet	-250	-250	-250	-250
Asset replacement and maintenance — accelerated program	-2 000	-1 000	-1 000	-1 000
Fire management — essential ongoing fire management works throughout the State	-2 500	-2 500	-2 500	-2 500
River Murray Improvement Program — environmental flows and wetland management	-200	-360	-840	-140
Sustainable Adelaide — initiative to plant one million trees in the urban environment	-750	-750	-750	-450
Department of Water, Land and Biodiversity Conservation				
Savings initiatives				
Animal and plant control — reduced program for animal and plant pest control on crown lands	100	100	100	100
Catchment Water Management Branch — rationalise the level of operational support	255	255	255	255
Corporate services — rationalisation of services following creation of new department and further savings to be achieved through portfolio shared services	500	500	500	500
Geographic information — rationalise the collection and analysis of natural resource management information by focusing on areas of high priority	373	373	373	373
Land management and revegetation — reduce the provision of regional technical support	306	306	306	306
Sustainable resource management — limit the involvement in development of plans and technical projects	760	760	760	760
Public information management and delivery — reduce sponsorships and direct information services largely offset by greater use of the internet	272	272	272	272
Assessments — reducing the level of assessments including hydrogeological assessments	295	295	295	295
Telecommunications — savings as a result of revised telecommunications contract	14	14	14	14
Water monitoring and resource assessment — monitoring of both ground and surface water monitoring networks to be restricted to those areas where the resource is under stress	800	800	800	800

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Operating initiatives				
Natural resource management reform — integration of the roles and responsibilities of animal and plant control, land management and conservation and water monitoring and resource assessment	-1 500	- 500	—	—
Prescription revenue — reversal of 2002-03 budget initiative	-1 000	-1 000	-1 000	-1 000
River Murray Improvement Program — State's increased contribution to Murray Darling Basin Commission	-4 800	-3 500	-3 650	-3 650
River Murray Improvement Program — other initiatives	-9 500	-15 690	-15 460	-17 160
Stormwater — package of works and measures that encourage sustainable management and use of stormwater	-2 000	-2 000	-2 000	-2 000
SA Water community service obligation (CSO) — increased CSO payments related to SA Water regional water supply	—	—	—	- 46
Environment Protection Authority				
Savings initiatives				
Business efficiency reviews — to conduct reviews in areas such as compliance, monitoring, technical advice and corporate/operational overheads	525	525	525	525
Transfer responsibility for some non-regulatory programs to Zero Waste SA	725	725	725	725
Telecommunications — savings as a result of revised telecommunications contract	12	12	12	12
Operating initiatives				
River Murray Improvement Program — water quality improvement	-150	-250	-250	-250
Sustainable operations — commitment to sustainable ongoing operations	-2 000	-2 000	-3 000	-3 000
Saving initiatives	10 322	9 462	9 462	9 462
Operating initiatives	-26 650	-29 800	-30 700	-31 446
Total impact on budget balance	-16 328	-20 338	-21 238	-21 984

TRANSPORT AND URBAN PLANNING

Additional funding has been provided for a series of transport infrastructure projects including the upgrade of existing tram services, the Mawson Lakes public transport interchange and the Port River Expressway as well as additional funding for the State Black Spot program. Reversion to State ownership of the majority of core plant used in maintaining transport infrastructure is funded, which will avoid long term leasing costs.

The Government has decided that the road and rail bridges over the Port River should be built by a public non-financial corporation (PNFC). This corporation will operate on a commercial basis and finance its investment in the bridges and subsequent operating costs entirely from the toll revenue generated by the bridges. In order to ensure the corporation operates on a commercial basis over the life of the project, the Government will subsidise the construction costs of the bridges to a limited extent. The arrangements between the Government and the proposed PNFC mirror those that could have applied between the Government and a private sector company under a build, own, operate and transfer (BOOT) arrangement. The proposed subsidy is shown in the table below.

The savings measures within the portfolio are in the main focused on the rationalisation of administrative activities across the portfolio and better targeting of current expenditure. Some lower priority activities have also been removed. Revised fee structures across a range of transport charges have been adopted.

Further details of both the savings and initiatives within the portfolio are presented in the following table.

Table 2.17 Transport and Urban Planning — savings and expenditure initiatives

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Transport Services				
Savings initiatives				
Accommodation — rental savings from portfolio reorganisation	—	100	100	100
Adelaide Better Roads — reduced program	210	—	—	—
Bus maintenance efficiencies	550	500	500	500
Bus purchase — benefit associated with rescheduling purchase payments	70	230	380	440
City West Connector — revised cost estimate	1 300	—	—	—
EDS — reduced cost based on outcome of market price review	450	508	562	613
Function reform and corporate services	4 230	5 980	5 980	6 180
Information technology — completion of new internet site has reduced requirement for IT contractors	1 040	1 040	1 040	1 040
Jetty works — deferred refurbishment	550	—	—	—
LED Lanterns — introduce efficient traffic signal lanterns	-2 800	-1 450	2 500	1 000
Light vehicle fleet — reduce the cost of light vehicle use	508	508	508	508
Maintenance administration — reduce supervision of routine contracts	100	100	100	100
Marine National Body Forum — reduced participation in the Forum	230	230	230	230
Metro Bus priority lanes — cease separate program	900	—	—	—
Pavement marking	400	400	400	400
Plant — savings by not leasing major plant	4 817	9 876	10 123	10 376
Registration and licensing — reduce operating costs	200	300	300	300
Registration arrangements — improve arrangements for registration of light motor vehicles	50	200	200	200
Safety audit — transfer to road safety program	1 200	1 500	—	—
State minor works — review of program priorities in State wide minor works	1 171	—	—	—
Sustainable Transport and Environment programs — reduce programs	1 950	1 950	1 950	1 950
System replacement — replace the Registration and Licensing computer system	-3 050	- 572	2 594	2 340
Telecommunications — savings as a result of revised telecommunications contract	82	82	82	82
Reduce expenditure on training and development	500	500	500	500
Heavy vehicle safety — facilities to electronically record heavy vehicle movements	-700	-200	300	300
Unley Road — defer project	—	200	—	—
West Lakes revetment — program delivered ahead of time and below budget	773	1 300	—	—
Workers compensation — reduced provision	200	400	400	400

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Revenue initiatives				
Commercial Fishing Levy — levy on all vessels based on length	384	384	384	384
Driver Standards Group — implementation of full cost recovery	—	2 500	2 500	2 500
Grange depot — proceeds from disposal of excess land	4 600	—	—	—
Heavy vehicle permits — implement a permit user charge and charge for observer duties	-450	1 518	1 530	1 350
Port River Expressway — proceeds from the disposal of excess land	—	1 500	—	—
Rail Safety Act — increase in fees for full cost recovery	73	145	218	290
Operating initiatives				
Ports Corporation — ongoing management of surplus and residual assets from the Ports Corporation	-775	-1 010	-10	-10
Port River Expressway — PNFC subsidy ^a	-4 100	-22 900	-18 700	—
Ship survey — interim funding to meet shortfall between current fee structure and full cost of service	-420	—	—	—
Investing initiatives				
Adelaide trams — operating arrangements for light rail	—	-3 100	-3 100	-3 100
Adelaide trams — infrastructure upgrade of light rail services	-1 200	-24 800	—	—
Bus replacement program — acceleration of payments under the bus purchase program	-2 500	-1 300	—	—
Capital program — additional expenditure on transport related projects	-5 000	—	—	—
Commercial Road — timing variation in Commercial Road upgrade	-4 000	3 835	—	—
Contaminated land remediation — remediation costs for Cockburn Township land	-550	—	—	—
Deflectograph pavement evaluation vehicle — to assess deterioration of road assets	-98	-35	—	—
Purchase of core plant utilised in maintaining transport infrastructure	-30 310	-3 183	-3 479	-3 562
Mawson Lakes public transport interchange — construction of public transport rail and bus interchange	-1 700	-4 600	—	—
Ports Corporation — remediation costs for land transferred from Ports Corporation	-200	—	—	—
State Black Spot Program — additional expenditure on key initiatives to improve road safety at Black Spot areas	-6 900	-3 000	-3 300	—
Transport Planning				
Savings initiatives				
Policy analysis, research and investigations — reduce staff	500	500	500	300
Operating initiatives				
Centre for Automotive Safety Research — collaborative safety research initiative	-500	-500	-500	-500
Interstate rail subsidies — ongoing rail subsidy arrangements	-750	-750	-375	—

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Passenger Transport Board				
Savings initiatives				
Combined transport inspectorial function — compliance function efficiencies	340	1 050	1 300	1 700
Poorly patronised bus services — remove	1 850	1 950	1 950	1 950
Operating initiatives				
Metro ticket service — extension of Southern metro ticket boundary	-200	-200	-200	-200
Salisbury Interchange — additional cost of re-routing buses from the Salisbury Interchange	-240	-240	-240	-240
TransAdelaide				
Savings initiatives				
Accelerated deployment of redeployees — improved deployment rates for bus contract redeployees	2 000	1 600	1 300	800
TransAdelaide efficiencies — efficiencies in the operation of TransAdelaide	350	500	500	500
Operating initiatives				
Bridge maintenance — repainting projects on bridges, major culverts and footbridges owned by TransAdelaide	-261	-261	-261	—
Pedestrian Crossing Risk Review — risk assessment and risk mitigation on all pedestrian level crossings	-120	—	—	—
Planning SA				
Savings initiatives				
Telecommunications — savings as a result of revised telecommunications contract	20	20	20	20
Revenue initiatives				
Planning and Development fees and charges — review to consider the extent to which cost recovery should apply	—	500	500	500
Operating initiatives				
Development Plan Improvement Program — reformatting to improve consistency	-400	-400	—	—
Office of Local Government				
Savings initiatives				
Administrative costs — reduction in the level of general administrative activities across the agency	170	170	170	170
Independent Reference Group — savings on consulting costs	30	30	30	30
Operating initiatives				
Old Town Hall Redevelopment — upgrade of civic centre facilities at Mt Gambier	—	-250	—	—
Administrative costs — additional resourcing to partly offset administrative cost savings across the agency	-130	-130	-130	-130
Strengthening of Local Government Accountability — additional resourcing to strengthen the capacity of local government to respond to communities	-150	—	—	—

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Outback Areas Community Development Trust				
Operating initiatives				
Outback Areas Community Development Trust — additional State funding	-83	-84	-86	-88
<hr/>				
Saving initiatives	20 191	29 502	34 519	33 029
Revenue initiatives	4 607	6 547	5 132	5 024
Operating initiatives	-8 129	-26 725	-20 502	-1 168
Investing initiatives	-52 458	-36 183	-9 879	-6 662
Total impact on budget balance	-35 789	-26 859	9 270	30 223

(a) Net of existing forward estimates

FURTHER EDUCATION, EMPLOYMENT, SCIENCE AND TECHNOLOGY

Additional funding has been provided for essential maintenance and capital improvements in TAFE infrastructure, to support new initiatives and cost pressures in TAFE institutes and for the enhancement of financial management capacity within TAFE institutes. The Premier's Research and Innovation fund has also been established.

The major savings in the portfolio include reduced expenditure on employment programs and a reduction in the number of traineeships in the Government Youth Training program. The sale of surplus property will also occur.

Further details of both the savings and initiatives within the portfolio are presented in the following table.

Table 2.18 Further Education, Employment, Science and Technology — savings and expenditure initiatives

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Department of Further Education, Employment, Science and Technology				
Savings initiatives				
EDS — reduced cost based on outcome of market price review	67	75	83	91
Employment programs — reduced expenditure	1 000	1 000	1 000	1 000
Government Youth Training Program — reduced number of traineeships	1 000	1 000	1 000	1 000
Playford Centre — reduction in overheads	96	128	147	—
Telecommunications — savings as a result of revised telecommunications contract	44	44	44	44
Revenue initiatives				
Flinders Street School of Music — sale of land and buildings	1 660	—	—	—
North Adelaide School of Art — sale of land and buildings	1 550	—	—	—

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Operating initiatives				
Bio Innovation — extension of program	-1 000	—	—	—
Financial management in TAFE institutes — response to recommendations from the Kirby Report	-1 000	-1 000	-1 000	-1 000
Premier's Research and Innovation Fund — to support new bids for science projects and leverage new Commonwealth and industry funding	-1 000	-1 000	-1 000	-1 000
Science, Technology and Innovation Division — ongoing operational funding	-1 527	-1 543	-1 559	-1 439
TAFE system — additional funding	-3 000	-3 000	-3 000	-3 000
User choice — cost pressures arising from user choice apprentice training arrangements	-2 100	-1 500	-1 500	-1 500
Investing initiatives				
High Performance Computing — develop facilities including education, expertise and industry diffusion programs	-3 135	—	—	—
TAFE System — essential maintenance and improvements in infrastructure	-6 830	-7 460	-2 400	—
Saving initiatives				
Saving initiatives	2 207	2 247	2 274	2 135
Revenue initiatives	3 210	—	—	—
Operating initiatives	-9 627	-8 043	-8 059	-7 939
Investing initiatives	-9 965	-7 460	-2 400	—
Total impact on budget balance	-14 175	-13 256	-8 185	-5 804

TOURISM

Additional funding has been provided to attract new events to South Australia and to ensure the ongoing operations of Australian Major Events. Support is also provided to continue the investment in the State's tourism infrastructure and bolster the State's intrastate marketing effort.

The savings measures within the portfolio include the discontinuation of funding for the Adelaide International Horse Trials from 2004-05 and lower subsidies to the Adelaide Convention Centre and Entertainment Centre.

Further details of both the savings and initiatives within the portfolio are presented in the following table.

Table 2.19 Tourism — savings and expenditure initiatives

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
South Australian Tourism Commission				
Savings initiatives				
Adelaide International Horse Trials — no further State funding support	—	625	650	650
EDS — reduced cost based on outcome of market price review	8	9	10	11
Glenelg Jazz Festival — no further State funding support	100	—	—	—
Telecommunications — savings as a result of revised telecommunications contract	34	34	34	34

	2003-04 Budget \$000	2004-05 Estimate \$000	2005-06 Estimate \$000	2006-07 Estimate \$000
Operating initiatives				
Australian Major Events — contingency funding for new events as part of the State's event calendar	-250	-1 250	-250	-810
Australian Major Events — maintenance of base funding from 2005-06 onwards	—	—	-2 500	-2 500
Intrastate marketing support — funding to sustain the State's intrastate marketing function	-500	-500	-500	-500
Linger Longer Program — program to encourage short term business visitors to extend their stay	-125	-125	—	—
Investing initiatives				
Tourism infrastructure — development of tourism infrastructure including public toilets, walkways and lookouts	-1 055	-1 055	-1 060	-1 060
Adelaide Convention Centre				
Savings initiatives				
Reduced capital reserve funding	1 500	1 500	1 500	1 500
Adelaide Entertainment Centre				
Savings initiatives				
State funding — reduced support	249	267	—	—
Saving initiatives	1 891	2 435	2 194	2 195
Operating initiatives	-875	-1 875	-3 250	-3 810
Investing initiatives	-1 055	-1 055	-1 060	-1 060
Total impact on budget balance	-39	-495	-2 116	-2 675

Attachment 1 Operating expenses by portfolio^(a)

	2002-03 Budget	2002-03 Estimated Result	2003-04 Budget
Portfolio	\$m	\$m	\$m
The Legislature	-14.0	-14.0	-14.4
Premier and Cabinet	-166.5	-162.6	-148.0
Business, Investment and Trade	-153.0	-146.0	-118.7
Treasury and Finance	-65.4	-64.0	-67.0
Justice	-796.4	-809.3	-841.6
Primary Industries and Resources	-153.9	-151.5	-171.3
Administrative and Information Services	-572.5	-600.1	-594.0
Human Services	-3 010.9	-3 102.9	-3 177.8
Education and Children's Services	-1 594.4	-1 606.1	-1 658.2
Environment and Conservation and the River Murray	-240.7	-236.6	-249.3
Transport and Urban Planning	-635.1	-650.3	-668.6
Further Education, Employment, Science and Technology	-376.4	-390.4	-395.3
Tourism ^(b)	-53.1	-53.9	-48.2
Auditor-General	-9.3	-10.0	-9.7
Total Portfolio operating expenses	-7 841.7	-7 997.7	-8 162.3

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

(b) Excludes PNFCs.

Attachment 2 Investing payments^(a)

	2002-03 Budget	2002-03 Estimated Result	2003-04 Budget
	\$m	\$m	\$m
The Legislature	—	—	2
Premier and Cabinet	25	22	12
Business, Investment and Trade	14	13	4
Treasury and Finance	4	3	9
Justice	50	34	69
Primary Industries and Resources	13	8	8
Administrative and Information Services	70	47	53
Human Services	121	110	133
Education and Children's Services	50	45	55
Environment and Conservation and the River Murray	30	22	25
Transport and Urban Planning	129	126	186
Further Education, Employment, Science and Technology	12	11	9
Tourism	—	—	—
Auditor-General	—	—	—
Contingencies and Other	26	-3	9
Provision for capital slippage	—	—	-40
Total general government sector^(a)	544	440	532
Public non-financial corporations	295	313	356
Total investing^(a)	839	753	889

(a) Table may not add due to rounding.

Attachment 3 Budget Initiatives^(a)

Portfolio	2003-04	2004-05	2005-06	2006-07
	Budget \$m	Estimate \$m	Estimate \$m	Estimate \$m
The Legislature	-2.4	-0.7	-0.7	-1.0
Premier and Cabinet	-5.0	-2.6	-2.5	-2.0
Business, Investment and Trade	4.7	-5.9	4.2	4.6
Treasury and Finance	-10.8	15.2	15.5	15.3
Justice	-19.6	-5.5	-12.4	-9.1
Primary Industries and Resources	-2.2	-2.5	-1.7	-5.8
Administrative and Information Services	0.2	-4.7	10.3	-5.1
Human Services	-32.8	-23.8	-27.8	-48.2
Education and Children's Services	-0.3	0.5	0.8	0.8
Environment and Conservation and the River Murray	-16.3	-20.3	-21.2	-22.0
Transport and Urban Planning	-35.8	-26.9	9.3	30.2
Further Education, Employment, Science and Technology	-14.2	-13.3	-8.2	-5.8
Tourism	—	-0.5	-2.1	-2.7
Auditor-General	—	—	—	—
Measures not yet announced ^(b)	-4.6	-1.8	-1.4	-1.4
Total initiatives (net of savings)	-139.0	-92.7	-38.1	-52.0

(a) Table may not add due to rounding.

(b) Includes provisions for matters that are subject to negotiations. The measures will be announced once the relevant negotiations have been finalised.

CHAPTER 3: REVENUES

TAXATION MEASURES

Taxation measures have been kept to a minimum in this budget. The most significant is the introduction of a River Murray Levy which will be used to fund major policy initiatives aimed at restoring and protecting the River Murray. Other measures are designed to protect the State's revenues.

Taxation measures are summarised in Table 3.1.

Table 3.1 Taxation measures

Taxation measures	Estimated revenue gain or loss in	
	2003-04 \$m	Full year \$m
2003-04 Budget measures		
River Murray Levy		
<i>From 1 October 2003:</i>		
Introduction of a flat rate levy on SA Water customers to fund expenditure on the River Murray.	15.0 ^(a)	20.0 ^(a)
Mining royalties		
<i>By 31 December 2005:</i>		
Increase standard royalty rate under the <i>Mining Act</i> from 2.5% to 3.5%	—	10.0 (from calendar year 2006)
Increased tax compliance effort		
<i>From 1 July 2003:</i>		
Increased resources to improve taxation compliance	10.5	10.5
Modification of 2002-03 Budget measure		
Rental and mortgage duty		
<i>From 1 October 2003:</i>		
Revision to 2002-03 Budget measure ^(b)	-5.0 ^(c)	-3.0
Measures introduced since 2002-03 Budget		
Gaming machine tax		
<i>From 1 January 2003:</i>		
Modification to the gaming machine tax structure announced in the 2002-03 Budget	-11.0	-11.0
Total	9.5	26.5

(a) Net of levy contribution by SA Housing Trust. In gross terms, the levy is estimated to raise \$15.9 million in 2003-04 and \$21.15 million in a full year.

(b) Increase mortgage duty rate for mortgages except those relating to the purchase or construction of a home for owner occupation from 35 cents per \$100 to 45 cents per \$100 and reduce the rental duty rate for commercial hire purchase and other equipment finance arrangements for terms of not less than 9 months from 1.8% to 0.75%.

(c) Revenue loss is greater in 2003-04 due to the part year effect of the amended policy and the part year revenue loss from the shift to chattel mortgages following the 2002-03 Budget measure.

RIVER MURRAY LEVY

A River Murray Levy will be introduced in the 2003-04 Budget. Funds raised from the levy will be used to fund specific measures aimed at improving the long-term security and quality of South Australia's water supply.

The levy will be charged at a flat rate to SA Water customers and will be collected with SA Water bills from 1 October 2003.

The flat rate levy will be as follows:

\$30 per annum for residential customers

\$135 per annum for non residential customers.

Pensioners who are eligible for a concession on SA Water rates and charges will be exempt from the levy.

The levy amounts will be indexed annually to movements in the Adelaide Consumer Price Index (CPI).

The River Murray Levy is expected to raise \$15 million in 2003-04 and \$20 million in a full year (net of levy contributions by the SA Housing Trust). While the SA Housing Trust will pay the levy it will be compensated for this cost. The lower amount of \$15 million in 2003-04 reflects the commencement of the levy part way through 2003-04 (on 1 October 2003).

MINING ROYALTIES

It is proposed that the standard mining royalty rate in the *Mining Act 1971* be increased from 2.5% to 3.5% by 31 December 2005 to secure the State's current level of royalty revenue from minerals.

In the absence of legislative amendment, the royalty rate on Olympic Dam mine production will revert from 3.5% under the *Roxby Downs (Indenture Ratification) Act 1982* to a default rate equivalent to that specified in the *Mining Act* (currently up to 2.5%) when the royalty provisions under the indenture expire on 31 December 2005. This would result in a substantial fall in royalty payments from the Olympic Dam mine from calendar year 2006 onwards.

The proposed action to amend the royalty provisions in the *Mining Act* will impact on all mining activities conducted under the *Mining Act*, although specific mining activities that are the subject of separate indentures and agreements will not be affected in the short term. The main revenue gain to the State will however come from maintaining the royalty rate at Roxby Downs at the 3.5% level rather than from increasing the royalty rate on other mining operations.

Currently the *Mining Act* stipulates that royalty payments can be set in the range 1.5% to 2.5%. Under the proposed amendment this range will be lifted to 2.5% to 3.5%. Transition issues in relation to existing mines may need to be addressed where industry viability might be adversely affected.

INCREASED TAX COMPLIANCE

RevenueSA conducts compliance programs to identify non-compliance and applies various strategies to address non-compliance to ensure that the Government obtains the best possible efficiency from its existing tax bases.

Additional resources of \$1.1 million are being provided to RevenueSA to support a higher level of tax compliance across a range of taxes in 2003-04. The integrity and fairness of the State's tax system

relies on taxpayers meeting their obligations to the community. These extra resources will enable increased auditing of taxpayer behaviour to address tax avoidance.

The new initiatives provide for estimated revenue returns of \$10.5 million from 2003-04.

RENTAL AND MORTGAGE DUTY

Rental and mortgage duty rates will be amended to address a tax-induced shift in financing arrangements from commercial hire purchase to chattel mortgages.

In the 2002-03 Budget, the rental duty base was broadened to include commercial hire purchase arrangements. The anticipated revenue gain from broadening the rental duty base has not been achieved because of a shift from commercial hire purchase to chattel mortgages which attract a much lower duty rate of 35 cents per \$100 on the sum secured compared to a 1.8% rate on commercial hire purchase arrangements.

To remove tax incentives favouring chattel mortgages, it is proposed to reduce the stamp duty rate on commercial hire purchase and other equipment finance arrangements for terms of not less than 9 months (from 1.8% to 0.75%) and to increase the rate of duty applying to mortgages except those relating solely to the purchase or construction of a home for owner occupation from 35 cents per \$100 to 45 cents per \$100. Residential mortgages for owner occupation will continue to attract a rate of duty of 35 cents per \$100, while standard rental arrangements will continue to be taxed at a rate of 1.8%.

The reduction in the rental duty rate for commercial hire purchase from 1.8% to 0.75% will bring South Australia into line with New South Wales, Victoria, the ACT and Western Australia (proposed) where a stamp duty rate of 0.75% applies to commercial hire purchase.

The move to differential rates for home mortgages for owner occupation and all other mortgages will be combined with the introduction of a proportional rate structure above a sum secured threshold of \$6000.

At present, a three-tier mortgage duty structure applies in South Australia. It is proposed to remove the intermediate tax bracket applying to mortgages valued between \$400 and \$4000 and to increase the threshold from \$4000 to \$6000 above which proportional rates will apply. Details of the proposed new structure are provided in Table 3.2.

Table 3.2 Comparison of current mortgage duty scale with new mortgage duty scale

Sum secured	Current scale	Sum secured	New scale	
			Home mortgages for owner occupation	All other mortgages
\$400 to \$4000	\$10	\$400 - \$6000	\$10	\$10
\$4001 to \$10 000	\$10 plus 25c per \$100	above \$6000	\$10 plus 35c per \$100	\$10 plus 45c per \$100
above \$10 000	\$25 plus 35c per \$100			

The net revenue impact of the original 2002-03 Budget measure was \$7.5 million compared to a net revenue impact of \$4.5 million from the amended measure to be introduced in the 2003-04 Budget, resulting in a full year revenue loss of \$3.0 million.

GAMING MACHINE TAX AND SURCHARGE

As part of the 2002-03 Budget the Government announced changes to the gaming machine tax structure applying to hotels and clubs including increased rates of tax on large gaming machine

venues. In response to industry concerns, the Government subsequently agreed to adopt alternative thresholds and rates and to introduce a levy on the sale or transfer of ownership of gaming machine businesses.

With respect to the gaming machine tax structure, the changes involved applying smaller increases in rates of tax than those proposed in the 2002-03 Budget for venues with annual Net Gambling Revenue (NGR) between \$1.5 million and \$3.5 million. Details of the changes to the tax rates announced in the 2002-03 Budget are shown in Table 3.3.

Table 3.3 Comparison of gaming machine tax structure announced in 2002-03 Budget and modified structure.

Announced 2002-03 Budget measure		Modified structure	
Tax brackets (annual NGR)	Marginal rates	Tax brackets (annual NGR)	Marginal rates
Hotels			
\$0-75,000	0%	\$0-75,000	0%
\$75,001-399,000	27.50%	\$75,001-399,000	27.50%
\$399,001-945,000	37.00%	\$399,001-945,000	37.00%
\$945,001-1.5m	40.91%	\$945,001-1.5m	40.91%
\$1.5m-2.5m	55.00%	\$1.5m-2.5m	47.50%
above \$2.5m	65.00%	\$2.5m-3.5m	57.00%
		above \$3.5m	65.00%
Clubs and not for profit entities			
\$0-75,000	0%	\$0-75,000	0%
\$75,001-399,000	21.00%	\$75,001-399,000	21.00%
\$399,001-945,000	28.50%	\$399,001-945,000	28.50%
\$945,001-1.5m	30.91%	\$945,001-1.5m	30.91%
\$1.5m-2.5m	45.00%	\$1.5m-2.5m	37.50%
above \$2.5m	55.00%	\$2.5m-3.5m	47.00%
		above \$3.5m	55.00%

The modified tax structure took effect, as originally planned, from 1 January 2003.

The *Stamp Duties Act 1923* was amended to introduce a gaming machine surcharge on the transfer of the ownership of a gaming machine business. This includes the transfer of an underlying interest in a gaming business (eg shareholding transfers in a private company holding a gaming machine licence). In the case of a partial transfer of ownership the surcharge would apply only to the proportion of ownership transferred.

The surcharge is equal to 5% of the annual NGR of the gaming venue. The surcharge is estimated to raise \$5 million in a full year but the actual revenue raised in any given year is influenced by the number of transfers occurring in that year and the NGR of those venues.

The levy came into operation on 28 November 2002.

EMERGENCY SERVICES LEVY

There will be no increase in the Emergency Services Levy (ESL) rates payable by property owners in 2003-04.

The revenue target from the ESL for 2003-04 is \$162.1 million, of which the Government will contribute \$79.8 million through remissions, pensioner concessions and its own liability on government property, leaving private owners of fixed and mobile property to contribute \$81.1 million with \$1.3 million to be funded from interest earnings and certificate sales.

Effective levy rates for fixed and mobile property owners are unchanged from the rates that applied in 2002-03 and 2001-02 (as per the final column in Table 3.4 for fixed property and the second last column in Table 3.4 for mobile property).

Table 3.4 ESL levy rates for 2003-04

	Prescribed rate	Remission rate	Post-remission rate	Effective levy rate paid in Regional Area 4 ^(a)
	cents per \$ (applied to capital values discounted by land use and area factors)			\$50 plus cents per \$ of non-discounted capital value
Fixed property				
Residential	0.1491	0.1231	0.0260	0.0104
Commercial	0.1491	0.0486	0.1005	0.1005
Industrial	0.1491	0.0176	0.1315	0.1749
Rural and vacant land	0.1491	0.1231 ^(b)	0.0260 ^(b)	0.0078
Special community use	0.1491	0.1066	0.0425	0.0043
Other	0.1491	0.1231	0.0260	0.0130
Mobile property				
	\$	\$	\$	\$
Cars and larger motor cycles	32	8	24	n.a.
Metropolitan primary production goods vehicles	32	20	12	n.a.
Recreational boats	12	12	0	n.a.
Trailers and caravans	8	8	0	n.a.
Historic vehicles	8	2	6	n.a.

(a) 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 Areas:	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

(b) 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 0.1396 cents in the \$ and the post-remission rate is 0.0095 cents in the \$.

REVENUES — GENERAL GOVERNMENT EXPECTED RESULT FOR 2002-03¹

Total revenue and grants received are expected to be \$348 million above the original budget estimate for the general government sector for 2002-03, of which \$312 million relates to State own-source revenue and \$37 million to Commonwealth grants.

Of the \$312 million expected improvement in State own-source revenues, \$190 million relates to taxation, \$98 million to sales of goods and services, \$17 million to other grants and \$7 million to other State own-source revenues.

¹ The presentation of State own-source revenue and all references to State own-source revenue in this chapter exclude distributions from public non financial corporations (PNFCs) and public financial corporations (PFCs). Distributions from PNFCs and PFCs are treated as a separate revenue category.

An anticipated weakening in the property market in 2002-03 did not occur. A combination of low interest rates, increased house affordability and weakness in equity markets saw continued strong turnover of property and rising property values. As a result, conveyance duty receipts are estimated to exceed budget by \$107 million. Reflecting the uplift in property values, land tax receipts are also expected to exceed budget by \$10 million.

The remaining improvement above budget in taxation revenues is attributable to payroll tax (up \$32 million), insurance (up \$14 million), share duty (up \$12 million mainly on account of one large transaction), motor vehicle taxes (up \$10 million) and all other taxes (up \$5 million).

Of the \$37 million improvement above budget in Commonwealth grants, \$24 million relates to general purpose payments (GPPs) and reflects upward revisions to guaranteed funding levels for South Australia under national tax reform arrangements. These revisions are the result of revised CPI and population estimates.

The remaining improvement against budget in Commonwealth grants reflects a \$12 million improvement in specific purpose payments (SPPs), most of which relates to capital grants partially offset by downward revisions to recurrent grants.

STATE OWN-SOURCE REVENUE PROJECTIONS

The overall outlook for State own-source revenue is summarised in Table 3.5.

Table 3.5 State own-source revenue — general government sector

	2002-03 Budget	2002-03 Estimated result	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Taxation	2 182.6	2 372.5	2 462.7	2 558.8	2 608.9	2 712.9
Sales of goods and services	831.8	929.8	951.7	981.2	1 007.9	1 019.1
Other grants	39.9	56.8	57.6	58.1	58.6	58.7
Other State own-source revenue	292.2	299.0	294.2	299.9	305.7	297.9
Total own-source revenue	3 346.5	3 658.1	3 766.1	3 897.9	3 981.1	4 088.7
% growth on previous year						
Nominal terms growth %		4.1	3.0	3.5	2.1 ^(a)	2.7
Real terms growth %		1.1	0.7	1.5	0.1 ^(a)	0.7

(a) Reflects the proposed abolition of debits tax in 2005-06.

More detailed discussion of the forward projections for each of the components of State own-source revenue follows.

TAXATION

The forward outlook for tax revenue is provided in Table 3.6, including an adjusted series which removes the effect of incomparabilities between years.

Provision is made in the 2003-04 Budget for some slowing in the property market. Notwithstanding that, moderate real terms growth in total taxation receipts is projected for 2003-04 and over the forward estimate period.

Revenue growth is affected by the circumstances of particular tax bases. For example, property cycles tend to be more amplified than economic activity.

Table 3.6 Taxation

	2002-03 Budget	2002-03 Estimated result	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Employer payroll tax	613.0	645.1	678.1	705.7	738.3	771.7
Taxes on property	663.7	795.1	783.5	801.2	773.2	796.9
Taxes on gambling	336.0	335.3	371.8	401.0	425.5	449.9
Taxes on insurance	238.8	253.2	270.6	278.3	286.3	294.3
Motor vehicle taxes	330.4	340.0	354.1	367.8	380.8	395.1
Other taxes ^(a)	0.7	3.8	4.6	4.8	4.9	4.9
Total taxation	2 182.6	2 372.5	2 462.7	2 558.8	2 608.9	2 712.9
Adjusted to remove incomparability between years ^(b)	2 123.1	2 311.8	2 402.9	2 498.2	2 603.8	2 712.9
% change on previous year						
Employer payroll tax		7.3	5.1	4.1	4.6	4.5
Taxes on property		8.9	-1.5	2.3	-3.5 ^(c)	3.1
Taxes on gambling		7.4	10.9	7.9	6.1	5.7
Taxes on insurance		13.6	6.9	2.8	2.9	2.8
Motor vehicle taxes		5.1	4.2	3.9	3.5	3.8
Other taxes		18.0	20.9	3.1	1.6	1.6
Total taxation						
Nominal growth		8.2	3.8	3.9	2.0 ^(c)	4.0
Real terms growth		5.0	1.5	1.9	0.0 ^(c)	1.9
Total taxation adjusted to remove incomparability between years ^(b)						
Nominal growth		8.7	3.9	4.0	4.2	4.2
Real terms growth		5.6	1.7	1.9	2.2	2.1

(a) Comprises levies on agricultural products.

(b) Time series has been adjusted to remove the effects of taxes abolished or proposed for abolition during the forward estimate period following the introduction of the GST on 1 July 2000 and the termination of bookmakers' tax from 2 December 2001.

(c) Reflects the proposed abolition of debits tax in 2005-06.

PAYROLL TAX

Projected growth in payroll tax receipts mainly reflects estimated employment and earnings growth. Lower projected growth in payroll tax receipts in 2003-04 (compared to 2002-03) is consistent with economic forecasts of a slowing in employment growth in 2003-04 following very solid growth in 2002-03. Stronger payroll tax growth in 2002-03 also reflects the receipt of retrospective tax payments identified through tax compliance effort.

PROPERTY TAXES

Property taxes include land tax, stamp duty on conveyances, mortgages, shares, rental, financial transaction taxes, ESL on fixed property, the River Murray Levy and water catchment levies. Tax revenue from most forms of property taxes increased strongly in 2002-03, reflecting continued strength in the property market, strong growth in land values affecting the land tax base and one large share duty receipt. These improvements were marginally offset by the absence of any tax revenue from FID and stamp duty on listed marketable securities following their abolition, whereas lags in tax collection patterns meant that in 2001-02 small amounts of revenue were collected from these abolished taxes. Negative growth in 2003-04 reflects an expectation that the property market will weaken in 2003-04.

The outlook for individual property taxes is provided in Table 3.7.

Table 3.7 Property taxes

	2002-03 Budget	2002-03 Estimated result	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Stamp duties						
Conveyance duty	286.6	393.8	341.4	343.5	365.5	385.6
Other stamp duties ^(a)	75.8	87.2	82.3	88.2	92.5	96.8
Land tax	148.7	158.7	186.6	186.8	187.0	188.8
Financial institutions taxes ^(b)	59.5	60.7	59.8	60.6	5.1	0.0
Emergency Services Levy on fixed property	56.6	56.3	60.0	60.8	62.3	63.8
Other ^(c)	36.5	38.4	53.4	61.3	60.8	61.9
Total	663.7	795.1	783.5	801.2	773.2	796.9
% change on previous year						
Stamp duties						
Conveyance duty		11.1	-13.3	0.6	6.4	5.5
Other stamp duties ^(a)		19.9	-5.6	7.2	4.9	4.6
Land tax		13.4	17.6	0.1	0.1	1.0
Financial institutions taxes ^(b)		-10.2	-1.5	1.3	n.a	n.a
Emergency Services Levy on fixed property		-1.6	6.6	1.3	2.5	2.4
Other ^(c)		0.3	38.9	14.8	-0.9	1.8
Total		8.9	-1.5	2.3	-3.5	3.1

(a) Includes stamp duties on mortgages, rental, cheques, share duty, leases, adhesives and other stamp dutiable receipts.

(b) Includes FID (abolished on 1 July 2001) and debits tax.

(c) Includes guarantee fees, River Murray Levy, water catchment levies and Hindmarsh Island levies.

The River Murray Levy is included in the 'other' line in Table 3.7. The introduction of the levy from 1 October 2003 accounts for the strong growth in 'other' property taxes in 2003-04 and 2004-05, reflecting part-year and full-year revenue impacts in those years.

Conveyance duty receipts are expected to exceed budget by \$107 million in 2002-03. This has been generated by high levels of activity in the property market and increased property prices mainly fuelled by low interest rates, continued investor interest in property and nervousness about the share market and other investment options. Slowing levels of activity suggest that the strength in the property market will not be sustained in 2003-04. The forward estimates assume that strong growth in property prices experienced over the last two financial years will ease and the high levels of activity will decrease and fall below trend in 2003-04 and 2004-05 before converging back towards trend levels by the end of the forward estimates period.

Other property related stamp duties grew strongly in 2002-03, mainly reflecting one large share duty receipt in that year. Mortgage duty revenues also grew strongly in 2002-03, reflecting buoyancy in the property market and a shift in financing arrangements from commercial hire purchase to chattel mortgages in response to the revenue measures introduced in last year's budget.

Mortgage duty receipts for 2003-04 will be affected by the assumed weakening in the property market in that year, although this effect will be masked by the proposed increase in the mortgage duty rate (from 35 cents per \$100 to 45 cents per \$100) for all mortgages except home mortgages for owner occupation.

Rental duty receipts fell in 2002-03 notwithstanding the policy measure introduced last year to broaden the rental duty base to include commercial hire purchase. Measures introduced in this year's budget are expected to reverse the shift from commercial hire purchase to chattel mortgages. Negative growth in rental duty receipts in 2002-03 also reflects a large once-off transaction in the previous year which distorts annual growth rates.

The recent buoyancy in the property market is reflected in land tax estimates both for 2002-03 and 2003-04. Strong growth in 2003-04 is due to land tax being assessed on site values as at 30 June in the preceding year. Recent strong growth in property values is not expected to continue through the forward estimate period.

Revenue from financial taxes is projected to be nil by the end of the forward estimate period, reflecting the possible abolition of debits tax from 1 July 2005. The Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations provides for the abolition of debits tax in all jurisdictions by 1 July 2005, subject to review by the Ministerial Council.

The general uplift in property values is also reflected in 2003-04 growth projections for ESL on fixed property. Note, however, that the bulk of ESL fixed property revenue comes from the flat \$50 fee component of the levy rather than the variable component applied to property capital value.

GAMBLING TAXES

Total taxes on gambling are expected to come in close to budget.

While the estimated outcome for gaming machine tax revenue is in line with the original budget estimate, this reflects a combination of stronger growth in gaming machine expenditure than originally budgeted, offset by post-budget modifications to the gaming machine tax structure announced in the 2002-03 Budget – in particular the lowering of tax rates on gaming machine venues with NGR between \$1.5 million per annum and \$3.5 million per annum.

Strong projected growth in gaming machine tax receipts for 2003-04 mainly reflects the full year impact of the increase in the net tax take from the more profitable gaming machine venues, effective 1 January 2003, and strong growth in estimated gaming machine expenditure of 6.5%.

Gaming machine expenditure in hotels and clubs in the forward estimate period is estimated to grow at rates of 6% in 2004-05, 5.5% in 2005-06 and 5.5% in 2006-07. These growth rates are somewhat greater than projected growth in household disposable income, reflecting continuing demographic

consumption trends. The growth in tax revenue estimates reflects the combination of these growth rates and the progressive tax structure applied to gaming machine venues.

Following the sale of the TAB on 14 January 2002 to TAB Queensland, revenue streams to the State from TAB operations are now limited to State tax on net wagering revenue. Previously, after-tax distributions from the TAB were also classified as tax. The timing of the sale half way through the 2001-02 financial year accounts for the large negative growth in taxes from the TAB in 2002-03. The larger increases in TAB tax revenue in 2004-05 and 2006-07 reflect a provision in the TAB Duty Agreement for the State to receive fixed amounts from the TAB of \$2 million per annum from 2004-05 to 2005-06 and \$3 million per annum thereafter to 2015-16 as additional tax payments.

The proposed closure of the Lotteries Commission Rundle Mall retail outlet will have a negative impact on the Commission's operating result in 2003-04 resulting in only limited growth in that part of the distributable surplus that is transferred to Government as taxation revenue. A special dividend will, however, be paid to Government as a consequence of the sale and this revenue stream will offset the low growth in taxation revenue sourced from the Lotteries Commission in 2003-04.

The outlook for individual gambling taxes is provided in Table 3.8.

Table 3.8 Gambling taxes

	2002-03 Budget	2002-03 Estimated result	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Gaming machines	240.8	241.0	274.9	296.1	316.9	339.1
Lotteries Commission	69.4	69.0	70.3	75.6	78.4	78.8
TAB	6.8	6.0	6.4	8.4	8.7	9.8
Casino	16.9	17.5	18.4	19.0	19.6	20.3
Other ^(a)	2.1	1.8	1.8	1.9	1.9	1.9
Total	336.0	335.3	371.8	401.0	425.5	449.9
<i>% change on previous year</i>						
Gaming machines		13.9	14.1	7.7	7.0	7.0
Lotteries Commission		6.4	1.8	7.6	3.7	0.5
TAB		-54.1	6.7	31.3	3.6	12.6
Casino		11.8	5.1	3.3	3.2	3.6
Other ^(a)		-74.3	0.0	5.6	0.0	0.0
Total		7.4	10.9	7.9	6.1	5.7

(a) Includes revenue from small lotteries, on-course totalisators and soccer pools less the cost of reimbursing on-course totalisators for GST costs.

Negative growth in the 'Other' gambling category for 2002-03 mainly reflects the abolition from 2 December 2001 of bookmakers' tax including the racing club levy paid to bookmakers. This amount was formerly collected as part of the tax on bookmakers and was subsequently paid to racing clubs. This racing club levy is now a commercial matter between bookmakers and the racing clubs.

INSURANCE TAXES

Revenue raised from taxes on insurance is estimated to exceed budget in 2002-03, reflecting the continuing impact of an industry-wide uplift in premium levels over the past two financial years (2001-02 and 2002-03). More modest growth in 2003-04 reflects an expectation that the uplift in premium levels will start to ease, returning to longer term trend growth over the forward estimate period.

MOTOR VEHICLE TAXES

Motor vehicle tax revenues are expected to come in above budget in 2002-03. Growth in motor vehicle taxes for the remainder of the forward estimate period is expected to be consistent with trend experience.

SALES OF GOODS AND SERVICES

Sales of goods and services by the general government sector include Government fees and charges, set on a cost recovery basis and adjusted annually. For 2003-04 these fees and charges will generally increase by a rate of 3.9% from 1 July 2003.

The adjustment rate is a composite based on the Adelaide Consumer Price Index and the South Australian Public Sector's Wage Cost Index. A composite rate is used to reflect the fact that increases in the cost of government services reflect movements in South Australian public sector wages, as well as the input costs of goods and services. This composite rate was introduced by the former Government in 1998.

Details of this revenue category are provided in Table 3.9.

Table 3.9 Sales of goods and services

	2002-03 Budget	2002-03 Estimated result	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Health unit patient/client fees ^(a)	117.8	117.8	120.7	123.2	126.9	130.0
Other health unit sales of goods and services ^(b)	99.5	99.5	102.3	105.4	107.4	108.1
TAFE fees	74.4	74.4	77.5	79.4	81.3	83.3
Regulatory fees	97.1 ^(c)	159.6	175.9	185.9	193.6	202.6
Commonwealth contributions	96.0	141.0	141.8	136.7	139.1	141.7
Drivers' licence fees	53.9	48.9	37.3	31.5	31.0	35.7
Other user charges	293.1	288.6	296.1	319.2	328.7	317.8
Total	831.8	929.8	951.7	981.2	1 007.9	1 019.1

(a) This category has been expanded beyond hospital fees to include a broader range of health unit fees. It includes amounts that at the time of the 2002-03 Budget were included in 'other user charges'.

(b) Other health unit sales of goods and services were included in 'other user charges' in the 2002-03 Budget. Includes rights of private practice revenue, car parking revenue, cafeteria sales and newsagency sales.

(c) Differs slightly from the figure of \$96.8 million published in the 2002-03 Budget. Revised figure includes indexation attributable to regulatory fees.

The increase against budget in sales of goods and services income for 2002-03 reflects, in part, the unexpected buoyancy in the property market which resulted in higher than budgeted land transfer fees together with upward revisions to a wide range of user charges across portfolio areas. Most of the increase against budget, however, reflects classification changes of which \$41 million is due to the recognition of regulatory fees charged to bodies external to the General Government sector and a further \$38 million relates to the reclassification of SPPs to Commonwealth contributions.

Growth in regulatory fee revenue in 2003-04 reflects improved estimation methods for vehicle registration fees in the Department of Transport and Urban Planning and a number of agency revenue measures which are discussed further in Chapter 2.

Notwithstanding the 3.9% indexation factor for fees and charges, 2003-04 growth in revenue from sales of goods and services compared to the 2002-03 estimated result is projected to be less than 3.9%, mainly reflecting lower revenue growth from drivers' licence fees and Commonwealth contributions.

Revenue from sales of goods and services is projected to experience slow to moderate growth over the remaining forward estimate period mainly reflecting lower receipts from drivers' licence fees and Commonwealth contributions. The forward estimates for drivers' licence fees reflect TransportSA's assumptions regarding renewal patterns for 10-year, 5-year and annual licences.

OTHER GRANTS

Other grants refers to funds received from the private sector where there is no direct benefit to the provider.

These contributions mainly take the form of donations, bequests and research and sponsorship grants provided by private bodies for funding capital items and medical education.

Following an increase in the 2002-03 estimated result compared to budget, reflecting a reclassification of industry grants for primary industries from sales of goods and services to other grants, funding from other grants remains stable throughout the forward projection period. Table 3.10 provides details.

Table 3.10 Other grants

	2002-03 Budget	2002-03 Estimated result	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Contributions from the private sector	39.9	56.8	57.6	58.1	58.6	58.7

OTHER STATE OWN-SOURCE REVENUE ²

Table 3.11 Other State own-source revenue

	2002-03 Budget	2002-03 Estimated result	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Royalties	88.0	81.7	74.4	76.5	78.4	76.4
Fines	75.5	72.8	88.1	94.4	96.6	99.0
Other State own-source revenue	128.7	144.5	131.7	128.9	130.7	122.5
Total	292.2	299.0	294.2	299.9	305.7	297.9

Royalties are expected to fall short of budget in 2002-03 mainly reflecting lower than estimated production at Olympic Dam due to delays in rebuilding the solvent extraction plant damaged by a fire in October 2001 and lower international copper prices. The projected fall in royalty revenue in

² Excluding distributions from PNFCs and PFIs.

2003-04 reflects declining production levels in the Cooper Basin and increased interstate competition for the supply of gas.

Revenue from fines is expected to fall marginally short of budget in 2002-03. Projected strong growth in 2003-04 reflects the combined impact of Road Safety Reform, a decision to use red light cameras to detect speeding and the introduction of an Increased Traffic Enforcement Strategy involving increases in the number of mobile radar units in country areas and in the usage time and number of locations of red light cameras which will also be activated to detect speeding. The projected strong growth in 2003-04 is followed by more moderate growth in revenue from fines over the forward estimate period.

The remainder of other State own-source revenue comprises local government rate equivalents, revenue flows from PNFCs and PFCs other than distributions, and a range of miscellaneous receipt items. Revenue falling under this residual category is expected to exceed budget in 2002-03 by \$16 million, mainly due to improvements in a range of miscellaneous receipt items, before fluctuating around a slightly lower level over the forward estimate period.

DISTRIBUTIONS RECEIVED FROM PUBLIC NON FINANCIAL CORPORATIONS AND PUBLIC FINANCIAL CORPORATIONS

Distributions from PNFCs and PFCs include income tax equivalents and dividends.

Distributions from PNFCs are expected to exceed budget by \$13 million in 2002-03, mainly reflecting higher than budgeted distributions from ForestrySA, SA Water and TransAdelaide. Over the forward estimate period distributions from PNFCs are expected to increase in 2003-04, reflecting a once-off special dividend from the Land Management Corporation of \$50 million as part repatriation of retained earnings to Government, before fluctuating slightly around a lower level for the remainder of the forward estimate period.

Annual movements in distributions from PNFCs mainly reflect the pattern of income distributions from ForestrySA and SA Water.

Fluctuations in the level of distributions from PFCs mainly reflect the pattern of dividends and income tax equivalent payments from SAAMC and SAFA. The 2002-03 estimated outcome for distributions from PFCs is in line with the original budget.

Distributions from the Motor Accident Commission relate to the wind-up of the non compulsory third party business of the former SGIC.

Further detail on the performance of PNFCs and PFCs is contained in Chapter 6.

Table 3.12 Distributions from PNFCs and PFCs

	2002-03 Budget	2002-03 Estimated result	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Distributions received from PNFCs	294.4	307.7	338.9	293.6	295.7	300.0
Distributions received from PFCs	340.9	340.9	95.9	124.3	62.9	21.7
Total distributions received from PNFCs and PFCs	635.2	648.6	434.7	417.9	358.6	321.7
<i>Distributions received from PFCs</i>						
SAAMC	230.0	230.0	58.5	73.2	4.0	4.2
HomeStart	6.6	6.6	6.6	6.8	6.6	6.6
Motor Accident Commission	10.0	10.0	5.0	0.0	0.0	0.0
SAFA	94.3	94.3	25.8	44.3	52.3	10.9
Total distributions received from PFCs	340.9	340.9	95.9	124.3	62.9	21.7

COMMONWEALTH GRANT REVENUE PROJECTIONS

Commonwealth grants are expected to exceed budget by \$37 million in 2002-03, of which \$24 million relates to GPPs and \$12 million relates to SPPs.

There has been moderate growth in general purpose payments, but SPPs have experienced negative growth in 2002-03 mainly in respect of on-passed grants. Growth in general purpose payments mainly reflects strong growth in GMA funding due to increases in estimates of financial assistance grants (FAGs) forgone, revenue replacement payments forgone, gambling tax forgone and the full-year inclusion of the revenue forgone from the abolition of FID and duty on unquoted marketable securities from 1 July 2001, offset by a provision for reduced expenditure by South Australia on low alcohol beer concessions and to a larger extent a significant fall in expenditure on the FHOG (basic \$7000 grant).

The forward outlook for current and capital grants is summarised in Table 3.13.

Table 3.13 Commonwealth grants

	2002-03 Budget	2002-03 Estimated result	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
COMMONWEALTH GRANTS (CURRENT)						
General purpose grants from Commonwealth						
GST revenue grants	2 749.3	2 857.8	3 004.1	3 123.3	3 252.1	3 419.3
Transitional grants	172.0	87.7	51.7	0.1	25.9	0.0
Competition grants	56.9	57.1	48.1	49.2	50.6	51.7
Specific purpose recurrent grants						
Direct grants	1 156.6	1 144.6	1 161.4	1 156.1	1 203.6	1 235.7
On-passed grants	393.4	398.0	405.7	415.3	424.0	435.1
Subtotal	4 528.3	4 545.2	4 670.9	4 744.0	4 956.1	5 141.8
COMMONWEALTH GRANTS (CAPITAL)						
Specific purpose grants						
Direct grants	144.9	158.1	158.3	149.5	134.1	125.0
On-passed grants	7.9	14.4	8.0	8.2	8.4	8.6
Subtotal	152.7	172.5	166.4	157.8	142.5	133.6
Total	4 681.0	4 717.8	4 837.3	4 901.7	5 098.6	5 275.4
<i>% change on previous year</i>						
General purpose grants from Commonwealth		3.7	3.4	2.2	4.9	4.3
Direct grants (current and capital)		0.7	1.3	-1.1	2.4	1.7
On-passed (current and capital)		-1.6	0.3	2.4	2.1	2.6
Total Commonwealth grants						
Nominal		2.3	2.5	1.3	4.0	3.5
Real terms		-0.6	0.3	-0.7	2.0	1.4

General purpose grants (primarily relating to funding under the guaranteed minimum amount (GMA) are expected to grow by more than inflation over the forward estimate period with lower growth in 2004-05, reflecting the provision made for revenue losses in that year from the Commonwealth Grants Commission methodology review. Stronger growth in 2005-06 reflects compensation under the GMA for the possible abolition of debits tax on 1 July 2005 (subject to review by the Ministerial Council), while growth in 2006-07 reflects projected revenue gains from GST revenue growth resulting in South Australia no longer being reliant on the GMA from 2006-07 onwards.

The guaranteed level of funding for South Australia in 2002-03 has been revised up since the 2002-03 Budget mainly due to an increase in estimated FAGs forgone. The improvement in FAGs forgone mainly reflects increases in CPI and population estimates.

GMA funding is expected to increase moderately in 2003-04 due to an increase in the Commonwealth Grants Commission (CGC) relativity for the State and continued strong growth in gambling tax forgone, notwithstanding a fall in the anticipated cost of the FHOG scheme which is funded through the GMA and the cessation of funding provisions for wholesale sales tax equivalent revenue forgone (this was only included in the GMA for 3 years).

The additional FHOG available for purchase of new homes ceased on 30 June 2002, while the original scheme continues to offer \$7000 grants to eligible first home buyers. The more liberal construction, commencement and completion requirements applicable to additional FHOG for contracts made on or after 9 October 2001 increased the number of additional grants which were payable after 30 June 2002 (for contracts signed before 30 June 2002). The SPP to fund the additional FHOG was revised up during 2002-03 to reflect the payment of grants after 30 June 2002 (but was still substantially lower than 2001-02).

The growth dividend component of the GMA for 2003-04 implies that State taxes are around 0.65 per cent higher as a result of indirect tax reform than would otherwise have been the case. It is not possible to conclude whether or not this number is plausible.

The derivation of the GMA for South Australia in the forward estimate period is summarised in Table 3.14.

In addition to GST revenues, supplemented by transitional grants to reach guaranteed minimum funding levels, the States and Territories receive competition grants. These grants remain conditional on States complying with Competition Policy requirements. The negative growth rate for competition grants in 2003-04 reflects a provision for potential funding penalties if the State does not satisfy National Competition Policy requirements in respect to retail trading hours.

Notwithstanding that the Commonwealth has not committed to a specific level of payments beyond 2005-06 in its 2003-04 Budget, the South Australian forward estimates include amounts to which South Australia is entitled under the National Competition Policy Agreement.

SPPs are expected to exceed budget by \$12 million in 2002-03. Increases in funding for health and education are partly offset by the reclassification of \$38 million of funds for education from SPPs for education to Commonwealth contributions (reported as Sales of Goods and Services).

Over the forward estimate period, direct SPPs are broadly projected to experience negative growth in real terms.

On-passed SPPs are projected to be maintained in real terms from 2004-05 onwards. An expected fall in 2003-04 reflects the cessation of the need for the additional FHOG SPP.

Further detail on Commonwealth funding arrangements is provided in Chapter 4.

Table 3.14 Guaranteed Minimum Amount

	2002-03 Budget	2002-03 Estimated result	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue forgone from:						
Abolition of other forms of Commonwealth funding						
Financial assistance grants	2 057.3	2 071.0	2 179.5	2 222.9	2 296.1	2 375.0
Franchise fee replacement grants	634.3	640.5	662.1	680.3	699.3	719.3
<i>Abolition of State taxes</i>						
Financial institutions duty ^(a)	96.6	96.6	100.1	103.7	107.4	111.2
Share duty ^(a)	17.6	17.6	19.5	20.3	22.0	22.0
Debits tax ^(b)	0.0	0.0	0.0	0.0	55.9	61.6
Wholesale sales tax equivalents	12.7	12.7	0.0	0.0	0.0	0.0
<i>Reduced gambling tax rates</i>						
Gaming machines	58.7	60.1	64.1	67.9	71.6	75.6
Casino	8.3	8.8	9.1	9.5	9.8	10.0
TAB	10.3	9.5	9.7	9.9	10.2	10.4
Lotteries Commission	12.0	12.1	12.5	12.9	13.3	13.3
Small lotteries	0.9	0.9	0.9	0.9	0.9	0.9
Bookmakers	0.5	0.4	0.4	0.4	0.4	0.4
<i>plus</i>						
Additional expenditure						
First Home Owner Grants	62.0	65.0	56.0	59.5	63.0	63.2
Contribution to ATO for administration costs	43.0	43.4	43.7	44.2	44.9	45.7
Grants for GST reimbursement for on-course totalisators	0.7	0.4	0.4	0.4	0.4	0.4
Interest costs	1.4	1.4	0.0	0.0	0.0	0.0
<i>plus</i>						
Adjustments	-0.3	0.4	0.0	0.0	0.0	0.0
<i>less</i>						
Reduced expenditure from:						
Termination of off-road diesel subsidies	36.2	36.8	37.3	37.6	37.9	38.3
Embedded savings from removal of wholesale sales tax	41.4	41.4	44.1	47.1	50.2	53.3
Low alcohol beer concessions	4.6	4.6	4.7	4.8	4.9	5.0
Revenue growth stimulated by tax reform						
Growth dividend in State tax	12.5	12.5	16.1	19.9	24.2	28.6
<i>equals</i>						
GUARANTEED MINIMUM AMOUNT	2 921.3	2 945.5 ^(c)	3 055.8 ^(c)	3 123.4	3 278.0	3 383.8
Share of GST revenues	2 749.3	2 857.8	3 004.1	3 123.3	3 252.1	3 419.3
Transitional grant	172.0	87.7 ^(c)	51.7 ^(c)	0.1	25.9	0.0

(a) Abolished on 1 July 2001.

(b) To be abolished by 2005, subject to review by the Ministerial Council.

(c) In cash terms, due to an overpayment by the Commonwealth of transitional grants, GMA funding and transitional grants in 2002-03 will be \$56.8 million higher than the amounts shown for these lines in the table above. An equivalent amount will be recovered by the Commonwealth in 2003-04 causing GMA funding, in cash terms, to be \$56.8 million lower than the 2003-04 GMA amount shown in the table above.

SOUTH AUSTRALIA'S RELATIVE TAX EFFORT

The CGC released tax effort assessments for all States and Territories for 2001-02 as part of its annual relativity update. Based on the data published by the CGC, South Australia's relative tax effort has increased from 8.8% above average in 2000-01 to 10.7% above average in 2001-02. This assessment, however, does not take into consideration a genuine incomparability between South Australia and other jurisdictions (namely land tax paid by South Australian Government entities in the Tax Equivalent Regime) nor does it include the ESL which is classified by the CGC as user charges rather than taxes.

South Australia has 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. The large size of the Trust'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 Trust to meet its land tax liabilities.

Public housing authorities in other jurisdictions are not liable for land tax (although in Queensland the public housing authority is required to include a notional land tax liability in its financial statements). To the extent that other States and Territories have not expanded the coverage of their TER to include public housing authorities, there has been no comparable increase in their land tax receipts relative to South Australia. Consequently, South Australia's relative land tax effort as assessed by the CGC has more than doubled between 1996-97 and 2001-02.

In addition, 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 and Emergency Services'.

After excluding land tax payments made by entities in the TER and including the CGC's assessment for emergency services 'user charges', South Australia's relative tax effort falls from 10.7% to 8.6% above average in 2001-02. South Australia has the highest tax effort ratio of any jurisdiction.

Tax effort as measured by the CGC reflects the use made of available tax bases rather than 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 (fourth lowest in 2001-02 based on adjusted total taxation collections used by the CGC for that year – South Australia \$1400 per capita, national average for all States and Territories \$1674 per capita).

Details of tax effort are provided in Table 3.15.

Table 3.15 Tax effort ratios by jurisdiction

	2000-01		2001-02	
	CGC ^(a)	Adjusted ^(b)	CGC ^(a)	Adjusted ^(b)
New South Wales	103.2	103.5	100.7	101.4
Victoria	104.9	104.3	107.8	106.7
Queensland	85.2	86.3	85.7	86.7
Western Australia	95.7	94.6	97.5	96.5
South Australia	108.8	107.0	110.7	108.6
Tasmania	93.4	98.4	92.8	98.2
Australian Capital Territory	105.6	103.6	97.6	95.8
Northern Territory	89.4	87.9	96.5	95.0

- (a) Tax severity ratios consistent with GST-based relativities which reflect ongoing State taxes. These ratios have been calculated by the CGC but are not published in their 2003 Update Report. Only tax severity ratios consistent with FAGs-based relativities are published in the 2003 Update. These are not an accurate measure of actual tax severity as they include State taxes that have been abolished.
- (b) Adjusted to remove land tax paid by South Australian entities in the TER and to add the CGC's 'user charges' assessment for emergency services.

CHAPTER 4: INTERGOVERNMENTAL FINANCES

INTRODUCTION

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 includes sections on horizontal fiscal equalisation and local government finances.

RECENT DEVELOPMENTS

MINISTERIAL COUNCIL

The fourth meeting of the Ministerial Council for Commonwealth–State Financial Relations, also known as the Treasurers’ Conference, was convened in Canberra on 28 March 2003. The council, comprising Commonwealth and State Treasurers, was established by the *Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations* (IGA) and has replaced the annual financial Premiers’ Conference.

The Ministerial Council considered expected revenue payments to the States in 2002-03 and 2003-04, as well as a range of Goods and Services Tax (GST) administration issues. The outcomes included:

- agreement that 2003-04 GST revenues will be distributed among the States in accordance with the final recommendations of the Commonwealth Grants Commission (CGC) *Report on State Revenue Sharing Relativities 2003 Update*
- endorsement of revisions to the GST Administration Performance Agreement, which include the provision of additional information to enable States to better estimate GST collections and monitor Australian Tax Office (ATO) performance
- recognition that the Commonwealth is meeting its commitment under the IGA not to cut aggregate SPPs as part of the national tax reform process
- endorsement of Loan Council Allocations nominated by the Commonwealth and each State for 2003-04.

COMMONWEALTH GRANTS COMMISSION 2003 UPDATE

In February, the CGC released its 2003 Update of per capita relativities for the distribution of Commonwealth general purpose payments (GPPs) to the States in 2003-04.

The relativities are based on the principle of horizontal fiscal equalisation (HFE; see below), which is a requirement of the IGA.

Overall, the 2003 Update relativities redistributed about \$180 million among the States (see Table 4.1), with transfers occurring from New South Wales, Western Australia and the Australian Capital Territory to the other four States and the Northern Territory. These movements largely reflect the boom in conveyance duty in New South Wales and continued strength in mining royalties in Western Australia.

South Australia’s relativity has increased to 1.30919 in the 2003 Update, which equates to an increase in GPPs of \$38.5 million over payments that would have been received using the previous relativities. This means that, after the CGC’s recommended distribution of GPPs is implemented, South Australia

will receive approximately \$600 million more than if funding were distributed on a simple population share basis without regard to the fiscal needs and capacities of each population.

The increase for South Australia was largely due to the impact on the State's relative (compared to the national average) capacity to raise revenue of replacing 1996-97 data with 2001-02 data in the rolling five-year average assessment period used by the CGC. In particular, below average increases in wages and salaries and in the values of houses and commercial and industrial land reduced the State's relative capacity to raise payroll tax, stamp duty on conveyances and land revenue.

The CGC's next revision to relativities is due in February 2004, for application to the 2004-05 grant pool, and will incorporate the findings of the current major methodology review.

Table 4.1 Commonwealth Grants Commission 2003 Update results

	2002 Update FAG ^(a) relativity ^(b)	2003 Update FAG ^(a) relativity ^(b)	Implied effect on grant share ^(c) (\$m)
New South Wales	0.86037	0.84317	-154.5
Victoria	0.83401	0.84030	41.7
Queensland	1.04008	1.04870	43.3
Western Australia	0.92858	0.92093	-20.3
South Australia	1.29035	1.30919	38.5
Tasmania	1.75186	1.79057	24.8
Australian Capital Territory	1.20906	1.19727	-4.8
Northern Territory	5.22670	5.34163	31.3
Total redistributed among States			179.6

(a) Financial assistance grants (FAGs) were 'untied' payments to the States that were distributed using CGC relativities. With the advent of national tax reform and the IGA, the payment of FAGs was discontinued and replaced by the distribution of GST revenue to the States from 2000-01 onwards. However, FAG relativities are still required for the calculation of the GMA.

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

(c) Estimated impact of change in relativities on the 2003-04 FAGs pool included in the CGC's 2003 Update report.

COMMONWEALTH GRANTS TO THE STATES

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.
- *Guaranteed minimum amount (GMA)* is provided within the IGA to ensure that no State is made worse off by the national tax reform arrangements. Calculated on the basis of an agreed formula that takes account of the changes to funding arrangements contained in the IGA, it is based on the pool of funds that would be available had the reforms not been implemented.
- *Budget balancing assistance* represents the difference between the GMA calculated for each State and that State's share of GST revenues. Budget balancing assistance will continue to be provided to a State for as long as its share of GST revenue in a given year is less than its GMA.
- *Specific purpose payments (SPPs)* are grants that are 'tied' to particular Commonwealth Government expenditure objectives. SPPs are classified as those paid 'to' the State for programs administered by the State Government 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.
- *National Competition Policy (NCP) payments* are payments by the Commonwealth to the States to ensure they share in additional revenue accruing to the Commonwealth from the economic gains

of implementing competition policy. Payment is conditional on compliance with the NCP agreement as assessed by the National Competition Council (NCC).

- *Contributions* are funds provided to the States to reimburse them for services considered to be Commonwealth own-purpose outlays provided on the Commonwealth's behalf. 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.

Table 4.2 Commonwealth payments to South Australia 2002-03 and 2003-04^(a)

	2002-03	2003-04	
	Estimated result \$m	Budget \$m	Change %
General purpose payments			
GST revenue grants	2 857.8	3 004.1	5.1
Budget balancing assistance	87.7	51.7	-41.0
NCP payments ^(b)	57.1	48.1	-15.8
Total general purpose payments	3 002.6	3 103.9	3.4
Specific purpose payments 'to' the State			
Australian Health Care Agreement (AHCA) ^(c)	605.6	620.4	2.4
Government schools	165.9	175.1	5.5
Commonwealth–State Disability Agreement (CSDA)	59.6	61.3	2.9
Commonwealth–State Housing Agreement (CSHA)	65.3	55.7	-14.6
Roads	60.3	64.5	7.0
Australian National Training Authority (ANTA)	81.9	88.3	7.8
Other 'to' payments	264.1	254.4	-3.7
Total specific purpose payments 'to' the State	1 302.7	1 319.7	1.3
Total payments 'to' the State	4 305.3	4 423.6	2.7
Major contributions^(d)			
Veterans' Affairs arrangements	59.7	61.1	2.4
'On-passed' specific purpose payments^(e)	412.5	413.7	0.3

(a) Data is compiled from agency estimates and Commonwealth Budget Paper No. 3 Federal Financial Relations 2003-04.

(b) The estimate for 2003-04 reflects a provision for potential funding penalties if the State does not satisfy NCP requirements in respect to retail trading hours.

(c) The AHCA expires on 30 June 2003. The estimate for 2003-04 represents the Commonwealth's funding position if no agreement is signed. If the State does sign the agreement and meets the terms and conditions of the agreement, this amount may be increased.

(d) Major Commonwealth contributions to the State are not classified as SPPs. The States also provide services on behalf of the Commonwealth for which the Commonwealth makes contributions (ie fee for service); such minor payments are excluded.

(e) Includes Commonwealth grants for local government, non-government schools and additional First Home Owner Grant (FHOG) payments.

GENERAL PURPOSE PAYMENTS

GPPs have been provided by the Commonwealth since Federation. From 1985-86 to 1999-2000 the main form of this funding was FAGs. With the advent of national tax reform, GST revenue grants replaced FAGs from 2000-01 onwards, and the IGA also stipulated that a guaranteed minimum amount of funds would be provided to ensure that no State was made worse off by the tax reform arrangements.

Consequently, 2002-03 and 2003-04 GPPs consist of GST revenue grants, budget balancing assistance and NCP payments. On present estimates, South Australia will continue to require budget balancing assistance until 2006-07, as there is a shortfall between the estimated GST revenues and the GMA (refer to Table 4.3).

South Australia will receive an estimated \$3104 million in GPPs in 2003-04, an increase of \$101 million from the \$3003 million estimated to be received in 2002-03, in line with inflation and population increases.

Horizontal fiscal equalisation

GPPs are distributed according to the HFE principle – except for NCP payments, which are distributed on an equal per capita basis. The IGA includes a specific provision that GST revenue grants will be distributed 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 GPPs that each State should receive, with the CGC's methodology remaining fixed between major five-yearly assessment reviews. The next methodology review is due to be released in February 2004. The CGC has consulted widely with the States in the conduct of the review.

Equalisation is an important element in ensuring equity for States, regardless of their demographic, economic or geographic circumstances.

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 minimum level of services to all areas of Australia. HFE seeks to achieve a similar outcome in the current federal system.

Victoria, New South Wales and Western Australia have been arguing in recent times that the difference between the distribution of GPPs under HFE compared to an equal per capita distribution is becoming too large and the HFE process needs to be abandoned. These States commissioned a review of HFE (the Garnaut/FitzGerald Review of Commonwealth–State Funding). That review travelled well worn ground in terms of the arguments it canvassed. The recommendations of the review in respect of HFE would have involved the total abandonment of the equity objective that underpins the present system.

As noted above such an outcome would have been totally inconsistent with observed government policy in unitary systems. Further, it is not a practice pursued by those State governments in allocating resources between regions within their borders.

Victoria has suggested that Commonwealth–State financial relations present a major microeconomic reform opportunity of similar significance to recent reforms such as floating the exchange rate and tax reform. It asserts that the existing HFE arrangements create perverse incentive and efficiency effects.

The Victorian argument relies on work done for the Garnaut/FitzGerald inquiry, which found a small efficiency gain in moving away from HFE to an equal per capita distribution of Commonwealth grants. This result was based on the rather extraordinary and self-serving assumption that higher spending per capita in States other than Victoria reflects invalid spending level decisions by non-Victorian governments not reflective of their community preferences rather than being due to higher costs of those jurisdictions or valid differences based on community preferences, and that the invalid spending decisions are somehow attributable to the existence of HFE transfers.

It is significant that a subsequent study by the same academic consultants, commissioned this time by Queensland, found that, after varying the assumptions of State behaviour, an equal per capita distribution of Commonwealth grants would very likely result in a significant efficiency *loss*.

It is wrong to say that HFE provides perverse incentives. Under HFE only those factors beyond a State's control are taken into account in determining a State's relative needs. It follows that any operating efficiency gain made by a State is to its own benefit; on the other hand, States are only funded to the average efficiency level, meaning that any inefficiency is paid for from their own sources. Further, spending decisions at the margin are fully paid for by taxpayers *in that State*.

SPECIFIC PURPOSE PAYMENTS

SPPs are provided under Section 96 of the Constitution for both recurrent and capital expenditure purposes. In 2003-04, South Australia will receive an estimated \$1733 million of funding in this form — an increase of 1.0% from the \$1715 million estimated for 2002-03.

Of the total SPPs to be received by South Australia in 2003-04, \$414 million (or 24%) will be 'on-passed', predominantly to non-government schools and local government. This represents an increase of 0.3% from the amount received in 2002-03, primarily reflecting increases in payments to non-government schools, offset by a drop in additional FHOG payments.

SPPs 'to' the State (for a range of purposes including health, housing and government schools) are forecast to increase to \$1320 million in 2003-04, largely in health care grants, ANTA payments, roads funding and government schools grants, offset by a reduction in payments under the CSHA.

The allocation of SPPs among the States is based on many approaches, including Commonwealth discretion, historical allocation and formula-based allocation. The CGC takes the distribution of most recurrent 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. However, this is not the case for all SPPs, for example road grants.

Health

The current Australian Health Care Agreement (AHCA) expires on 30 June 2003. During the negotiations for the new agreement, States have pressed for more equitable health funding arrangements with a greater focus on health outcomes. In February, State Health Ministers submitted a claim for fundamental reform of the health care system, including almost \$1 billion in catch-up funding, improved indexation arrangements and reforms of aged care and emergency department services.

The Commonwealth's funding offer received in late April included some increases, but they were less than expected and were conditional on States committing to a specified level of expenditure for the agreement period. The Commonwealth Budget papers confirm that the offer represents a cut in funding compared to that expected under previous arrangements of over \$900 million in the four years 2003-04 to 2006-07.

As yet, States have not agreed to the new draft agreement.

Disability services

The current funding agreement expired on 30 June 2002. In the absence of a new agreement, the Commonwealth has rolled over the old agreement.

For the new Commonwealth–State/Territory Disability Agreement (CSTDA), the Commonwealth funding offer includes indexation plus growth totalling \$125 million nationally over the life of the Agreement. South Australia’s share of growth funding is estimated to be \$9.4 million over the life of the new Agreement.

The Commonwealth has asked States to match its growth and indexation funding for the CSTDA of an average of 6.27% per annum over the life of the Agreement. South Australia is negotiating with the Commonwealth regarding an acceptable level of State growth and indexation.

Housing

Commonwealth housing assistance to the State is provided through the Commonwealth–State Housing Agreement (CSHA). These funds are used for public, community and Aboriginal housing, and the South Australian Housing Trust’s smaller programs of private rental support and supported tenancies. The agreement provides for Commonwealth grant funds, allocated on a per capita basis, to be matched by a State contribution.

The current CSHA is due to expire on 30 June 2003. An offer for a new agreement covering the five years to 2007-08 was received from the Commonwealth in November 2002.

The main issues for the States in the offer include the impact of the 1% per annum ‘efficiency dividend’, the continued matching requirements on social housing commitments, the discontinuation of the current GST compensation component and the new provisions that make 5% of funds contingent on the State meeting reporting requirements and achieving planned outcomes in attracting ‘investment from outside the social housing system’ and ‘reducing workforce disincentives’ arising from public housing.

The withdrawal of GST compensation funding means a significant real decrease in housing funding under the proposed new agreement. In 2003-04 it is estimated that Commonwealth CSHA funding assistance to South Australia will be \$56 million, a reduction of almost \$10 million compared to 2002-03.

Roads

The majority of SPPs for roads are made under the Australian Land Transport Development Program, which incorporates specific funding for national highways, roads of national importance and black spots. Minor funding is also provided under the *Interstate Road Transport Act 1985*, and the Roads to Recovery Program.

Roads funding is expected to increase by 7.0% to \$65 million in 2003-04. However, South Australia still receives a funding share significantly less than its share of the length of national highways.

In November 2002, the Commonwealth released a proposal for changed transport infrastructure funding which it called AusLink. It is designed to deliver an integrated inter-modal land transport network. At this stage, it is unclear what implications would follow for States’ funding.

Schools

Recurrent and capital grants are provided to the States for both government and non-government schools. Recurrent school grants are provided mainly as block grants and are supplemented annually in line with movements in the Average Government School Recurrent Costs Index based on data maintained by the Ministerial Council on Education, Employment, Training and Youth Affairs. The Building Price Index published by the Australian Bureau of Statistics (ABS) is used to index capital grants.

The Commonwealth estimates that SPPs in 2003-04 for government schools will be \$175 million (an increase of 5.5% from 2002-03). SPPs for non-government schools are estimated to be \$327 million (an increase of 10%). The trend of an increasing share of SPPs for non-government schools is expected to continue, reflecting the Commonwealth Government's policy initiatives in this area.

Vocational education and training

The development and maintenance of the national vocational education and training (VET) system is funded by both the Commonwealth and the States, with Commonwealth-State funding arrangements set out in the ANTA agreement.

Under the 2001-03 ANTA agreement, the Commonwealth is estimated to provide \$88 million to the State in 2003-04, a rise of 7.8% from 2002-03.

Reform

The States have for some time been concerned about the conditions imposed on SPPs, including maintenance of effort and matching conditions and targets that are often expressed in terms of inputs (ie dollars spent), rather than more meaningful measures such as outcomes/outputs achieved.

The extremely complex structure of many SPP arrangements also creates a lack of clarity about a State's obligations, distorts program objectives and activities, and creates unnecessarily high administrative overheads. The funding arrangements need to be simplified.

Discussions are continuing between the States and the Commonwealth on these issues and, to date, the following progress has been made.

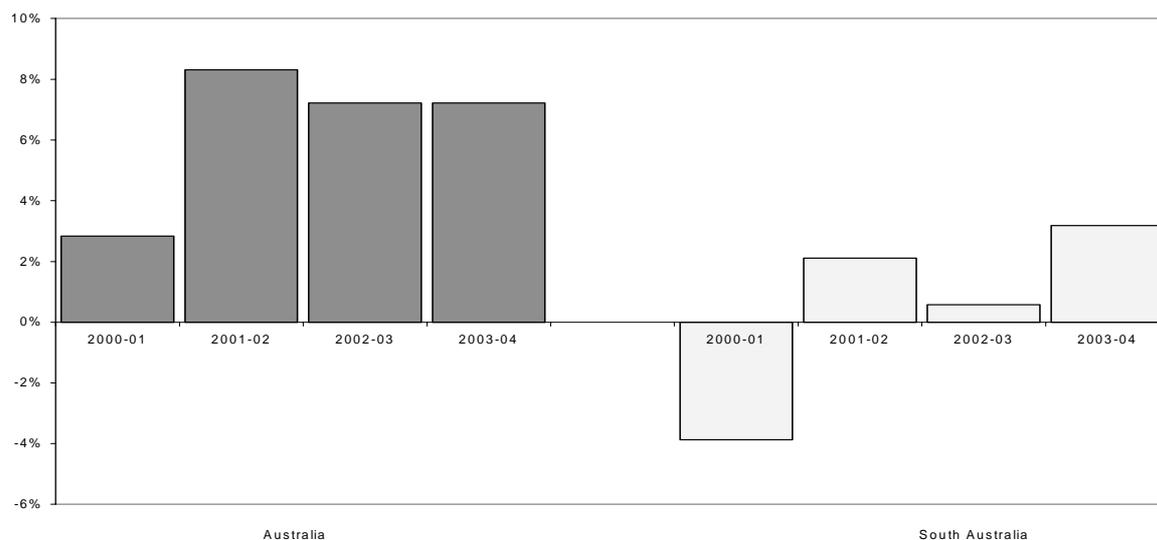
- The Commonwealth, in consultation with the States, has developed an SPP database, the first complete version of which was distributed to States in March 2003 and, despite some gaps in the non-financial data, should provide a valuable resource for the analysis of SPPs.
- All State and Territory governments have adopted a set of 'best practice' SPP principles, which are aimed at producing simpler, more transparent agreements that are outcome, rather than input, focused.
- The Commonwealth has indicated that it supports the broad objective of the SPP principles to improve the efficiency and effectiveness of SPP arrangements. However, it is not prepared to endorse them as it considers input controls are necessary to guarantee the achievement of its specific policy objectives and are the most effective means of managing its financial risks.

In addition, the State members of the SPP working party are monitoring renegotiations of major SPPs to check consistency with the SPP guidelines, and the level of SPPs to ensure that the Commonwealth is continuing to honour its commitment under the IGA not to cut aggregate SPPs to the States as part of the national tax reform process.

On the basis of current 2003-04 Commonwealth Budget estimates, the Commonwealth is meeting its commitment. Figure 4.1 shows the growth in SPPs in real per capita terms since 1999-2000. It indicates that, although meeting the 'aggregate SPP' benchmark, total SPPs fell in real per capita terms in 2002-03, and despite a fractional rise in 2003-04 are still below 2001-02 levels. This is of concern to States as it indicates that the year-to-year volatility inherent in pre-tax reform SPPs may continue.

For South Australia the 1999-2000 level of SPPs included unusually high levels of road grant funding and this explains the subsequent drop in 2000-01. Since 2001-02 the Commonwealth has met its commitment in real per capita terms, despite some year-to-year volatility.

Figure 4.1 SPPs – growth in real^(a) per capita terms since 1999-2000^(b)



- (a) In accordance with Ministerial Council agreement, nominal values are deflated using the national CPI.
 (b) For consistency, data for Australia and South Australia has been sourced from Commonwealth Budget Paper No. 3 Federal Financial Relations 2003-04. This data reflects the Commonwealth's maximum funding position under the AHCA for all States, which may be reduced if individual States do not sign the agreement or fail to meet all of its terms and conditions.

NATIONAL COMPETITION POLICY PAYMENTS

In April 1995, all Australian governments reached agreement on the implementation of the NCP package of pro-competitive reforms. The Council of Australian Governments (COAG) affirmed the importance of NCP “in sustaining the competitiveness and flexibility of the Australian economy and contributing to higher standards of living” in its communiqué of 3 November 2000.

As the revenue benefits of NCP would accrue primarily to the Commonwealth while the States faced the costs of reform, the Commonwealth agreed in 1995 to make additional general revenue payments to the States provided they made satisfactory progress in implementing NCP reforms.

NCP payments began in July 1997, with a real increase in payments in 1999-2000 (second tranche) and again in 2001-02 (third tranche).

COAG confirmed in its November 2000 communiqué that the States' performance in meeting reform obligations will be assessed annually from 2002. Jurisdictions are required to submit an annual progress report to the NCC, which then makes a recommendation to the Commonwealth Treasurer on NCP payments based on its assessment of progress in implementing reforms. The NCC can recommend a suspension or revocation of NCP payments.

The NCC has recommended that South Australia receive its full distribution of NCP payments in each year up to 2002-03.

Two main issues are expected to feature in the NCC's assessment for 2003-04: legislation reviews and COAG water reforms.

Some of the legislation review issues which it is expected the NCC will examine in its assessment are:

- Shop trading hours

The Government supports appropriate flexibility in shop trading arrangements for South Australia. A revised Bill will be presented to Parliament which seeks to implement increased flexibility in a way that meets the needs of stakeholders and the requirements under NCP obligations.

- Liquor licensing

Two restrictions on competition have been identified: the ‘proof of need’ test which constrains the number of outlets; and the requirement that liquor can only be sold from stores devoted entirely to liquor sales. The number and accessibility of liquor outlets in South Australia is considered adequate.

- Taxi licence cap

Limitations on the issue of taxi licences give rise to the potential for unmet demand for timely taxi rides. Services are also available from hire cars. Supply of taxis is not considered to be inadequate.

- Compulsory third party insurance (CTP)

Although this legislation review was completed some time ago and legislation has been passed confirming sole statutory provider arrangements in South Australia and continuation of community rating etc, the NCC has so far declined to assess this item. Legislation reviews in all States with sole statutory provider CTP arrangements and one with private providers (Queensland) have found in favour of sole statutory provision.

- Gambling

Gambling is considered a matter of social policy and the general legislative arrangements are not designed to be pro-competitive. In South Australia, these arrangements do not seek to achieve the emergence of a free market in gambling services where the level of, types of, and participants in gambling activity are determined by normal commercial forces.

Exclusive licences are provided to major gambling licensees. These arrangements are subject to compensation arrangements with licence holders involving significant break costs during these exclusivity periods – until July 2015 for the casino and January 2017 for the TAB. There are advantages in respect of probity regulation and harm minimisation to have only one major gambling provider. The case for the continuation of exclusive licences beyond the current exclusivity period will be evaluated toward the end of that time, including having regard to the financial benefit available to the community from granting exclusivity and the regulatory and policy options available to ensure a responsible gambling environment.

It is also considered appropriate that gaming machine licences be available only to hotels and clubs on a harm minimisation basis, restricting the prevalence and clearly delineating the location of gaming venues.

- Barley marketing

Competition among grain sellers is restricted by the requirement that all barley sales overseas must be conducted by the Australian Barley Board – the question is whether there is a net premium obtained which is beneficial to farmers and national income. A review of this matter is to be completed shortly.

- Ownership restrictions

Legislation governing a number of health professions, including dentists, currently restricts ownership of practices to qualified practitioners and their spouses. In some instances, the Minister has discretion to approve exceptions to these restrictions.

Regarding COAG water reforms, South Australia is meeting water resource management requirements. In relation to reticulated water supply and whether or not regulation is adequately separated from service delivery as well as the degree of transparency in water price setting and monitoring, it is noted that the power to set water and sewerage prices resides with the Minister responsible for SA Water rather than SA Water itself and the Minister’s recommendations are considered and approved by Cabinet as for other statutory fees and charges.

It is the Parliament which in the end establishes what is the ‘public benefit’ and which accordingly passes or rejects legislative amendments arising from the process of legislative review. The Competition Principles Agreement needs to be interpreted and administered with this understanding.

REFORM OF COMMONWEALTH–STATE FINANCIAL RELATIONS

OVERVIEW

The introduction of the GST on 1 July 2000 brought about substantial changes in Commonwealth-State relations. The obligations of the Commonwealth Government and State governments under the new financial arrangements are set out in the IGA, which was signed by the Prime Minister and all State leaders in June 1999.

The IGA reforms provide State governments with all of the revenue generated by the GST, in place of the FAGs and revenue replacement payments previously provided by the Commonwealth to the States. The IGA also provides for the abolition or reduction of some State taxes and requires the States to fund additional expenditure on the FHOG scheme and to compensate the Commonwealth Government for the costs incurred by the ATO in administering the GST (reflecting the fact that the ATO is, in practice, collecting the GST on behalf of the States).

However, the financial arrangements have not provided immediate budgetary benefits to the States. The negative financial impacts on the States of the reforms were greater than the benefits of the GST revenue streams in the initial years. The IGA includes a transitional guarantee from the Commonwealth to ensure that the States are no worse off as a result of the reforms. The transitional guarantee involves the calculation of a guaranteed minimum amount, which dictates whether the ongoing financial impact of the reforms has been budget negative or positive for individual States — and where it is negative the Commonwealth provides budget balancing assistance to ensure that the States are no worse off.

GST revenue is distributed solely in accordance with HFE principles, as was the case with FAGs, and is available for use by the States for any purpose. The explicit stipulation that HFE will be used to distribute the GST revenues among the States is a considerable advance on the previous situation in which the use of equalisation for FAGs had no legislative or formal basis.

The Commonwealth has provided legislative backing for providing GST revenue to the States in the form of the *A New Tax System (Commonwealth–State Financial Arrangements) Act 1999*. This legislation also locks in the rate and base of the GST, neither of which can be varied without the unanimous support of the Commonwealth Government and all State governments (and subsequent passage of amendments through the Commonwealth Parliament). The Commonwealth legislation attaches the IGA as a Schedule and sets out the Commonwealth’s intention to comply with, and give effect to, the IGA.

TIMING OF REFORM MEASURES

On 1 July 2000:

- States began receiving GST revenue grants and budget balancing assistance in place of the FAGs and revenue replacement payments previously provided by the Commonwealth
- States abolished accommodation taxes, reduced gambling taxes to offset the impact of the GST and stopped paying subsidies on off-road diesel fuel
- States began funding and administering the FHOG scheme and reimbursing the Commonwealth for costs incurred by the ATO in administering the GST.

On 1 July 2001:

- States abolished financial institutions duty and stamp duty on quoted marketable securities
- the National Tax Equivalent Regime (NTER) for income tax equivalent obligations for significant State business activities was introduced.

On 1 July 2002, in addition to measures included in the IGA:

- the Commonwealth implemented a National Excise Scheme for Low Alcohol Beer, replacing the previous State subsidy schemes.

The remaining IGA reforms include:

- the abolition of debits tax on 1 July 2005, subject to review by the Ministerial Council
- a review by the Ministerial Council, to be conducted by 2005, of the need to retain a range of stamp duties including those levied on non-residential conveyances, leases, mortgages, instalment purchase arrangements and rental arrangements, cheques, and unquoted marketable securities.

It is not contemplated under the IGA that stamp duties on insurance and residential conveyances will be eliminated.

FINANCIAL IMPACT OF THE IGA REFORMS

As noted above, the new financial arrangements have not provided immediate budgetary benefits to the States. However, upward revisions to estimates of GST revenue in the May 2003 Commonwealth Budget have brought forward the date by which most States can expect to receive a net benefit from the new arrangements.

On present estimates, all States other than Queensland and the Northern Territory will require budget balancing assistance in 2002-03, as there continues to be a shortfall between the estimated GST revenues and the GMA. In 2003-04 five States (Queensland, Western Australia, Tasmania and the two Territories) are estimated to receive a net benefit from the GST. New South Wales and Victoria are not expected to receive a benefit until 2008-09 and 2007-08 respectively.

South Australia is estimated to gain from tax reform from 2006-07. Table 4.3 shows the estimated net impact of the national tax reform package in South Australia until 2007-08.

It remains the case that the tax reform package has the potential to deliver medium and longer term benefits to the State from the receipt of revenue from a genuine growth tax in the form of the GST. However, the timing of these benefits remains heavily dependent upon the actual level of GST revenue collected, and it will be some time before GST collections have stabilised sufficiently to enable an accurate assessment of underlying trends and magnitude of collections.

There is also a danger that the Commonwealth will effectively offset the benefits of any additional revenue to the States from the GST through shifting extra costs onto the States or effectively dictating how the extra revenues are spent through the SPP mechanisms.

Table 4.3 Estimated impact of national tax reform — South Australia

	GST revenue less GMA \$m	Budget balancing assistance \$m	Net impact \$m
2002-03	-87.7	87.7	—
2003-04	-51.7	51.7	—
2004-05	-0.1	0.1	—
2005-06	-25.9	25.9	—
2006-07	35.5	—	35.5
2007-08	106.7	—	106.7

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 State Governments.

FINANCIAL PERFORMANCE AND POSITION

It is desirable that there be an understanding of the overall financial position of local government and trends in its finances over time. There is no shortage of detailed financial information available on individual councils. However, very little work has been done in the past to draw together and analyse information on the finances of all councils.

As a contribution to improved understanding of local government finances, this year's Budget Statement includes, for the first time, information summarising local government's financial performance over a five-year period as well as publishing an overall balance sheet for local government.

The financial performance data shown in Table 4.4 is presented using a simplified ABS Government Finance Statistics framework. The data is drawn from the annual financial statements of councils which are prepared in compliance with Australian Accounting Standard (AAS) 27 and in a format prescribed by regulations under the Local Government Act. Consistent with an agreement between the Commonwealth and the States whereby each jurisdiction presents financial information on a Uniform Presentation Framework (UPF) basis, some councils in South Australia also have begun to provide a common core of financial information (similar to Table 4.4) in their budget papers and financial statements to enable more meaningful comparisons of each council's finances.

As shown in Table 4.4, local government as a whole is consistently returning a relatively small net borrowing result. Local government taxation revenue (from general rates on property) is expected to be approximately \$635 million in 2002-03. Together with other own-source funding (eg user charges, investment income), in excess of 85% of local government operating revenue is from its own sources. Total operating revenue for local government increased in real terms by 15.7% over the four-year period from 1997-98 to 2001-02. Total operating expenses increased in real terms by 12.0% over the same period.

Table 4.4 Local government operating statement

	1997-98	1998-99	1999-2000	2000-01	2001-02
	\$m	\$m	\$m	\$m	\$m
Operating revenue	769	804	860	908	972
Less Operating expenses ^(a)	839	888	933	980	1027
Equals Operating deficit	-70	-84	-73	-72	-55
Add Capital revenue ^(b)	54	44	56	50	79
Equals Net deficit (-)/surplus (+) resulting from operations ^(c)	-16	-40	-17	-22	24
Less Acquisition of non-current assets ^(d)	197	181	217	206	274
Add Depreciation of non-current assets	195	210	218	227	247
Equals Net lending(+)/borrowing(-)	-18	-11	-16	-1	-3

(a) Operating expenses include depreciation and the value of non-current assets donated by councils, but exclude book losses on revaluation of non-current assets.

(b) Mainly Commonwealth grants for local roads and the value of non-current assets donated to councils.

(c) This measure essentially is equivalent to the 'net operating balance' measure used under the ABS Government Finance Statistics framework.

(d) Capital investment expenditure on non-current assets (new and replacement) and the value of non-current assets donated to councils, less proceeds from sale of non-current assets and the value of non-current assets donated by councils.

Table 4.5 shows an abridged balance sheet for local government as a whole as at 30 June 2001 and 30 June 2002. Local government net debt at 30 June 2002 is \$220 million. Put in the context of local government physical assets, with an estimated value of nearly \$8.5 billion, local government in South Australia (in an aggregate sense) is in a sound financial position. Local government net interest costs, expressed as a percentage of total operating revenue, are now running at 1.5%, lower than at any point in the last two decades. Local government superannuation liabilities are fully funded.

Table 4.5 Local government balance sheet

	30 June 2001	30 June 2002
	\$m	\$m
Assets		
Cash, investments and loans to community groups ^(a)	146	171
Receivables	48	58
Inventories	27	29
Land and fixed assets	8 002	8 453
Other	18	19
Total Assets	8 241	8 730
Liabilities		
Payables	80	88
Borrowings, deposits held, finance leases etc ^(a)	365	391
Employee entitlements	70	73
Other	13	16
Total Liabilities	528	568
Net Worth	7 713	8 162

(a) Net debt at 30 June 2002 is calculated at \$220 million being the sum of borrowings, deposits held, finance leases etc minus the sum of cash, investments and loans to community groups.

In addition, with assistance in various ways from the State Government, the Local Government Association (LGA) in South Australia has created a number of financial institutions to manage, on behalf of councils, a range of commercial arrangements. These include the Local Government

Superannuation Scheme, the Local Government Finance Authority, the LGA Mutual Liability Scheme and the LGA Workers Compensation Scheme. At 30 June 2002, these institutions were managing assets valued at nearly \$1.2 billion and had a combined net worth of \$62 million. These amounts are not included in Table 4.5.

FINANCIAL RELATIONSHIPS WITH COMMONWEALTH AND STATE GOVERNMENTS

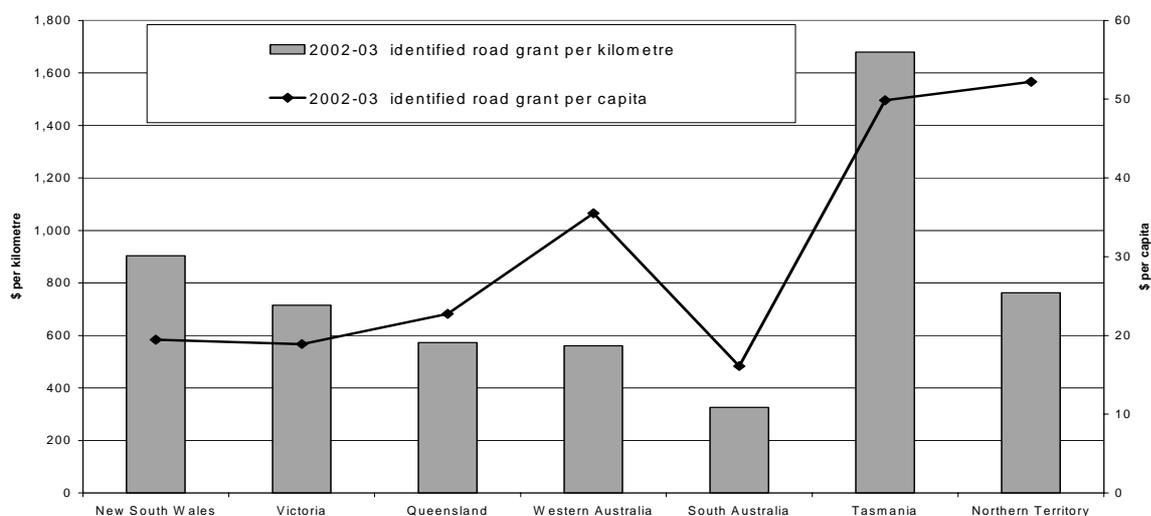
Commonwealth Government

The Commonwealth provides both general and specific purpose grants to local government in South Australia and most of this funding is provided as untied financial assistance grants. The 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 financial assistance grants are embodied in the Commonwealth’s *Local Government (Financial Assistance) Act 1995*. Untied financial assistance grants to local government are provided in two parts – general purpose grants and identified local road grants. For South Australia, these grants are estimated to be \$106 million in 2003-04, an increase of \$3 million on the previous year.

The Act provides for allocations to councils on the basis of HFE principles subject to a minimum grant provision. In June 2001 the Commonwealth Grants Commission completed a review of the operation of the Act on behalf of the Federal Minister for Finance and Administration and concluded that only minor changes were needed, mainly to improve transparency. At this stage, none of the recommendations of the review have been implemented by the Commonwealth.

The review was explicitly prevented from examining the interstate distribution of the local government general purpose grants (currently made on an equal per capita basis) and the distribution of the identified local road grants (currently made on an undefined historical basis). The State Government and councils have long been dissatisfied with the share South Australia receives, particularly in respect of the identified local road grants. The distribution of these funds, based on historical shares rather than on the basis of need, results in South Australia receiving less than a per capita share of such funds and a lower per capita and per road length amount than any other State (see Figure 4.2).

Figure 4.2 Identified local road grants (excluding ACT) 2002-03



There is a sound case for distributing the local government financial assistance grants between the States on the basis of HFE. It is an anomaly that equalisation is presently used for allocating grants *within* States but not *between* States.

During 1997-98, the South Australian Local Government Grants Commission conducted a comprehensive review of the methods used to distribute the grants within the State. Changes are being phased in over a seven-year period, concluding with the determination of grants for 2004-05. As part of an ongoing refinement process, the Commission is currently reviewing the methodology it uses to reflect the capacity of councils to raise revenue.

Commonwealth specific purpose payments to local government are estimated to be \$28 million in 2003-04 which includes \$25 million for the Commonwealth's Roads to Recovery Program.

The Commonwealth is currently undertaking an inquiry into the financial position of local government in Australia, with an emphasis on perceived cost shifting from State governments to councils. The inquiry is being undertaken by the House of Representatives Standing Committee on Economics, Finance and Public Administration. Significant among its terms of reference are those to examine "current funding arrangements for local government" and to examine the capacity of local government to meet existing obligations and take on enhanced regional roles. The inquiry has also been asked to examine the findings of the CGC review of the *Local Government (Financial Assistance) Act* mentioned above.

State Government

In mid-2002, the State Government established the Minister's Local Government Forum. The Forum's role is to provide advice on key issues at the interface between State and local government and to facilitate solutions to identified problems of significance to both spheres of government. Specific priority issues are being addressed in areas such as infrastructure provision, natural resource management, environment and conservation, development planning, and transport.

In relation to financial arrangements between the State and local government, there have been suggestions that, by comparison with interstate jurisdictions, South Australian councils receive a lower level of State Government financial support. It is a complex matter to compare the arrangements applying in each State.

First, accounting differences in recording and reporting payments to councils can limit the extent of comparison possible.

Second, the allocation of responsibilities and functions undertaken by the State and local government varies considerably between jurisdictions. By comparison with interstate local government jurisdictions, the set of functions undertaken by South Australian councils is at the lower end of the scale.

Third, analysis in this area needs to take account of any activity which was previously the joint responsibility of the State and local government and which now has been taken over by the State. This can lead to expenditure reductions for councils. An example is the funding of emergency services, where the State Government has taken over full responsibility. The transfer of emergency services assets from councils to the Country Fire Service has relieved councils of future responsibilities relating to the maintenance and replacement of these assets. The new funding arrangements also relieved councils of their statutory requirement to contribute to the cost of operating the Metropolitan Fire Service.

Table 4.6 sets out arrangements 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.

Table 4.6 Specific purpose payments from State to local government

Program/purpose	2002-03 Estimated result \$000	2003-04 Budget \$000
Premier and Cabinet		
Cultural Facilities and Equipment Program	55 ^(a)	55 ^(a)
Festivals, Events and Commissions Program	10 ^(a)	10 ^(a)
Local Government Partnership Program (Arts Activities)	13	–
Public Art and Design Program	28 ^(a)	20 ^(a)
Public Library Services	14 554	14 902
Treasury and Finance		
Ad hoc assistance for disasters and other adverse events	500	1 120
Septic Tank Effluent Drainage Scheme	4 000	3 050
Primary Industries and Resources		
Contribution to administration of Municipality of Roxby Downs	600	525
Subsidy of electricity provision at Coober Pedy	3 010	3 010
Justice		
Local Crime Prevention Program	600	600
Administrative and Information Services		
Community Recreation and Sport Facilities Program	500 ^(a)	– ^(b)
Service SA Rural Agent Program	30 ^(a)	–
Human Services		
Council rate concessions for pensioners and self funded retirees	34 100	36 600
Integrated Youth Strategy – Youth Advisory Committees	250	250
National Youth Week	100	100
Southern Social Planning Alliance	65	–
Vaccinations	300 ^(a)	1 425 ^(a)
Environment and Conservation and the River Murray		
Catchment Management Subsidy Scheme	1 520	4 275
Coast Protection Board grants (mainly regional councils)	387 ^(a)	– ^(c)
Heritage Cemeteries Fund	15 ^(a)	15 ^(a)
Local Heritage Reviews	31	25
Metropolitan Council Coast Protection Works	500	– ^(c)
State Heritage Fund grants	50 ^(a)	50 ^(a)
Volunteer Conservation Program	10 ^(a)	10 ^(a)
Transport and Urban Planning		
European Wasp Program	70	– ^(d)
Metropolitan Open Space System Program	1 500	1 000
North Terrace Upgrade Stage 1	700	3 000
Places for People Program	800	1 500
Provincial City Bus Services	940	964
Regional Open Space Enhancement Scheme	1 040	800
Regional Roads Program	700	700
State Bicycle Fund	600	200
Supporting Rural Councils Program	53	–
TravelSmart SA Program	116	300
Further Education, Employment, Science and Technology		
Youth Traineeship Program – Local Government Trainees	105	385
Total	67 852	74 891

(a) The portion of funding for a program which has been/may be allocated to councils or council subsidiaries.

(b) Funding in 2003-04 dependent on the success of any applications received from local government under a competitive grants process.

(c) Budget for 2003-04 program not yet determined.

(d) Future budget allocations for this program currently under consideration.

CHAPTER 5: THE BALANCE SHEET

GENERAL GOVERNMENT FINANCIAL POSITION

The Government's fiscal principles are intended to constrain growth in the public sector's liabilities. The commitment to achieve a zero net lending outcome for the general government sector over any four year period will ensure that there are no additions to public sector liabilities from this source.

The Government is committed to eliminating unfunded superannuation liabilities by 2034. This commitment is consistent with some short-term increase in liabilities and market outcomes may also give rise to short-term increases. The funding schedule will be adjusted as necessary to achieve the 2034 target.

The Government is also ensuring that the operations of public sector non-financial corporations (PNFCs) are well managed and on a commercial basis. Good governance of these organisations is aimed at ensuring that any borrowings are backed by sound decisions and earnings.

Table 5.1 Key Balance Sheet Indicators — General Government Sector

As at June		2002 Actual	2003 Estimated Result	2004 Budget	2005 Estimate	2006 Estimate	2007 Estimate
Net worth							
Nominal	\$m	14 706	14 288	14 328	14 505	14 829	15 338
Real ^(a)	\$m	14 706	13 871	13 607	13 506	13 530	13 719
As % of GSP ^(b)	%	31.3	28.6	27.3	26.4	25.8	25.4
Net financial worth							
Nominal	\$m	3 559	3 090	3 063	3 212	3 485	3 803
Real ^(a)	\$m	3 559	3 000	2 909	2 990	3 180	3 401
As % of GSP ^(b)	%	7.6	6.2	5.8	5.8	6.1	6.3
Net debt							
Nominal	\$m	1 303	766	719	604	409	232
Real ^(a)	\$m	1 303	744	683	563	373	207
As % of GSP ^(b)	%	2.8	1.5	1.4	1.1	0.7	0.4
Net debt plus unfunded superannuation							
Nominal	\$m	5 301	5 259	5 315	5 301	5 202	5 118
Real ^(a)	\$m	5 301	5 106	5 048	4 936	4 747	4 578
As % of GSP ^(b)	%	11.3	10.5	10.1	9.7	9.0	8.5
As % of revenue	%	62.1	57.5	58.0	56.7	54.3	52.0

(a) June 2002 prices.

(b) Nominal Gross State Product (GSP) forecasts are calculated by applying Treasury and Finance's estimate of real growth, to 'current' real GSP followed by inflating real GSP to nominal GSP by applying the Commonwealth Treasury forecasts of the non-farm GDP deflator for 2000-01 and 2001-02 and CPI projections (as a proxy for the non-farm Gross Domestic Product (GDP) deflator) thereafter.

Table 5.1 shows that net worth and net financial worth are increasing across the forward estimates. The increases can be attributed to surpluses in the general government sector. Net financial worth is a broader measure than net debt in that it incorporates provisions for accrued future payments, mainly superannuation and long service leave, as well as equity interest in public non-financial corporations (PNFCs) and public financial corporations (PFCs). Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

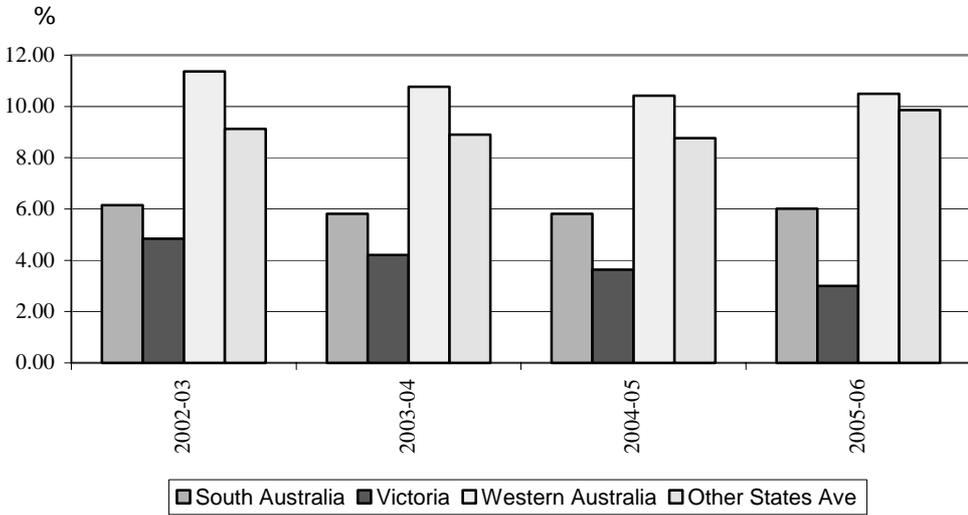
Workcover Corporation is now classified as an entity controlled by the Government requiring that its net liabilities or assets be recorded as part of general government equity. Workcover currently has net liabilities of \$384 million causing a once off deterioration in the general government’s net financial worth and net worth in 2002-03. This effect is one of presentation rather than substance as the State was always ultimately responsible for the liabilities of Workcover.

The trend in net financial worth, as shown in Table 5.1, arises from the offsetting impacts of decreasing net debt and increasing unfunded superannuation liabilities. The growth in the superannuation liability across the forward estimates is consistent with the Government’s current funding schedule designed to eliminate the liability by 2034.

An interstate comparison of general government net financial worth is presented in Figure 5.1. The net financial worth figures for each of the States, are influenced by accumulated expenditure patterns over many years.

Comparisons of net financial worth between States and over time need to be made with care. However a higher level of net financial worth typically provides States with more flexibility in their financial management. South Australia’s net financial worth per capita is among the lowest of all states.

Figure 5.1 Net Financial Worth to GSP^(a)



(a) Vic and WA data is based on information contained in their 2003-04 Budget Statements. Other states data has been sourced from 2002-03 Mid Year Review Papers.

Figure 5.1 shows that, South Australia’s general government net financial worth is expected to remain low relative to most other states as a percentage of GSP.

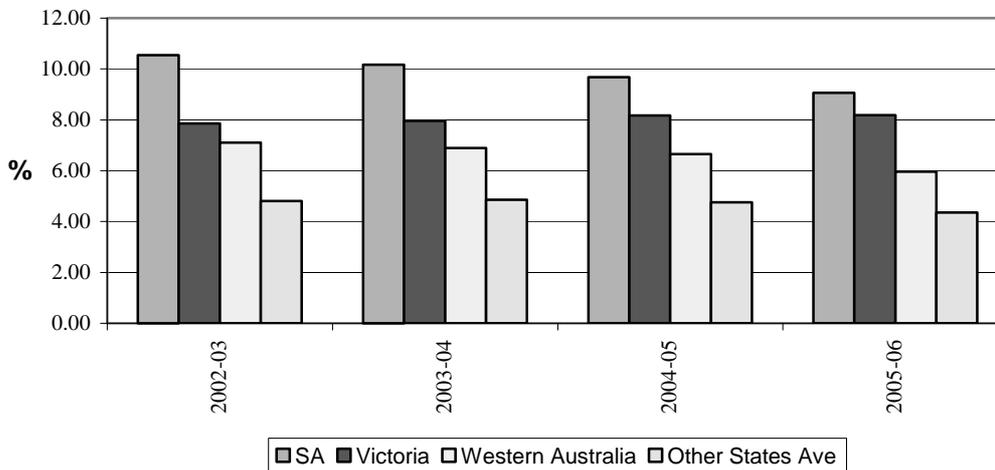
Table 5.2 provides a time series of net financial worth, net worth, net debt and superannuation information for the South Australian general government sector.

Table 5.2 Balance Sheet Indicators

As at 30-Jun	Net financial worth \$m	Net worth \$m	Net debt \$m	Superannuation \$m	Net Debt plus Superannuation \$m
1999	1 886	10 616	5 006	3 909	8 915
2000	2 986	12 447	1 920	3 543	5 463
2001	4 091	14 788	1 246	3 249	4 495
2002	3 559	14 706	1 303	3 998	5 301
2003	3 090	14 288	766	4 494	5 259
2004	3 063	14 328	719	4 596	5 315
2005	3 212	14 505	604	4 697	5 301
2006	3 485	14 829	409	4 793	5 202
2007	3 803	15 338	232	4 886	5 118

Sources: 1999 Financial Data from the ABS GFS publication.
 2000 and 2001 Financial Data SA's Outcome Reports
 2002 onwards Financial Data UPF data detailed in this Budget

Figure 5.2 General government net debt and superannuation liabilities to GSP^{(a)(b)}



(a) Vic and WA data is based on information contained in their 2003-04 Budget Statements.
 Other states data has been sourced from 2002-03 Mid Year Review Papers.
 (b) Vic data includes the Growing Victoria Infrastructure Fund.

South Australia's net debt and superannuation liabilities are expected to decline as a percentage of GSP and relative to other states. By 2005-06 South Australia will be close to Victoria and still above Western Australia and the average of all other states.

Table 5.3 shows movements in net worth attributed to operating transactions and revaluations. Net operating surpluses across the forward estimates serve to improve net worth.

However, in 2002-03 and 2003-04 the improvement is offset by revaluations. In 2002-03 these revaluations include the increase in the superannuation liability and the impact of the inclusion of Workcover's negative net asset position.

Table 5.3 Reconciliation of general government net worth

	2002-03 Estimated Result \$m	2003-04 Estimate \$m	2004-05 Estimate \$m	2005-06 Estimate \$m	2006-07 Estimate \$m
Net worth at beginning of year	14 706	14 288	14 328	14 505	14 829
Change in net worth from operating transactions:					
Net Operating Balance	329	58	108	120	288
Change in net worth from other economic flows:					
Movement in retained earnings of PFCs	-701	13	8	98	127
Revaluations of investments in PNFCs	422	17	101	101	87
Revaluation of superannuation liability	-400	5	5	6	6
Other revaluation adjustments	-68	-51	-43	-1	
<i>Subtotal</i>					
Total other economic flows	-747	-15	70	204	221
Net worth at year end	14 288	14 328	14 505	14 829	15 338

Table 5.4 details the change in the unfunded superannuation liability since the 2002-03 Budget.

Table 5.4 Net Unfunded Superannuation Liability

	2002-03 \$ m	2003-04 \$ m	2004-05 \$ m	2005-06 \$ m	2006-07 \$ m
As at 2002-03 Budget	3 870.0	3 954.8	4 037.9	4 115.4	4 189.7
Opening balance adjustments ^(a)	288.1	306.9	325.2	342.9	361.4
Impact of increased past service cash payments	0.0	- 29.3	- 59.8	- 91.5	- 124.5
Impact of lower returns in 2002-03 ^(b)	335.4	363.9	394.0	425.8	459.3
As at 2003-04 Budget	4 493.5	4 596.3	4 697.3	4 792.6	4 885.9

(a) Includes the impact of final earnings for 2001-02 and other changes arising from finalising the 2001-02 actual superannuation data which have the effect of increasing liabilities across all years relative to budget.

(b) The increase in liability in 2003-04 to 2006-07 incorporates the estimated loss in 2002-03 but assumes a return equal to the long run earnings assumption of 7.5% per annum in later years.

The increase in the unfunded superannuation liability is mainly the result of an assumed earning rate of negative 3.7% by Funds SA in 2002-03 compared with 7.5% assumed in the 2002-03 Budget and the incorporation of current membership data into the actuarial modelling.

The projection of the earnings rate for 2002-03 has been derived by taking the actual earnings rate to the end of March 2003 and assuming that earnings for the remaining 3 months of the year will be at an annual rate of 7.5%.

The long-term assumption used by the Government in respect of earnings on superannuation funds is 7.5% per annum. This is based on actuarial advice. Given the state of financial markets the Government concedes that the earnings rate over the last 3 months of this financial year is likely to be lower than a rate equal to 7.5% per annum. However the alternative would be for the Government to attempt to forecast market performance over the last three months of the financial year. The judgement has been made that it is better to set out the assumptions clearly and let readers make their own judgement.

The Government has increased scheduled cash payments for future years to ensure that all superannuation liabilities are fully funded by 2034. The estimates of liability payments over the forward estimates are shown in Table 5.5.

Table 5.5 Estimates of past service superannuation liability cash payments

Cash payments as at:	2002-03	2003-04	2004-05	2005-06	2006-07
	\$m	\$m	\$m	\$m	\$m
2002-03 Budget	183	192	200	209	218
<i>add</i> increase in past service cash payments		29	30	32	33
2003-04 Budget	183	221	230	241	251

NON-FINANCIAL PUBLIC SECTOR FINANCIAL POSITION

While the general government sector is the focus of the budget, non-financial public sector net debt and unfunded superannuation liabilities remain important indicators of the State's financial health.

Net debt for the non-financial public sector comprises financial liabilities less financial assets of general government entities and public non-financial corporations.

Table 5.6 Key balance sheet indicators — non-financial public sector

As at June		2002 Actual	2003 Estimated Result	2004 Budget	2005 Estimate	2006 Estimate	2007 Estimate
Net worth							
Nominal	\$m	14 721	14 288	14 328	14 505	14 829	15 338
Real ^(a)	\$m	14 721	13 871	13 607	13 506	13 530	13 719
As % of GSP ^(b)	%	31.3	28.6	27.3	26.4	25.8	25.4
Net financial worth							
Nominal	\$m	-7 902	-8 890	-9 072	-8 992	-8 796	-8 461
Real ^(a)	\$m	-7 902	-8 631	-8 615	-8 373	-8 026	-7 568
As % of GSP ^(b)	%	- 16.8	- 17.8	- 17.3	- 16.4	- 15.3	- 14.0
Net debt							
Nominal	\$m	3 317	2 824	2 905	2 741	2 525	2 217
Real ^(a)	\$m	3 317	2 742	2 759	2 552	2 304	1 983
As % of GSP ^(b)	%	7.1	5.6	5.5	5.0	4.4	3.7
Net debt plus unfunded superannuation							
Nominal	\$m	7 314	7 317	7 501	7 438	7 319	7 103
Real ^(a)	\$m	7 314	7 104	7 124	6 926	6 677	6 353
As % of GSP ^(b)	%	15.6	14.6	14.3	13.5	12.7	11.8
As % of revenue	%	78.1	73.7	76.2	73.9	71.6	67.8

(a) June 2002 prices.

(b) Nominal Gross State Product (GSP) forecasts are calculated by applying Treasury and Finance's estimate of real growth, to 'current' real GSP followed by inflating real GSP to nominal GSP by applying the Commonwealth Treasury forecasts of the non-farm GDP deflator for 2000-01 and 2001-02 and CPI projections (as a proxy for the non-farm Gross Domestic Product (GDP) deflator) thereafter.

The public non-financial corporations component of the non-financial public sector net debt at June 2003 is \$2.058 billion. The general government sector component of the non-financial public sector net debt at June 2003 is estimated to be \$766 million.

The small increase in net debt in 2003-04, in nominal terms, is mainly due to an increase in the net debt of the PNFCs resulting from increased borrowings by SA Water to fund its capital program in 2003-04.

The subsequent improvement in net debt over the forward estimates is primarily a result of non-financial public sector cash surpluses.

MANAGEMENT OF ASSETS AND LIABILITIES

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 issuance of securities in the financial markets, including long-term Select Lines fixed interest securities issued in Australia, long-term offshore issues and through SAFA's short-term funding facilities. During 2002-03, a new Select Line security with a maturity in 2009 was issued by SAFA as part of its funding activities. SAFA's financing requirement over 2002-03 is around \$1.5 billion, principally representing the refinancing of maturing borrowings.

SAFA has loans to the Treasurer totalling \$3.9 billion (as at 30 April 2003) to finance the general government sector and the South Australian Housing Trust (via long-term housing agreement debt). These loans are partly offset by deposits the Treasurer has with SAFA.

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.

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.

Debt of public non-financial corporations, such as SA Water, is managed by the individual corporation.

MANAGING SUPERANNUATION LIABILITIES AND ASSETS

Liabilities

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

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% if members contribute at least 4.5% of salary. For non-contributory members or members who contribute less than 4.5% of salary, the employer contribution rate is the Guarantee Charge percentage of 9% from 1 July 2002 under Commonwealth legislation.

The provision of superannuation gives rise to liabilities for payment of future benefits by employers. The extent of the liability of a superannuation scheme at a particular point in time will depend upon the nature of the scheme and the types of benefits it provides, including whether it is a defined benefit or a defined contribution scheme. A program was begun in 1994-95 to fully fund all employer 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. According to the long-term actuarial assumptions used in the 2001 actuarial review of the State Superannuation Scheme these liabilities are calculated assuming a real discount rate of 5% per annum, general real salary increases of 1.5% per annum and pension increases adjusted by the Consumer Price Index (CPI; assumed to be 2.5% per annum).

Table 5.7 outlines the superannuation schemes operating in the State public sector, together with the estimated accrued liabilities of those schemes and the assets available to meet those liabilities, as at 30 June 2003.

Table 5.7 Public sector superannuation liabilities as at 30 June 2003 (estimated)

	Accrued liability	Assets	Net liability
	\$m	\$m	\$m
Schemes administered by SA Government ^(a)	9 540	5 038	4 502
Schemes administered—			
Statutory authorities ^(b)	125	132	-7
Health units ^(b)	55	56	-1
Public trading enterprises	7	7	—
Total schemes	9 727	5 233	4 494

(a) The liabilities of these schemes have been determined by Treasury and Finance on the basis of the present value of expected future benefits that have arisen from membership of the various schemes.

(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 5.8 details the components of the unfunded liability for the State Superannuation Scheme, the scheme with the largest unfunded liability.

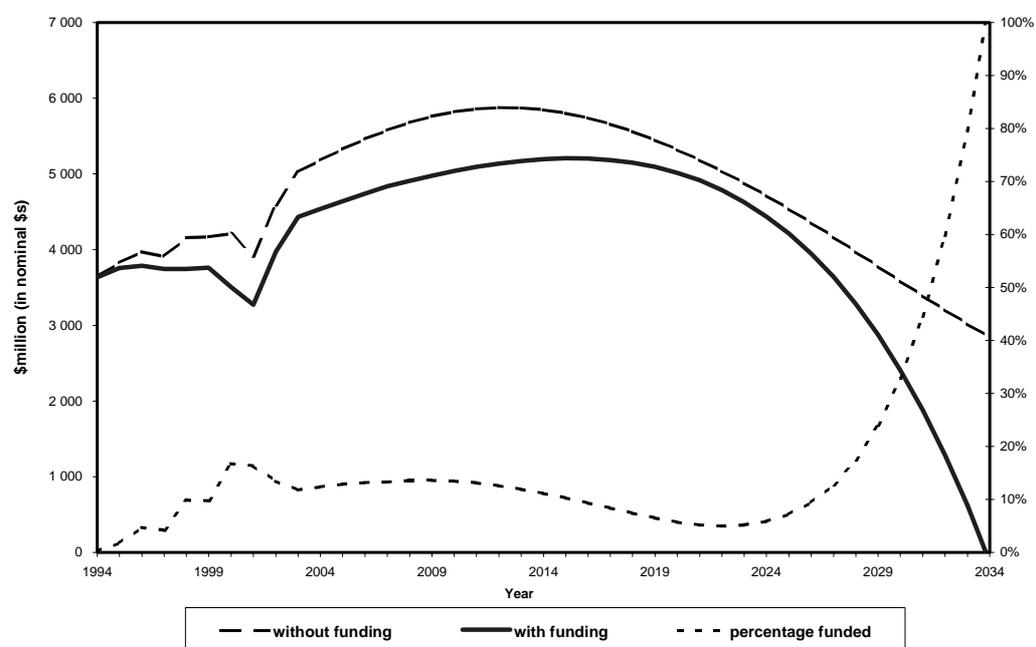
Table 5.8 State Superannuation Scheme as at 30 June 2003 (estimated)

	\$m
Liabilities	
Pension Scheme	
Pensioners	3 143
Contributors	2 381
	5 524
Lump Sum Scheme	977
Gross liability	6 501
Less Assets	
SA Superannuation Fund (ie member's contributions)	1 356
Employer fund (ie contributions by Agencies including past service contributions by the Government)	1 241
	2 597
Unfunded liability	3 904

The impact of government policy on superannuation liabilities can be seen in Figure 5.3. It shows the difference between the results of the funding policy and meeting superannuation benefits as they arise over the period.

Figure 5.3 is based on projections of the accrued liabilities derived from estimates of the benefit payments, contributions, investment earnings and past service payments. The graph shows only the liabilities for the Government. All other liabilities of the closed schemes are either fully funded or have separate arrangements to fund future benefits.

Figure 5.3 Superannuation liabilities for closed defined benefit schemes (employer contribution component) 40-year funding schedule



Note: New actuarial assumptions have been applied from June 2001.

The accrued liability for the closed defined benefit schemes will eventually be extinguished when benefits to all members of those schemes have ceased. Any remaining benefits payable after, say, 2060 will be a very small proportion of existing benefit payments. The amount of benefits and when they are payable is the product of the contributory membership of the closed schemes over many decades before they were closed. Benefit payments are expected to gradually increase to a maximum in 2011-12 and thereafter decline. The main purpose of funding the past service liability is to replace the uneven stream of benefits each year with a constant (in real salary terms) stream of contributions creating a total pool of employer assets from which benefit payments can be made. Excess contributions increase the assets managed by Funds SA, which are then drawn on to meet any later shortfall in contributions. If contributions are continued after the period of high benefit payments then assets will then increase relatively rapidly until the scheme is fully funded.

Assets

The vast majority of superannuation funds under management are invested in the Defined Benefit (\$3.14 billion as at 31 March 2003) and Balanced (\$1.76 billion as at 31 March 2003) products of Funds SA. Funds SA's earnings target of 4.5%, in excess of the rate of inflation, is expected to be achieved with reasonable likelihood over a minimum investment period of eight years. Within this period, however, annual returns may be volatile and indeed negative returns may be experienced in two years out of the eight. Over the eight years to 31 March 2003, the Defined Benefit product has returned 7.1% per annum, approximately 4.3% per annum over the CPI. It should be noted, however, that Funds SA's current investment approach has been employed for only around seven years of the eight years ending 31 March 2003.

The Balanced product has a target rate of return of 4% in excess of the rate of inflation. This target is expected to be earned with reasonable likelihood over a minimum investment period of seven years. However, within this period, annual returns may be volatile and indeed negative returns may be experienced in two years out of the seven. Over the seven year period ending 31 March 2003, the Balanced product has delivered a return of 7.3% per annum, approximately 4.8% per annum over the CPI.

Funds SA's other investment products, for which there is a shorter performance history, have performed in line with expectations.

RISK MANAGEMENT

The South Australian Government Captive Insurance Corporation (SAICORP) is a subsidiary of the Treasurer established on 29 September 1994 by the *Public Corporations (Treasurer) Regulations 1994*. Its primary responsibility is to manage the Government's insurance and risk management arrangements on a commercial basis.

SAICORP receives premiums from agencies for insurance cover provided under the Government's insurance and risk management arrangements. These premiums are credited to a dedicated fund 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
- pay consultants for advice and services as required in connection with the insurance and risk management program.

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

SAICORP's principal objectives are:

- protection of the State's finances against the consequences of a catastrophic event, a very large property loss or liability claim, or a series of large losses or claims in a year
- comprehensive insurance protection for government portfolio groups, agencies and authorities at competitive and stable premiums
- reduction of the overall cost of risk to government portfolio groups, agencies and authorities, and the State.

One of SAICORP's primary tasks is the placement and maintenance of a whole of government catastrophe reinsurance program in the international insurance market. The current program has six components:

- Industrial Special Risks (Property and Business Interruption)
- Public and Products Liability
- Professional Indemnity and Directors and Officers Liability
- Medical Malpractice
- Forestry Growing Timber
- Aviation Liability.

The current full annual net premium cost of the program is approximately \$10.57 million.

Another of SAICORP's primary tasks is to provide insurance protection to government portfolio groups, agencies and authorities. Under agreements entered into with each client agency, the first part of any loss or claim up to an agreed amount is met by the agency with SAICORP meeting the balance of costs.

Estimated premium revenue received from client agencies for 2002-03 is \$33.8 million (\$32.3 million for 2001-02).

SAICORP has a policy of accumulating reserves over time to meet the cost of retained risks. At 30 June 2002, SAICORP had reserves of \$48.2 million (\$49.9 million as at 30 June 2001).

Agencies are encouraged by SAICORP to actively pursue improved risk management practices to reduce the number and severity of incidents and hence the cost of property losses and liability claims. SAICORP's role in this area is to:

- provide advice and assistance to client agencies on developing risk management policy statements and strategy plans
- assist in the coordination, planning and development of risk management programs across the South Australian public sector
- facilitate networks for information sharing and mutual support on risk management issues.

CHAPTER 6: GOVERNMENT BUSINESSES

OVERVIEW

The South Australian Government owns a broad portfolio of businesses that undertake commercial and non-commercial activities for the benefit of the State with the aim of recovering a significant portion of costs through user charges. This Chapter summarises developments for South Australia's major government businesses in 2002-03, as well as anticipated activities for 2003-04.

GOVERNANCE ARRANGEMENTS

Government businesses are structured in three main ways:

- established 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. In response to an Economic Development Board recommendation, the Government has recently announced a comprehensive review of existing statutory authorities and boards.
- as Corporations Law companies. This approach is seldom used as it creates difficulties in establishing appropriate accountability arrangements.
- as administrative units of Government Departments. These businesses are not reported separately in this Chapter but are included in the relevant Portfolio Statements (see Budget Paper 4).

The Government is committed to ensuring that Government businesses 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.

RELATIONSHIP OF GOVERNMENT BUSINESSES WITH THE GOVERNMENT'S FISCAL STRATEGY

Government businesses are classified according to the Australian Bureau of Statistics' (ABS) standards as either Public Non Financial Corporations (PNFCs) or Public Finance Corporations (PFCs). Since 2002-03 the major Government businesses have been outside the Government's primary budget focus, which is the general government sector. Government businesses interact with the general government sector through distributions paid and subsidies received. In addition, PNFCs may only borrow where they can demonstrate that their investment programs are consistent with commercial returns (including budget funding).

COMPETITIVE NEUTRALITY POLICY AND PRINCIPLES

The Government is a signatory to the intergovernmental agreements on National Competition Policy, including the Competition Principles Agreement (CPA), signed in 1995. For Government businesses in particular, the Government is committed to the implementation of the competitive neutrality (CN) policy, a requirement of the CPA. As outlined in the original CN policy statement of June 1996 and the revised policy statement of May 2000, CN principles continue to be applied to the Government's significant business activities.

The principles of CN under section 16 of the *Government Business Enterprises (Competition) Act 1996* were proclaimed on 12 June 1997. The basic CN principles are corporatisation, tax equivalent payments, debt guarantee fees and private sector equivalent regulation. Where application of these four principles is inappropriate, the CPA specifies that prices charged by significant government business activities should reflect full cost attribution. The mechanism chosen to achieve competitive neutrality depends on the extent to which potential implementation benefits outweigh the associated costs.

The implementation of CN principles has been 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.

The Government's CN policy was reviewed during 2002-03 and included a review of Category 1 (businesses with assets in excess of \$20 million or revenues in excess of \$2 million) and Category 2 (all other significant business activity) businesses listed as part of the policy statement. Cabinet approved the listing of 20 Category 1 and 16 Category 2 government businesses which are listed in the CN policy statement located on the Department of the Premier and Cabinet internet site www.premcab.sa.gov.au.

SUBSIDIES, CSO PAYMENTS, DIVIDEND AND TAX PAYMENTS

Table 6.1 summaries the financial flows between the major Government businesses and the general government sector. These flows include subsidies, community service obligations (CSO) payments, dividend payments and tax equivalent payments. According to the ABS standards, the subsidies and CSO payments made by government enterprises are classified as expenses for the general government sector, and dividends and tax equivalent payments are classified as general government revenues.

Table 6.1 (a) Financial Flows Between Major Government Businesses And The General Government Sector

	Subsidy / CSO			Dividend			Income Tax Equivalent		
	Actual	Estimate	Budget	Actual	Estimate	Budget	Actual	Estimate	Budget
	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
PNFC									
Aboriginal Housing Authority	4.0	3.5	3.5	—	—	—	—	—	—
Adelaide Children's Performing Arts Company	0.6	1.0	1.0	—	—	—	—	—	—
Adelaide Convention Centre	15.6	7.3	4.4	—	—	—	—	—	—
Adelaide Entertainment Centre	0.5	2.0	0.0	—	—	—	—	—	—
Adelaide Festival Centre Trust	18.5	7.7	7.6	—	—	—	—	—	—
ForestrySA ^(b)	3.5	3.6	3.7	12.4	26.2	20.9	10.4	9.3	10.3
Industrial and Commercial Premises Corporation Infrastructure SA	—	—	9.5	0.2	0.3	0.4	1.4	—	—
Land Management Corporation ^(c)	8.0	8.7	11.9	—	—	—	—	—	—
Lotteries Commission of South Australia ^(d)	—	—	—	66.5	70.5	75.2	8.2	6.7	6.1
Public Trustee	—	—	—	1.4	1.2	0.9	1.2	0.6	0.5
South Australian Government Employee Residential Properties	—	—	—	0.6	0.9	1.2	1.8	0.4	0.5
South Australian Housing Trust ^(e)	76.2	81.2	93.0	—	—	—	—	—	—
South Australian Motor Sport Board	2.0	1.8	2.1	—	—	—	—	—	—
South Australian Water Corporation ^(f)	93.8	96.5	100.9	137.2	177.3	174.5	58.0	63.7	72.7
TransAdelaide	8.2	8.1	5.4	0.4	5.3	3.5	—	0.5	0.9
West Beach Trust	0.4	0.4	0.4	—	—	—	0.3	0.1	0.5
PNFC Total	231.3	221.8	243.4	221.7	285.7	328.1	84.3	83.3	92.1
PFC									
HomeStart Finance ^(g)	—	—	—	5.0	5.0	5.0	2.1	1.6	1.6
Motor Accident Commission	—	—	—	—	10.0	5.0	—	—	—
South Australian Asset Management Corporation	—	—	—	—	230.0	58.5	—	—	—
South Australia Community Housing Authority	14.7	12.0	12.1	—	—	—	—	—	—
South Australian Government Finance Authority	—	—	—	20.0	84.4	18.3	7.6	9.9	7.5
Funds SA	—	—	—	—	—	—	1.4	—	—
PFC Total	14.7	12.0	12.1	25.0	329.4	86.8	11.1	11.5	9.1
PNFC and PFC Total	246.0	233.8	255.5	246.7	615.1	414.9	95.4	94.8	101.2

- (a) Table 6.1 is based on Appendix E of the Budget Statement 2003-04 and includes only those PNFCs and PFCs that affect the general government net lending target through their dividend and/or income tax equivalent contributions and/or their CSO or subsidy payments. Amounts included in Table 6.1 are presented on an accrual basis.
- (b) ForestrySA dividends are net of subsidy for forest roads and log rebate. ForestrySA's 2001-02 dividend excludes a return of capital of \$20 million.
- (c) Land Management Corporation includes a Special Dividend proposed for 2003/04 to repatriate past earnings.
- (d) The *State Lotteries Act, 1966* prescribes distributions rather than dividends. The distributions (inclusive of State Gambling Tax) and income tax equivalents for the Lotteries Commission of South Australia included in this table are directed to the Hospitals Fund and the Sport and Recreation Fund.
- (e) Subsidy reduced by \$7.2 million in 2001-02, to offset \$7.2 million additional sales revenues received for the transfer of properties to other Social Housing providers. Estimate for 2003-04 is based on latest Commonwealth State Housing Agreement offer, not yet accepted by the States.
- (f) SA Water dividend excludes a return of capital of \$11 million in 2001-02 and \$16 million in 2002-03.
- (g) In accordance with the *Housing and Urban Development (Administrative Arrangements) Act, 1995* distributions are paid to the Minister for Human Services and reallocated to other housing priorities.

PROFILES OF GOVERNMENT BUSINESSES

ABORIGINAL HOUSING AUTHORITY

The Aboriginal Housing Authority (AHA) is established by the *Housing and Urban Development (Administrative Arrangements) Act, 1995* and has responsibility for the planning, coordination, service delivery and evaluation of housing for Aboriginal people in South Australia. In addition, the Aboriginal Housing Authority provides policy advice to the State Government regarding access to housing services and programs for Aboriginal people.

The sources of income for the AHA are primarily rental income and income from the State and Commonwealth Governments in respect of the Commonwealth State Housing Agreement.

The key achievements in 2002-03 were increasing the housing stock and addressing outstanding building commitments through the Community Housing Program for remote communities.

Availability of appropriate housing stock and accessing appropriate support for tenants will be the major issues that will affect the Authority for 2003-04 to 2006-07.

ADELAIDE CEMETERIES AUTHORITY

The Adelaide Cemeteries Authority (ACA) is established by the *Adelaide Cemeteries Authority Act, 2001* and is subject to the *Public Corporations Act, 1993*.

The ACA administers and maintains Enfield Memorial Park, Cheltenham Cemetery, West Terrace Cemetery and Smithfield Memorial Park as public cemeteries to provide burial and cremation facilities to the general public.

During 2002-03, the ACA completed stage one of the mausoleum and chapel complex constructed at Enfield Memorial Park.

ADELAIDE CHILDREN'S PERFORMING ARTS COMPANY (TRADING AS WINDMILL PERFORMING ARTS)

The Windmill Performing Arts Company for Children and Families was established in 2001 as a subsidiary of the Minister for the Arts by Regulation under the *Public Corporations Act, 1993*.

This national performing arts company presents an annual, professional standard subscription series of performances for families and children and tours its productions nationally and overseas. In collaboration with the Department for Education and Children's Services, Windmill is developing an arts and education program to provide professional support programs for teachers and artists. It is also conducting research, with the de Lissa Institute of Early Childhood, into theatre experiences for children from birth to four years.

The State Government has approved an operating grant of \$1 million to the company in 2003-04.

ADELAIDE CONVENTION CENTRE

The Adelaide Convention Centre is established as a subsidiary to the Minister for Tourism by Regulation issued under the *Public Corporations Act, 1993*.

The key functions and activities of the Centre are to manage and operate the Adelaide Convention Centre and its assets, to manage, promote and sponsor events at the Centre or elsewhere, and to foster and assist the commercial development of the Centre.

Increased bookings and revenue, and reduction in expenditures due to a management review of the Centre's operations have improved financial performance, and the Centre expects to achieve \$18.5 million in turnover in 2002-03 in a market recovering from adverse events. Although the Centre receives a subsidy for operational expenses, most of its revenue is derived from commercial activities, which are largely dependent on general economic conditions, in particular as they affect the tourist industry.

The Centre is collaborating with the South Australian Tourism Commission in its overseas marketing, on-going development of a direct marketing campaign and development of a loyalty program to increase repeat business.

ADELAIDE ENTERTAINMENTS CORPORATION (TRADING AS ADELAIDE ENTERTAINMENT CENTRE)

The Adelaide Entertainment Centre (AEC) is established as a subsidiary to the Minister for Tourism by Regulations issued under the *Public Corporations Act, 1993*.

The key functions and activities of the Adelaide Entertainment Centre are managing and operating the Centre's facilities, managing, promoting and sponsoring events at the site, and fostering and assisting the development of the site to enhance commercial potential.

Most of the Centre's revenue is derived from commercial activities, which are largely dependent on general economic conditions, in particular as they affect the tourist industry. The Centre also receives a subsidy for operational expenses.

The appreciation of the Australian dollar, which has improved financial returns to overseas artists, and an increase in the number and frequency of acts offered by local artists have boosted the product offered by the AEC. Events created and offered by the AEC boosted patron attendances and generated greater support from corporate suite holders.

Uncertainty created by current world events continues to affect the Centre, reducing the propensity of overseas artists to tour and affecting the availability of product to the AEC.

ADELAIDE FESTIVAL CENTRE TRUST

The Adelaide Festival Centre Trust is established by the *Adelaide Festival Centre Trust Act, 1971*.

The key functions and activities of the Adelaide Festival Centre Trust are managing and operating the Centre, facilitating artistic, cultural and performing arts activities throughout the State and providing ticketing systems and related services. The Trust also provides advisory, consultative, managerial or support services, within areas of the Trust's expertise, to persons associated with the conduct of artistic, cultural or performing arts activities.

Although the Centre receives a subsidy for operational expenses, most of its revenue is derived from commercial activities, which are largely dependent on general economic conditions, in particular as they affect the tourist industry.

The key achievements in 2002-03 included the Cabaret Festival and WOMADelaide. The availability of touring productions, high attendances at events and the strength of theatre industry demand for workshop construction services provided by the Trust were major developments.

ELECTRICITY ENTITIES

The *Electricity Corporations (Restructuring and Disposal) Act 1999* provided for the long-term lease of the State's distribution, generation, retail and transmission assets.

A number of government-owned electricity entities were formed to assist with the disposal process and the subsequent management of the lease arrangements. The disposal process was completed during 2000-01. Most of the government-owned electricity entities have since been deregistered or dissolved. The residual entities are:

- the Distribution Lessor Corporation
- the Generation Lessor Corporation
- the RESI Corporation, and
- the Transmission Lessor Corporation.

These entities do not generate distributions to Government.

Distribution Lessor Corporation

The Distribution Lessor Corporation is established as a subsidiary to the Treasurer by Regulation issued under the *Public Corporations Act, 1993*.

The principal activity of the Corporation is as lessor of the prescribed electricity assets consisting of the distribution network and the land on which it is located.

Generation Lessor Corporation

The Generation Lessor Corporation is established as a subsidiary to the Treasurer by Regulation issued under the *Public Corporations Act, 1993*.

The principal activity of the Corporation is as lessor of the prescribed electricity assets which comprise the electricity generation plant and the land upon which the generation plant is located, as well as certain other assets that are not prescribed electricity assets including land at Torrens Island and Port Augusta associated with generation operations at these locations and the Leigh Creek Township. The Corporation is also the lessee of the Leigh Creek Railway and has granted a sub-lease of the railway to the operator of the Port Augusta Power Stations.

RESI Corporation

RESI Corporation is established by the *Electricity Corporations Act, 1994* and is subject to the *Public Corporations Act, 1993*.

The Corporation manages and administers residual assets and liabilities, which remain following the privatisation of the state's electricity businesses.

Asbestos related diseases claims from past employees of the electricity entities, rehabilitation and disposal of contaminated land previously used by the electricity entities and redeployment of electricity entity employees returning to the public sector were the major factors affecting the RESI Corporation in 2002-03. They will continue to be major issues for the immediate future.

Transmission Lessor Corporation

The Transmission Lessor Corporation is established by Regulation issued under the *Public Corporations Act, 1993*.

The principal activity of the Corporation from 1 July 1996 to 31 October 2000 was the conduct of an electricity transmission business. Prior to the extension of the National Electricity Market to South Australia in December 1998, the Transmission Lessor Corporation was the South Australian Trader in the National Electricity Market operations in New South Wales and Victoria.

As part of the privatisation of the South Australian electricity assets by the South Australian Government, on 20 September 2000 the Government executed a Business Sale Agreement with Bluemint Pty Ltd (now known as ElectraNet Pty Ltd). Financial completion was 31 October 2000.

With effect from 31 October 2000, the majority of the assets and liabilities of the Corporation were sold or leased and the Corporation ceased trading as a business. The prescribed electricity assets as defined in the *Electricity Corporations (Restructuring & Disposal) Act, 1999* (ie network assets and network land) were leased to Bluemint Pty Ltd for a period of 200 years.

From 1 November 2000 the principal activity of the Corporation is as lessor of the electricity transmission network prescribed electricity assets and land.

HOMESTART FINANCE

HomeStart Finance is established by the Housing and Urban Development (Administrative Arrangements) Act, 1995.

The key functions and activities of HomeStart Finance are to develop, market and manage home finance initiatives, and to increase home ownership opportunities for South Australians.

HomeStart Finance is expecting an above budget financial result with increasing property prices across metropolitan and regional South Australia, continuing low interest rates and the competitive lending environment affecting the financial performance in 2002-03 while the interest rate outlook, State economic growth and property prices will continue to be major issues for 2003-04 to 2006-07.

HomeStart's lending is funded by borrowing at market-related interest rates through the South Australian Government Finance Authority (SAFA) and by use of HomeStart's own capital and reserves.

INDUSTRIAL AND COMMERCIAL PREMISES CORPORATION

The Industrial and Commercial Premises Corporation (ICPC) is established by Regulation under the *Public Corporations Act, 1993*. ICPC manages the Industrial Premises Development Scheme, which facilitates locational investment decisions in favour of South Australia. It also enables established industries to expand operations and employment, particularly in export or import-replacing activities.

The ICPC receives most of its revenue from rent and interest. It is expecting a 2002-03 operating loss, including a revaluation decrement for the facility constructed for and leased by JP Morgan Holdings Australia Limited.

The key achievements in 2002-03 included the construction of purpose-built facilities under the Industrial Premises Development Scheme for JP Morgan Holdings Australia Limited, Balfours Property Holdings Pty Ltd and Bresagen Limited and the commencement of two new projects for Southern Food Group Pty Ltd and Frozen Herbs Limited.

INFRASTRUCTURE SA

Budgeting for the proposed road and rail bridges over the Port River is on the basis of bridge ownership and operation by a public non-financial corporation named Infrastructure SA.

Infrastructure SA will be responsible for:

- construction of the road and rail bridges;
- maintenance and operation of the facilities over their lifetime; and
- the collection of tolls which will finance the majority of the costs associated with the road and rail bridges.

Infrastructure SA will receive a subsidy towards the construction costs designed to ensure that it earns a commercial rate of return on its investment. This subsidy is estimated for the purposes of the budget at \$51.7 million. The actual subsidy required will depend on the final cost of the bridges and the amount of an expected contribution from the Commonwealth Government.

For budgetary purposes the cost of the bridges has been estimated at \$131.3 million.

Budgetary support to Infrastructure SA will be limited to the construction subsidy and it will be expected to operate on a fully commercial basis thereafter, including paying dividends and tax equivalents to the State. Borrowings by Infrastructure SA will add to public sector net debt. In this regard it is essential that Infrastructure SA has sufficient revenues to service this debt.

LAND MANAGEMENT CORPORATION

The Land Management Corporation is established as a subsidiary of the Minister for Infrastructure by Regulation issued under the *Public Corporations Act, 1993*.

The key functions and activities of the Land Management Corporation are to:

- acquire, hold, manage, lease and dispose of surplus land, improvements and other property on behalf of agencies or instrumentalities of the Crown
- manage the planned release of large areas of undeveloped or under-developed land, for commercial, industrial, residential or other purposes
- manage interests in approved joint ventures, land development projects and specific interests in Science Park and Technology Park
- manage urban projects to achieve urban regeneration or other government policy outcomes.

Development at Technology Park, joint venture activities for the major residential developments at Golden Grove and Mawson Lakes, and a buoyant property market have underpinned a strong financial performance in 2002-03. The Corporation receives most of its revenue from land sales and is estimating an above budget profit for 2002-03.

The major issue that will affect the Land Management Corporation for 2003-04 to 2006-07 will be the potential property market uncertainty.

The LMC will pay a special dividend of \$50 million to the Government in 2003-04 as part repatriation of past earnings.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

The Local Government Finance Authority of South Australia (LGFA) is established under the *Local Government Finance Authority Act, 1983* for the benefit of Councils and other Prescribed Local Government Bodies within the State. LGFA is a proclaimed semi-government authority pursuant to the *Public Finance and Audit Act 1987* and the *Government Financing Authority Act 1982*.

The Authority develops and implements borrowing and investment programs for the benefit of councils and prescribed local government bodies. The liabilities of LGFA (including monies accepted on deposit from local authorities) are guaranteed by the Treasurer of South Australia.

The Authority pays tax equivalent payments to a special deposit account for reimbursement to local government estimated at \$0.9 million in 2002-03 and \$0.8 million in 2003-04. These payments are considered by the Act to remain funds of local rather than State government.

LOTTERIES COMMISSION OF SOUTH AUSTRALIA

The Lotteries Commission of South Australia is established by the *State Lotteries Act, 1966*.

The key function of the Lotteries Commission of South Australia is the conduct of State Lotteries. The *State Lotteries Act, 1966* prescribes the distributions to be paid. The distributions, inclusive of State Gambling Tax and income tax equivalents, are directed to the Hospitals Fund and the Recreation and Sport Fund.

In 2002-03, gross sales are expected to be in excess of \$325 million, with above budget sales in Lotto, Powerball and SA Lotto as a result of increased jackpot and promotional activity and a price increase of 5c per game for Lotto (effective 1 December 2002).

MOTOR ACCIDENT COMMISSION

The Motor Accident Commission (MAC) is established by the *Motor Accident Commission Act, 1992*.

MAC is South Australia's Compulsory Third Party (CTP) Insurer and provides compensation to victims of road crashes. MAC also supports road safety programs, medical research, rehabilitation programs relating to road accident injuries, and anti-fraud and other community programs where consistent with the objectives of the MAC Act.

Market conditions have resulted in a lower than expected investment income for the year, resulting in an expected operating loss and negative net asset position for 2002-03. This is a major reason for the significant increase in CTP premiums announced recently.

Allianz Australia Insurance Limited was appointed as the contracted provider of claims management services for the CTP fund from 1 July 2003. The passing of the *Statutes Amendment (Personal Injury Insurance) Act, 2002* and the establishment of the Centre for Automotive Safety Research were major issues affecting MAC in 2002-03.

NATIONAL WINE CENTRE

In April 2002, the Department of Treasury and Finance estimated that on optimistic projections, the National Wine Centre (NWC) would have operational losses of \$2.5 million per year if it were to continue to operate under its then current arrangements. The State Government subsequently brokered an arrangement with the wine industry that aimed to provide a viable future for the National Wine

Centre and remove the need for ongoing subsidies. Under the arrangement, the Winemakers' Federation of Australia (WFA) was to lease the Centre from the Government for \$1 a year and take responsibility for its management and operation. The Government provided a one-off grant of \$500 000 on 1 July 2002 to the business and agreed to provide a further \$250 000 repayable loan from 1 July 2003. The NWC received a total subsidy of \$2.5 million for its operations in 2002-03.

The *National Wine Centre (Restructure and Leasing Arrangements) Act, 2002* was assented to in August 2002 to facilitate the transfer of the management and operations of the NWC to an entity controlled by the WFA but has yet to be proclaimed. Under the provisions of the *National Wine Centre Act, 1997*, the Treasurer became the governing authority of the NWC and delegated his powers to a subsidiary of the WFA.

In late 2002 the WFA advised the Treasurer that the NWC could not be made to trade profitably on the agreed basis. At the request of the WFA, the Treasurer withdrew his delegation and appointed Ferrier Hodgson to take responsibility for the management and operation of the NWC, analyse and review those operations, and make recommendations on possible strategies and alternatives for the Centre.

In February 2003, the Government gave in-principle approval to a proposal from the University of Adelaide to use the NWC as a base for education and research in grape growing and wine-making as well as wine appreciation and marketing. Subject to finalisation of arrangements, the University is to pay the State Government \$1 million to take over the Centre on a 40-year lease from 1 July 2003.

NATURAL GAS AUTHORITY OF SOUTH AUSTRALIA

The Natural Gas Authority of South Australia (NGASA) is a statutory authority and is established by amendments to the *Natural Gas Authority Act, 1967*.

NGASA administers the Gas Sales Agreements. Under these agreements NGASA purchases natural gas from the producers in the South Australian Cooper Basin and South West Queensland Cooper Basin, and on-sells this gas to Terra Gas Trader and Origin Energy. Five Gas Sales Agreements govern the gas sales along with several secondary agreements.

PASSENGER TRANSPORT BOARD

The Passenger Transport Board (PTB) is established by the *Passenger Transport Act, 1994*.

PTB key functions and responsibilities are the improvement of passenger transport to meet the objectives of Government, regulation of land-based public transport in South Australia, determination of fares payable by users and accreditation of operators and drivers of public transport.

The PTB is funded through Budget appropriation. The Board then funds TransAdelaide under a 5-year agreement until April 2005.

Legislation has been introduced into Parliament to abolish the Board and create an individual agency for public transport within the Department of Transport and Urban Planning.

PLAYFORD CENTRE

The Information Industries Development Centre (Playford Centre) was established in July 1996 by Regulation under the *Public Corporations Act 1993*. The Centre's role is to facilitate the development of high-growth companies within the information and communications technology (ICT) sector in South Australia.

Playford Centre has also established a subsidiary company (Playford Capital Pty Ltd) for the purpose of investing in ICT companies. These investments are funded by a Commonwealth grant received under the Building on Information Technology Strengths (BITS) program. Playford Capital also has a role in attracting business mentors and venture capitalists that will co-invest with Playford Capital in South Australian ICT companies.

Playford Centre received an operating subsidy of \$1.4 million in 2002-03 and has been budgeted to receive \$1.4 million in 2003-04.

PUBLIC TRUSTEE

The Public Trustee is established by the *Public Trustee Act, 1995*.

The key functions and activities of the Public Trustee are preparation of wills, powers of attorney, enduring powers of guardianship and other legal documentation, deceased estate and trust administration and financial administration services to clients who require assistance with management of their financial affairs. Revenue is received from fees and commissions for these services.

During 2002-03, ongoing poor performance of financial markets resulted in negative returns on common fund assets and a reduction in revenue from financial administration services which are charged on the size of the asset base managed.

SOUTH AUSTRALIAN ASSET MANAGEMENT CORPORATION (SAAMC)

The South Australian Asset Management Corporation (SAAMC) is established by the *State Bank of South Australia Act, 1983 (as amended)*.

The key functions and activities of SAAMC are the investment of funds obtained from the realisation of the former State Bank of South Australia assets and from the proceeds of recoveries of various loans through litigation, meeting State bank's long-term obligations, commitments and ongoing statutory requirements and resolving outstanding litigation.

SOUTH AUSTRALIAN COMMUNITY HOUSING AUTHORITY

The South Australian Community Housing Authority (SACHA) is established by the *South Australian Co-operative and Community Housing Act, 1991*.

The key functions and activities of SACHA are the funding and regulation of community housing organisations, facilitation and support for the community housing sector, including provision of education and training, and project management of capital program activities.

The sources of income for the SACHA mostly relate to income from the State and Commonwealth Governments in respect of the Commonwealth State Housing Agreement and contributions from community housing organisations, which are used predominantly to fund its operations.

During 2002-03, SACHA restructured its debt portfolio and introduced a flat 25% rent scale. The major issues affecting financial performance in 2002-03 were cost increases and difficulties in sourcing land for building projects, protracted housing completion rates due to high demands for building trades, and increases in insurance premiums and difficulty in securing liability cover.

SACHA will be focusing on development of innovative housing designs, disability modifications and adaptable and energy efficient designs from 2003-04 onwards.

SOUTH AUSTRALIAN FORESTRY CORPORATION (TRADING AS FORESTRYSA)

The South Australian Forestry Corporation (ForestrySA) is established under the *South Australian Forestry Corporation Act, 2000*. It is subject to the provisions of the *Public Corporations Act, 1993*.

The key functions and activities of ForestrySA are to manage plantation forests for commercial production, undertake forestry-related research, support regional resource protection initiatives and programs, facilitate regionally based economic activities based on forestry, support the concept of environmental sustainability and support cooperative research activities within the forestry industry.

ForestrySA receives most of its revenue from its commercial operations and expects an above budget result and dividend payment in 2002-03 arising from continued strong demand for timber products for housing. ForestrySA also receives CSO funding for native forest management, forestry industry development and fire fighting. Current buoyant market conditions are expected to hold until the end of 2002-03 but the outlook thereafter is less certain.

SOUTH AUSTRALIAN GOVERNMENT EMPLOYEE RESIDENTIAL PROPERTIES

The South Australian Government Employee Residential Properties (SAGERP) is established by the *Public Employees Housing Act, 1987*.

SAGERP provides housing to employees delivering essential public services in country communities. It manages residential tenancies (in accordance with the *Residential Tenancies Act, 1995*) for all housing occupants and provides advice to the Minister regarding the level of rental charges to be levied and on other matters.

SAGERP receives income from tenants' rent payments. The deterioration of housing stock and high cost of contractors providing construction, maintenance and upgrade services affected the financial performance of SAGERP in 2002-03, and will continue to be major issues affecting performance.

SAGERP will be focusing on the development of arid-remote and non-remote standardised house plans, energy efficiency, provision of additional housing and replacement of ageing housing stock for 2003-04 onwards.

SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY

The South Australian Government Financing Authority (SAFA) was established under the *Government Financing Authority Act, 1982*. It commenced operations in January 1983.

SAFA acts as the corporate treasurer to the South Australian Government. It provides advice on financial and risk management issues. In 2002-03 it advised the Government in respect of a number of major issues including WorkCover Corporation and the NRG Energy Inc obligations in respect of the Osborne Power Station as detailed in Chapter 7 of the Budget Statement under 'Obligations of Flinders Osborne Trading Pty Ltd'.

SAFA develops and implements borrowing and investment programs for the benefit of semi-government authorities and engages in such other financial activities as are determined by the Treasurer to be in the interests of the State.

SAFA functions as the central financing authority for the State of South Australia, its businesses and agencies. SAFA is South Australia's primary face to the domestic and international financial markets for management of the State's funding and investment flows and for transacting in derivative products used for risk management purposes.

SOUTH AUSTRALIAN HOUSING TRUST

The South Australian Housing Trust (SAHT) is established by the *South Australian Housing Trust Act, 1995* and has responsibility for the *Housing Improvement Act, 1940*.

The SAHT provides services to assist people to secure and maintain affordable and appropriate housing through the management of public housing tenancies, provision of rental subsidies, tenancy management, housing stock upgrade, replacement and modification for those with a disability and strategic planning for future public housing stock needs.

The SAHT also provides financial assistance, information, referral, advocacy and counselling to assist households that are experiencing instability, poverty, homelessness or housing difficulty in the private rental market.

The sources of income for the SAHT mostly comprise rental income, income from the State and Commonwealth Governments in respect of the Commonwealth State Housing Agreement, funding to cover the cost of the Trust's land tax payments in respect of their holdings and receipts associated with the sale of properties. The income received by the Trust is used to fund its operations, including land tax costs, and the capital program.

In 2002-03, growth in land values created significant cost pressures through increased council and water rates, and demand for financial assistance from SAHT customers seeking tenancies in the private rental market. SAHT revised rent-to-income schedules during 2002-03, which will result in additional rent revenue of \$2 million this financial year and approximately \$5 million per annum thereafter. The largely self-funding stock replacement through the Better Neighbourhoods Program will upgrade pockets of SAHT housing in metropolitan areas while the development of an asset condition database to record the condition of public housing properties across the State will enable effective programming of maintenance.

The increasingly complex needs of SAHT's customer base will place additional demand on existing resources while growth in land values and aging housing stock will continue to place significant pressure on recurrent budgets for 2003-04 to 2006-07.

SOUTH AUSTRALIAN MOTOR SPORT BOARD

The South Australian Motor Sport Board is established by the *South Australian Motor Sport Act, 1984*.

The key functions and activities of the South Australian Motor Sport Board are the promotion of Motor Sport Events, negotiation and entering of Motor Sport agreements on behalf of the State and provision of advisory, consultancy, management and other services to promoters or other persons associated with conducting sporting events.

In 2002-03, the South Australian Motor Sport Board increased overall attendance by more than 20% while meeting budget targets, and in future will be focusing on maintaining attendance levels and containing resourcing costs.

SOUTH AUSTRALIAN PORTS CORPORATION

The business and key operating assets of the South Australian Ports Corporation, a statutory body established under the *South Australian Ports Corporation Act, 1994* were either leased or sold to Flinders Ports on 2 November 2001. The transaction was undertaken pursuant to the provisions of the *South Australian Ports (Disposal of Maritime Assets) Act, 2000* (the Disposal Act).

The Minister for Government Enterprises was constituted as the Ports Corporation after disposal of its business and assets. On 5 September 2002, the Ports Corporation was dissolved by the Governor under the Disposal Act and the *South Australian Ports Corporation Act, 1994* was repealed.

SOUTH AUSTRALIAN WATER CORPORATION (TRADING AS SA WATER)

The South Australian Water Corporation is established under the *South Australian Water Corporation Act, 1994* and is subject to the provisions of the *Public Corporations Act, 1993*.

The scope of SA Water's operations, as set out in its charter, is to:

- ensure South Australia's water and wastewater services provide continuous, high quality supply, protect the health of the public, and minimise environmental impacts
- ensure South Australia's water and wastewater services deliver high quality, value for money services to customers and adequate financial returns to the Government, within the context of government pricing decisions
- facilitate the development of a viable water industry in South Australia.

SA Water is expecting an above budget profit in 2002-03, arising from continuing above budget water sales, increases in connections/extensions and contributed assets, and savings in interest due to active debt management and lower interest rates. These benefits have been partially offset by significant increases in electricity (pumping) costs due to low reservoir intakes and increased demand.

The future profit outlook for SA Water is less certain. In particular, the ongoing drought is likely to have a material impact on SA Water during 2003-04 and possibly in subsequent years. Restrictions on extractions for the River Murray were announced on 20 May 2003. SA Water may lose revenue from any reduced water sales, with a 10% reduction in water use representing an indicative profit reduction of around \$15-20m (lost revenue plus advertising and enforcement costs less savings in pumping and water treatment costs). This estimate could vary substantially, depending on the nature and timing of the restrictions.

The current high level of development activity is not expected to continue over the budget period, which is also expected to reduce SA Water's projected profit in future years.

Treasury and Finance and SA Water will be reviewing these and other revenue and cost pressures during 2003-04 as part of a more general review of SA Water's dividend policy, CSO arrangements and capital structure.

SUPERANNUATION FUNDS MANAGEMENT CORPORATION OF SOUTH AUSTRALIA (TRADING AS FUNDS SA)

The Superannuation Funds Management Corporation of South Australia (Funds SA) is established by the *Superannuation Funds Management Corporation of South Australia Act, 1995*.

Funds SA manages and invests South Australian public sector superannuation scheme funds.

While the poor conditions of the global financial market adversely affected investment returns achieved for the public sector superannuation schemes, Funds SA continued to out-perform investment benchmarks for all its investment products in 2002-03.

XTAB PTY LTD (FORMALLY THE SOUTH AUSTRALIAN TOTALISATOR AGENCY BOARD)

The former SA TAB Pty Ltd was sold to UNITAB Pty Ltd (a subsidiary of TAB Queensland Limited) on 14 January 2002 for \$44.3 million.

Residual accounting functions and administrative responsibilities are discharged through the Department of Administrative and Information Services and the Department of Treasury and Finance as directed by the Minister for Government Enterprises and governed by the *Racing Act, 1976* and subsequently the *TAB (Disposals) Act, 2000*.

TRANSADELAIDE

TransAdelaide is established by the *TransAdelaide (Corporate Structure) Act, 1998* and is subject to the provisions of the *Public Corporations Act, 1993*.

As the sole Government-owned commercial public passenger transport services operator, TransAdelaide has two significant business operations comprising the provision of tram and train services, and the management of the tram and train infrastructure in the metropolitan area.

TransAdelaide receives most of its revenue under a 5-year agreement with the Passenger Transport Board until April 2005. It also receives revenue from investments and other sources.

Increased 2002-03 patronage revenue was offset by increased public liability and diesel fuel costs. TransAdelaide will be focusing on fuel costs and replacement of infrastructure and rolling stock over the Budget period.

WEST BEACH TRUST (TRADING AS ADELAIDE SHORES)

The West Beach Trust is established by the *West Beach Recreation Reserve Act, 1987*.

The West Beach Trust manages and develops the West Beach Recreation Reserve lands and environment that is now marketed as Adelaide Shores. It manages the West Beach Recreation Reserve as a sporting, cultural and recreational complex and is responsible for the control and management of the sand dune and foreshore subject to the *Coast Protection Act, 1972*.

Completion of 30 additional cabin style accommodations at Adelaide Shores Caravan Resort and/or Holiday Village will support the commercial activities of the Trust from 2003-04 onwards.

The Trust does not presently pay a dividend but this position will be reviewed in 2003-04.

WORKCOVER CORPORATION

The WorkCover Corporation is established under the *WorkCover Corporation Act, 1994*, to administer the *Workers Rehabilitation and Compensation Act, 1986*, the *Occupational Health, Safety and Welfare Act, 1986* and other related legislation.

WorkCover collected \$328.5 million of levy income in 2001-2002 from approximately 65 000 non-exempt employees who are required to contribute towards the provision of occupational health and safety, claims management and rehabilitation services for their employees. WorkCover monitors the processing of approximately 30 000 claims each year.

The Corporation manages an investment fund that returned negative 3.9% on funds invested for the year ending 30 June 2002, in comparison to a 2.1% return for the previous year. This was a direct result of the poor performance in world financial markets.

During 2002-03 the unfunded liability of WorkCover increased significantly mainly due to reassessment of the claims liability, which had grown by \$253 million from 30 June 2000 to 30 December 2002, and losses on investments of \$31 million since June 2000, against budgeted profits of \$129 million. In response the WorkCover board increased the average levy rate for 2003-04 from 2.46% to 3.0%.

Following the announcement of the increase in the average levy rate for 2003-04, the Government announced that it is introducing legislative amendments to ensure that WorkCover is more accountable and transparent, and that its finances are rigorously assessed. This will ensure improvements to the governance structure of WorkCover Corporation and deliver better occupational health and safety outcomes for all South Australians.

A consequence of the governance reforms will be that the net worth and net financial worth of the general government sector will in future include the net financial position of WorkCover.

CHAPTER 7: RISK STATEMENT

INTRODUCTION

The purpose of this chapter is to outline the major financial risks that could affect the fiscal outlook set out in the 2003-04 Budget and identify the policies the Government has adopted to manage those risks.

Budget estimates are predicated on assumptions and judgements based on information at the time of their preparation. In practice, both revenues and expenses will be subject to change from the budget, and the size of possible changes typically increases over the forward estimates period.

Financial risks arise from either general developments or specific events that may have an effect on the fiscal outlook. They may affect revenue and expenditure; they may be positive or negative; and they may not necessarily be within the Government's control. Examples include natural disasters, economic activity fluctuations, and foreign exchange rates and prices.

Budget and forward estimates can include allowances to help manage the potential adverse consequences of financial risk, for example allowances for wage and salary outcomes, and contingency provisions made within capital expenditure budgets. Some sources of risk to the fiscal outlook can, to a certain extent, be managed through established risk management practices such as hedging, provisioning and insurance.

The ultimate net financial impact of the many sources of risk is by definition uncertain. In practice, cumulative effects are likely to be lower than the sum of individual risks, as it is unlikely that all potential adverse developments would occur at once.

REVENUE RISKS

TAXATION AND ROYALTIES

Taxation revenues

Considering only tax revenues collected directly in South Australia, the following points can be made:

- a variance of 1% in taxation revenue growth equates to about \$23 million per annum
- tax is not particularly sensitive to movements in broad-based price measures, for example 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.

The Government has released for public consultation the Hospitality Smoke-free Taskforce report into smoking in hospitality venues. Public submissions on that report and its proposals to phase-in a ban on smoking in these venues, including in gaming rooms, are due by 30 May 2003.

Experience in Victoria following a ban on smoking in gaming rooms has seen an initial decline in gaming activity of between 10% and 15%. The adverse impact of a similar decline in South Australia would see an initial reduction in gaming tax and general purpose grant revenue of between \$45 and \$70 million. The Government has yet to make a decision on this issue.

Royalties

Mining royalties are possibly the State revenues most exposed to external economic forces which affect the international price of oil, copper, uranium and gold. A high world price for oil was largely responsible for maintaining petroleum royalty receipts in 2002-03. This was offset by a decline in mineral royalties due to subdued demand for minerals and low international mineral prices.

Royalty revenue in 2003-04 may come under pressure if the Australian dollar appreciates.

Table 7.1 Sensitivity to 1% change for all taxes and royalties

	Revenue collections (2003-04 Budget)	Sensitivity to 1% parameter change
	\$m	\$m
Taxes		
Payroll tax	678	6
Property taxes		
- conveyance duty	341	3
- other ^(a)	442	4
Motor vehicle taxes ^(b)	354	5
Gambling taxes	372	3
Insurance taxes	271	3
Other	5	- ^(c)
Total	2 463	23
Royalties	74	1

(a) Main components - stamp duties on mortgages, shares, rental, land tax, ESL on fixed property, River Murray Levy, debits tax and water catchment levies.

(b) Registration fees, stamp duties and ESL on mobile property.

(c) Less than \$100 000.

Sensitivity of State revenues to economic conditions

The fiscal equalisation process distributes revenue collected by States and Territories in accordance with assessed fiscal needs. However, the Commonwealth Grants Commission methodology is such that this sharing is only achieved over a 5 year period. Therefore the State's revenues (including Commonwealth grants) are affected both by local economic conditions and, with a lag, by economic conditions in other States.

COMMONWEALTH GRANTS

General purpose payments

General purpose payments (GPPs) have typically, but with some exceptions, been maintained in real per capita terms under the indexation arrangements applied by the Commonwealth.

Real per capita maintenance continues to underpin general purpose funding arrangements in the transitional period since the introduction of the Goods and Services Tax (GST). The length of the transitional period is itself a significant uncertainty. Eventually, when GST revenue exceeds guaranteed minimum funding levels, States and Territories will move into a Commonwealth grant funding environment which is exposed to general economic variability and potential changes in GST policy settings.

There is a further risk of change to funding arrangements as a result of changes in Commonwealth policy and/or interpretation of performance requirements such as in respect of National Competition Policy (NCP) payments. The Commonwealth, in its May 2003 Budget, has not committed to a specific level of NCP payments beyond 2005-06, noting only that 2006-07 payments will be disclosed after the conclusion of negotiations.

Commonwealth GPPs are the vehicle for horizontal fiscal equalisation (HFE). The methodology and data underlying the HFE process is determined by the Commonwealth Grants Commission.

The Commission takes into account submissions from individual States and Territories. While the Commission is an independent body, States and Territories compete strongly in submitting arguments in support of their position. The risk of methodology changes which may impact on the State, either positively or adversely, is significant.

Specific purpose payments

Specific purpose payments (SPPs) reflect a variety of terms and conditions. Funding levels are exposed to the risk of variability in the underlying parameters that determine funding levels for specific expenditures as well as being exposed to variability in Commonwealth policy settings favouring some areas of expenditure over others. These risks can be offset to a significant extent if there is an automatic flow through to expenditure levels. Symmetry between funding levels and expenditure levels may not, however, always apply. Reduced SPP funding may not always translate into reduced demand for services.

In recent negotiations on SPP agreements, it has become more common for the Commonwealth to insist on the imposition of matching conditions on the States. For example, to access growth funding provided by the Commonwealth, the States are required to match the percentage increase in funding. This is a significant risk factor for State budgetary flexibility.

EXPENDITURE RISKS

Key risks that could potentially lead to increased levels of State Government expenditure over the budget and forward estimates period are set out below. Unavoidable State Government expenditure variations that are not experienced nationally are potentially mitigated by fiscal equalisation but only with a time lag.

CHANGE IN SERVICE NEEDS AND FUNDING IMPLICATIONS

The level and types of services required by the community will change over time as a result of various factors, including age demographics. It is anticipated that as the average age of the population increases, demand for health related services will increase and demand for primary and secondary education will decrease. Funding for government services must therefore be able to be directed from areas with reducing demand to those where demand for services is increasing. Funding that cannot be redirected in a timely manner may compromise the sustainability of the budget over the medium term. The Government is aware of this challenge and has established an Expenditure Review and Budget Cabinet Committee to ensure that budget measures are appropriately directed to high priority areas.

WAGES AND SALARIES

The estimated costs arising from the next round of remuneration increases have been factored into the 2003-04 Budget and forward estimates. Each additional 0.5% increase in wage and salary outcomes for public sector employees will increase wage and salary expenditure estimates by over \$50 million

in 2006-07. The equivalent of another 1% wage rise in non-salary benefits is approximately \$57 million in 2006-07.

The next round of remuneration increases within the public sector are expected as follows:

Wages parity	1 October 2004
Police	1 July 2004
Nurses	1 October 2004
Teachers	1 October 2005

The wages parity group represents about 40% of the total public sector workforce and includes 30 000 full time equivalent salaried and weekly paid employees.

South Australian salaried medical officers are currently negotiating a new enterprise agreement to follow-on from the agreement that expired on 16 March 2003. The Government made an offer to this group in March 2003 and negotiations are continuing. The full cost of the Government's offer has been factored into the 2003-04 Budget and forward estimates.

INTEREST RATES

A 1% increase in interest rates could impact the budget position by increasing interest payments in the general government sector by approximately \$10 million in 2003-04. Higher than expected interest rates could also affect public non-financial corporations by increasing interest payments by approximately \$20 million. This could indirectly affect dividends received over time by the general government sector from public non-financial corporations. The Government's commitment to achieve, on average, balanced budgets in the general government sector will avoid increases in debt from this sector.

PRICE INCREASES

Major sources of price increases that could adversely impact on the fiscal outlook are discussed below. Past experience suggests that the financial risks posed by price increases can be managed within existing budget and forward estimate settings.

Increase in Consumer price index

Based on the level of goods and services expenditure contained in the 2003-04 Budget, a CPI increase of 1% more than currently anticipated in the budget estimates would result in an estimated increase to expenditure of around \$24 million in 2003-04. Higher inflation will however, also be associated with higher revenues including higher CPI-indexed Commonwealth grants.

Fluctuation in foreign exchange rates

Foreign exchange rate fluctuations can 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.

Treasurer's Instruction No. 23 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 \$A100 000. This instruction has the effect of limiting potential foreign exchange risks faced by the Government once acquisition decisions are made.

Government contracts

As part of its ongoing operations the Government enters into contracts with external suppliers for the provision of goods and services. Examples include contracts relating to information and communications technology, both hardware and software. Upon a contract's expiry the Government may choose to renew or renegotiate the contract. The Government may also have the option of approaching the market with a tender process. In each case there is a possibility that the Government will incur varying degrees of cost to make the transition to new arrangements.

Other price rises

Fuel prices are significantly variable and related to world oil prices. This provides a level of risk exposure for the operation of motor vehicle fleets for police, emergency services and departmental passenger vehicles. In addition, the Government must manage fuel-related cost impacts for the bus service contract.

The current uncertain state of insurance markets in Australia and worldwide with regard to capacity and price may impact on the South Australian Government Captive Insurance Corporation's ability to maintain the Government's catastrophe reinsurance program at existing levels at acceptable premiums. The Government will continue to monitor the situation closely from both a risk retention and an expenditure point of view

PUBLIC NON-FINANCIAL CORPORATIONS

As part of their day-to-day operations, Government owned public non-financial corporations manage a range of commercial risks associated with their business. Risks that adversely impact upon a public non-financial corporation's profitability may affect the corporation's ability to pay dividends and make tax equivalent payments to the Government, thereby impacting on the general government budgetary position.

The revenue sources of a number of the Government's larger corporations are tied to the level of activity in the building and construction industry, in particular residential housing. The current strong market during 2002-03 will result in above budget revenue for these agencies, including SA Water (associated with land development), Land Management Corporation (land sales) and ForestrySA (timber sales), which will translate into strong budget contributions (dividends and tax equivalent receipts – see Chapter 6) for 2002-03. However, the current level of activity is not expected to continue over the budget period and is likely to be reflected in reduced contributions in future years.

SA Water

Australia is experiencing one of the worst droughts in recorded history. Despite this, there have not been widespread water restrictions in South Australia, although restrictions are currently in place on the Eyre Peninsula. Restrictions on extractions for the River Murray were announced on 20 May 2003. SA Water may lose revenue from any reduced water sales, with a 10% reduction in water use representing an indicative profit reduction of around \$15-20 million (lost revenue plus advertising and enforcement costs less savings in pumping and water treatment costs). This estimate could vary substantially, depending on the nature and timing of the restrictions.

CONTINGENT LIABILITIES

Contingent liabilities are liabilities, or possible liabilities, that are not recognised in the statement of financial position for one or more of the following reasons:

- there is significant uncertainty as to whether a sacrifice of future economic benefits will be required
- the amount of the liability cannot be reliably measured
- the existence of a liability will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Government.

Contingent liabilities often arise as a result of legislative provisions that require the Government to guarantee the liabilities of a number of public sector organisations, particularly those in the public financial corporations sector. Any material losses resulting from unfavourable legal decisions are recognised in the Government's financial statements as and when the decisions are final.

Table 7.2 outlines the contingent liabilities of the Government as at 30 June 2002, with comparative data for 30 June 2001.

Table 7.2 Contingent liabilities of the Government of South Australia to entities external to the public sector as at 30 June^(a)

	2001	2002
	\$m	\$m
Guarantees ^(b)	579	795
Off-balance-sheet exposures ^(c)	1 030	642
Net present value of operating leases ^(d)	286	262
Other ^(e)	45	56
Total	1 940	1 755

(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 Financing Authority that are guaranteed by the Government of South Australia pursuant to the *Local Government Finance Authority Act 1983*.

(c) Interest rate and currency swaps, indemnities etc.

(d) Net present value (NPV) of operating leases with a NPV of \$1 million or greater.

(e) Includes contingent liabilities from joint venture schemes. Joint venture schemes can include those entered into by Land Management Corporation pertaining to the use of Crown Land for development.

There has been a decline in the value of off-balance-sheet exposures for the year ended 30 June 2002, and an increase in the value of guarantees. The value of off-balance-sheet exposures (mainly interest rate swaps) disclosed in the budget papers is the total of the net present value of the underlying cash flow of individual exposures after having an appropriate credit risk factor applied. In the case of operating leases the budget presentation discloses the net present value of future cash flows.

Material items contributing to the increase in guarantees include:

- guarantees relating to the disposal of the State's electricity assets
- guarantees relating to the sale of SAGRIC
- an increase in guarantees relating to the Local Government Financing Authority.

Obligations of Flinders Osborne Trading Pty Ltd

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, amongst other things, a prescribed amount of electricity from OCPL at a fixed price for the term of the Power Purchase Agreement; and
- to sell a prescribed amount of gas to OCPL at a fixed price for the term of the Gas Sale Agreement.

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
- the contracted sale price under the Gas Sale Agreement and the estimated wholesale price for gas available in the market. In this respect ETSA Corporation had a long term gas purchase agreement for the supply of gas.

The Osborne Arrangements, and the underlying exposures, were subsequently transferred to Flinders Power Pty Ltd as part of the former Government's electricity industry reforms.

When NRG Energy Inc purchased the operations of Flinders Power Pty Ltd (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). NRG Energy Inc quantified the future losses under the Osborne Arrangements, which were appropriately reflected in its bid price.

As part of the privatisation of the operations of Flinders Power, the former Treasurer provided a guarantee to OCPL in respect of the obligations of FOTL 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.

Notwithstanding the privatisation of the operations of Flinders Power, and the discount on the sale price, the South Australian Government, through the Treasurer's Guarantee, continued to bear exposure to the consequences of the Osborne Arrangements.

Events occurring in December 2002 raised the possibility that FOT might not be able to meet its ongoing obligations and the Treasurer's Guarantee might be called upon by OCPL. As NRG Energy Inc was experiencing financial difficulties at this time, with the likelihood of it filing for US Chapter 11 Bankruptcy protection, the Treasurer potentially would not be able to rely on the indemnity from NRG Energy Inc.

Recent developments involving the proactive actions of this Government suggest that the circumstances giving rise to the possibility of FOT not being able to meet its ongoing obligations to OCPL have been averted, as has the likelihood of the Treasurer's Guarantee being called upon.

NRG Energy Inc filed for US Chapter 11 Bankruptcy protection on 14 May 2003. At this stage the Government is hopeful that the indemnity provided by NRG Energy Inc to the Treasurer will not be prejudiced by the US Chapter 11 proceedings. The Government is closely monitoring these developments.

FOT has indicated to the Government that its assessment of the net present value of the liability is around \$140 million. This amount is included in Table 7.2 in the category of "guarantees".

SAGRIC

As part of the sale of SAGRIC, certain assets not required by the purchaser were transferred to a new company called Edisco Pty Ltd – a company wholly owned by the State. The assets retained by the State included SAGRIC's interest in a joint venture to manage a project for the development and running of the Greek National Cadastre (register of land values and owners).

The other parties in the joint venture were Carl Bro International (a Danish company whose share was 40% of the joint venture) and Euro-dynamics Consulting SA (a Greek company, 35%). The Joint Venture was called Hellenic Cadastre Consult (HCC). SAGRIC's share of HCC was 25%. HCC entered into a contract with a company wholly owned by the Greek Government – Ktimatologio SA (KT).

By letter dated 7 February 2002, KT suspended the services of all foreign personnel provided by HCC. In May 2002, KT instituted legal proceedings seeking 9.1 million Euro (approximately \$16.3 million) from HCC and is reserving the right to claim 57 million Euro (more than \$102 million), which may be withheld from its funding from the European Commission.

In January 2003, Government officers attended in Greece to investigate the claims against SAGRIC and ensure that the Government's interests were being adequately attended to. As a result of these investigations, advice was received that Euro-dynamics is a company that appears to have minimal assets. As the joint venture partners are jointly and severally liable for costs and/or damages, Edisco's exposure could go beyond the 25% that the Government would normally be liable for as its share of the joint venture.

At this time, the situation is very uncertain. While the worse case outcome could be very unfavourable for the State, at this stage, the likelihood of that occurring is too difficult to forecast.

It is clear that past management of this project was deficient in terms of managing the risks to the State.

The Government is now attempting to resolve the situation with no, or minimal, costs to the State.

CAPITAL PROJECT DELAY

In addition to any foreign exchange risks that may eventuate from capital imports, there are other financial risks associated with major government capital projects arising from circumstances such as project delays from industrial action or inclement weather. There are also risks in the design phase of a project should alterations to designs be required due, for example, to changes in the end-user's perceived needs. The inclusion of design and construction contingency provisions in the total cost of each capital project provides a risk margin for project managers to allow the project to be completed without need for further appropriation.

DECREASE IN DOMESTIC AND OVERSEAS SHARE PRICES

Funds SA, WorkCover and Motor Accident Commission are exposed to both domestic and international equity markets. A fall in domestic and overseas share prices could therefore adversely impact upon the returns achieved by Funds SA on superannuation assets under management and on the value of WorkCover's and Motor Accident Commission's financial investments.

The impact on superannuation liabilities from lower than expected returns is discussed below.

In isolation, a 1% movement in international equity markets would impact on the WorkCover scheme funding estimates by approximately \$2 million or 0.2% of the scheme funding ratio. A 1% movement

in Australian equity markets would impact on the WorkCover scheme funding estimates by approximately \$1.5 million or 0.15% on the scheme funding ratio.

A 1% lower than expected annual return on Motor Accident Commission's investments across all asset classes for 2003-04 is estimated to reduce forecast investment income by approximately \$12 million.

INCREASE IN SUPERANNUATION LIABILITIES

Unfunded superannuation liabilities can increase as a result of lower than expected returns on investment funds or as a result of changes in actuarial assumptions relating to future benefits.

Lower than expected returns on investments

A 1% lower than expected return by Funds SA would increase estimated unfunded superannuation liabilities by around \$30 million.

An increase in unfunded superannuation liabilities of this magnitude would increase notional superannuation expense, decreasing the net lending result by \$2.25 million.

Changes in actuarial assumptions

Unfunded superannuation liabilities are estimated on the basis of a range of actuarial assumptions, including expected returns on investments, inflation, mortality rates, retirement patterns and level of commutations. Changes to key actuarial assumptions, for example, a decrease in expected real returns on investments or an increase in inflation, could result in an increase in estimated unfunded superannuation liabilities.

ECONOMIC RISKS

Economic estimates and forecasts within the 2003-04 Budget are set out in Chapter 8. Risks considered here are possible variances from those central case assumptions and expectations.

GENERAL ECONOMIC CONDITIONS

International, national and State economic conditions

The primary risk to South Australian (and national) economic growth is global economic performance being weaker than anticipated. Being a small State, South Australia's economy is heavily dependent on national and international economic conditions. For example, in 2001-02 overseas goods and service exports contributed over 20% of South Australia's Gross State Product, and there has been a recent downgrading of forecasts of economic growth for Australia's major trading partners.

Particular threats to global economic growth include the situation in Iraq and the impact of the SARS virus. Domestically, the major factor contributing to uncertainty is the extent to which improved private business investment will offset the expected downturn in housing construction.

The Australian dollar and oil prices

The depreciation of the Australian dollar relative to the US dollar in 2001 contributed to the strong growth in South Australia's exports. Since January 2002, however, the Australian dollar has appreciated against the US dollar and also against our major export markets. Further appreciations could undermine export growth.

Oil prices have stabilised since the 'fall of Baghdad'. Given the improved supply conditions and the approach of the northern summer threats to prices appear to be relatively small.

STRUCTURE OF THE SOUTH AUSTRALIAN ECONOMY

Population

Economic forecasts are consistent with South Australia's population growth rate remaining below the national average. Demographic factors tend to be relatively well anticipated over the period of the forward estimates.

Industry structure

The manufacturing and agricultural sectors play a greater role in the South Australian economy than nationally, while the role of stronger growth sectors (eg information technology and financial services) are of lesser importance. The manufacturing sector has benefited from very strong activity in the national residential construction sector during the last couple of years. Any prolonged downturn in the construction sector, and associated consumer spending, could have adverse implications for economic and employment growth.

Agricultural sector

Whilst the agricultural sector is expected to improve as drought recovery takes place there are always supply-side risks associated with unusual climatic conditions. Current forecasts are based on the assumption that agricultural output will return to more normal levels following the return to normal rainfall.

VOLATILITY OF ECONOMIC GROWTH

The short-term economic cycle in smaller States is typically more volatile than the national average. In the 10 years to 2001-02 South Australia's Gross State Product growth has varied from -2.5% to +6.3% while national Gross Domestic Product growth has varied between -0.3% and +5.3%. Improvement in growth in South Australia will generally coincide with a national improvement but peaks and troughs will generally be more exaggerated. Nevertheless, volatility in published State economic statistics is likely to be partly associated with various forms of statistical error rather than experience in the real economy. The impact of economic fluctuations flows through to budget revenue and to a lesser extent budget expenditures.

OTHER RISKS

ENVIRONMENTAL RISKS

Poor environmental management — whether manifested as site contamination, salinity, air quality or global warming — has potential direct and indirect consequences for the budget. For example a failure to manage water tables in a sustainable way increases the risk of salinity. In many regions this risk has now been realised, and the 2003-04 Budget continues to allocate money towards managing the impact of salinity through the National Action Plan on Water Quality and Salinity.

The introduction of the River Murray Levy is also designed to fund specific measures aimed at improving the security and quality of South Australia's water supply.

NATURAL DISASTERS

The Commonwealth has responsibility for the policy, funding and administration of the Natural Disaster Relief Arrangements (NDRA) including assessment and payment of States' and Territories' claims. Under the arrangements, the Commonwealth provides funding assistance to the States and Territories aimed at alleviating the financial burden associated with providing natural disaster relief and infrastructure restoration.

CHAPTER 8: SOUTH AUSTRALIAN ECONOMY

INTRODUCTION

The South Australian economy continued to experience solid economic growth during the first half of 2002-03, resulting in strong employment growth and further reductions in unemployment. Supported by a strong national economy, good growth outcomes have been apparent despite the impacts of major national and international events (the drought, weak international economic conditions, and geo-political tensions around Iraq). Consumer spending, business investment, and housing construction have all contributed to very strong demand growth in the South Australian economy during 2002.

Strong employment growth in South Australia reduced the trend unemployment rate to 6% at the end of 2002 —its lowest level for over 25 years.

Partial economic indicators point toward some slowing in economic activity in the first half of 2003 however, with retail sales growth slowing and housing approvals starting to decline. Business investment is likely to remain strong, with capital expenditure expectations indicative of further growth over the remainder of 2002-03 and into 2003-04. Notwithstanding this, and the benefits of an assumed return to more normal seasonal conditions in the farm sector, economic growth in the non-farm sector of the State economy is likely to slow in 2003-04 due to more moderate consumer spending growth, a downturn in housing construction and continued global weakness.

OVERVIEW OF RECENT ECONOMIC PERFORMANCE AND OUTLOOK

During calendar 2002, South Australian State Final Demand (SFD) grew by a strong 7.8%, with real household consumption spending (which increased by 5.8%) contributing 3.6 percentage points to growth, and real private dwelling investment (increasing by 20%) contributing 0.8 percentage points to growth. Dwelling investment growth was supported by continued low interest rates. Similarly, consumer spending has been buoyed by factors such as relatively cheap credit, strong employment growth and flow-on demand for household goods from dwelling construction. Real business investment grew by 24% and contributed 2.6 percentage points to demand growth in 2002.

Strong non-farm activity has been partly offset by a poor farm year. The drought's severity is apparent in ABAREs winter grain crop estimate for 2002-03, which was down more than 60% nationally when compared with last year's crop (for wheat, barley, canola and lupins). It is expected that the national winter crop will be the lowest since 1982-83. In South Australia, after a record winter crop in 2001-02, production in 2002-03 is estimated to have fallen by 58% — the lowest since 1995-96.

Household consumer spending moderated toward the end of 2002, growing by just 0.2% during the December quarter 2002. Although motor vehicle sales continues to show strength, other recent partial economic indicators are reflective of slowing in consumer spending, with real retail sales in the March quarter 2003 rising by just 0.1%.

In 2002-03, the Department of Treasury and Finance expects South Australia's GSP to grow by around 3¼% — slightly above national Gross Domestic Product (GDP) growth of 3%. South Australian employment growth is estimated to be 2¾% for 2002-03. The Adelaide Consumer Price Index (CPI) is estimated to grow by 4¼% in 2002-03 (in comparison with the Commonwealth Treasury's 8 Capital Cities estimate of 3¼%). The major items contributing to the above national average increase in the Adelaide CPI have been electricity, petrol, food, and holiday travel and accommodation.

The national outlook is one of moderating but still solid economic growth. The Commonwealth Treasury's forecast for national GDP growth of 3¼% in 2003-04 is a slight improvement from the expected 3% growth in 2002-03, but is driven by an assumed recovery in farm output. Non-farm GDP growth is anticipated to slow from 4% in 2002-03 to 2¾% in 2003-04. GDP growth is projected to return to the longer-term average of 3½% for 2004-05 (and the out-years).

The Commonwealth expects business investment to exhibit further solid growth in 2003-04, acting as an offset to the national slowing in residential property construction. In addition, the Commonwealth's outlook for employment growth of 1¾% in 2003-04 (following estimated growth of 2½% in 2002-03), is ¼ of a percentage point above the longer-term average and is expected to result in resilience in household consumption expenditure — a major component of Domestic Final Demand. Nonetheless, it is not expected that the buoyant level of domestic demand experienced throughout 2002 will continue into 2003-04.

The outlook for exports is somewhat uncertain given the international situation. Assuming a breaking of the drought, farm exports will rebound significantly but the international growth outlook remains subject to a degree of uncertainty and may continue to act as an impediment to growth in non-farm exports. Although the 'war' in Iraq has concluded, the outlook for a peaceful and rapid solution to problems in the Middle East is unclear and international economic growth is not recovering at the rate expected at Budget time last year. Furthermore, expectations are that the full impact of the SARS virus is yet to be felt, with economic costs expected to be most severe in south-east Asia, a significant market for Australia's exports. The appreciation of the exchange rate has been a further constraint on export growth.

Table 8.1 shows estimates, forecasts and projections of economic growth for South Australia and nationally.

In 2003-04, South Australia's real GSP growth is expected to slow to 2½%, compared with the Commonwealth's forecast of 3¼% in national GDP. Given South Australia's relatively lower population growth, these figures suggest that per capita economic growth in South Australia is expected to be similar to Australia as a whole. Spending (SFD) growth in South Australia is forecast to slow significantly to 2% from an estimated 6% in 2002-03. In the following years, both GSP and SFD growth are projected to be 2¾% per annum.

The forecast for South Australian employment growth in 2003-04 is 1%, a significant slowing from 2002-03 as non-farm activity responds to slowing growth in consumer spending and housing construction, and still weak international markets. Projections for 2004-05 onwards are for continued employment growth of 1% per annum.

Table 8.1 Key economic indicators — Australia and South Australia real growth rates (% per annum)

	2001-02 Actual	2002-03 Estimate	2003-04 Forecast	2004-05 Projection	2005-06 Projection	2006-07 Projection
Australia^(a)						
GDP	4.0	3	3¼	3½	3½	3½
DFD	4.8	5¾	3	N/a	N/a	N/a
Employment	1.1	2½	1¾	1½	1½	1½
CPI	2.9	3¼	2¾	2½	2½	2½
Non-farm GDP deflator	2.0	3	2¼	2	2	2
South Australia^(b)						
GSP	3.7	3¼	2½	2¾	2¾	2¾
SFD	6.0	6	2	2¾	2¾	2¾
Employment	1.0	2¾	1	1	1	1
CPI	2.8	4¼	3	2½	2½	2½

(a) Commonwealth Treasury Budget Paper No1, 2003-04

(b) Forecasts and projections are based largely on underlying national economic and State population trends.

Source: South Australian Department of Treasury and Finance, the Commonwealth Budget.

THE INTERNATIONAL ECONOMY AND SOUTH AUSTRALIAN EXPORT PERFORMANCE

The International Monetary Fund (IMF) estimates that the world economy grew by 3.0% in real terms during 2002, slightly below long-term averages. There were some strong performances in Asia, with the newly industrialised economies collectively growing by 4.6% while the developing Asian economies collectively grew by 6.5%. The performance of most advanced economies, however, was disappointing, with growth rates well below potential. The United States economy grew by 2.4% during 2002 but lost momentum in the December quarter of 2002 with activity remaining flat in early 2003. Real GDP growth in the UK in 2002 was 1.6%, while the European Union (excluding the UK) recorded just 0.8% growth, with Germany particularly sluggish. Similarly, the Japanese economy was weak, growing by just 0.3% in the year.

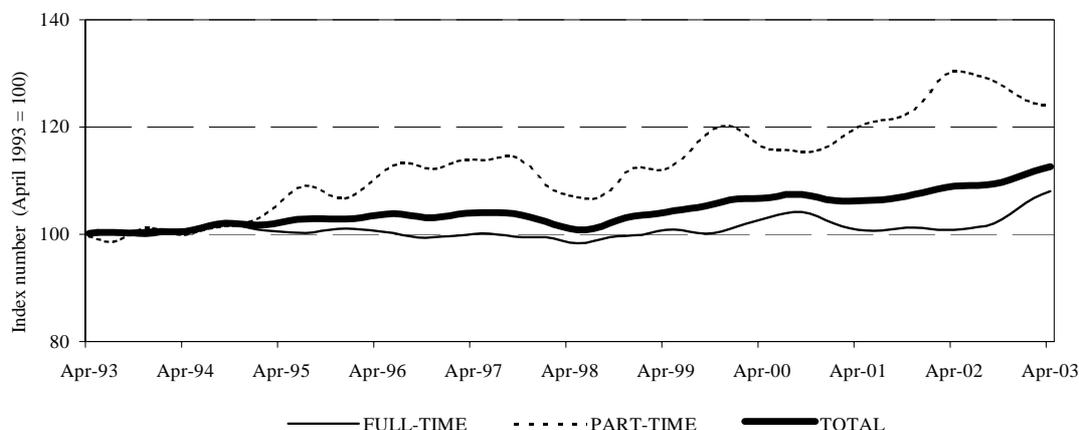
During 2002, the advanced economies have experienced widespread weakness in private consumer spending and capital formation. To some extent this was due to heightened geopolitical uncertainty and its impact on equity and commodities markets, consumer confidence, business conditions and employment. These factors, together with the more recent outbreak of the SARS virus, will continue to impact on the global economy in 2003.

In light of weak international markets, the strengthening of the Australian dollar and the drought, growth in South Australian overseas goods exports has weakened but nonetheless has demonstrated some resilience. Export volumes increased by 4.0% in 2002 and, in nominal value, increased 0.5% in the 12 months to February 2003. In contrast, exports declined for the nation as a whole: goods and services export volumes fell by 0.1% in 2002, while the nominal value of goods exports decreased by 3.1% in the 12 months to February 2003. The State's best export performers in the year to February were wine (nominal export values increased 23%), wool and sheepskins (up 25%), petroleum and petroleum products (up 19%), and motor vehicles and parts and accessories (up 6.4%). Wheat, a significant export commodity for the State fell by 16%, primarily as a result of the drought.

LABOUR MARKET TRENDS

Australian Bureau of Statistics (ABS) data suggest that total employment, in trend terms, was 3.4% (or 23 400 jobs) higher in April 2003 than at the same time a year earlier. All of the growth during this time occurred in full-time employment (an increase of 7.2% or 33 800 jobs), as part-time employment decreased by 4.7% (10 400 jobs). Similarly, the overall number of hours South Australians spent at work during March was, in original terms, 4.6% higher than at the same time a year earlier, equating to a rise in full-time equivalent employment of around 29 300 jobs.

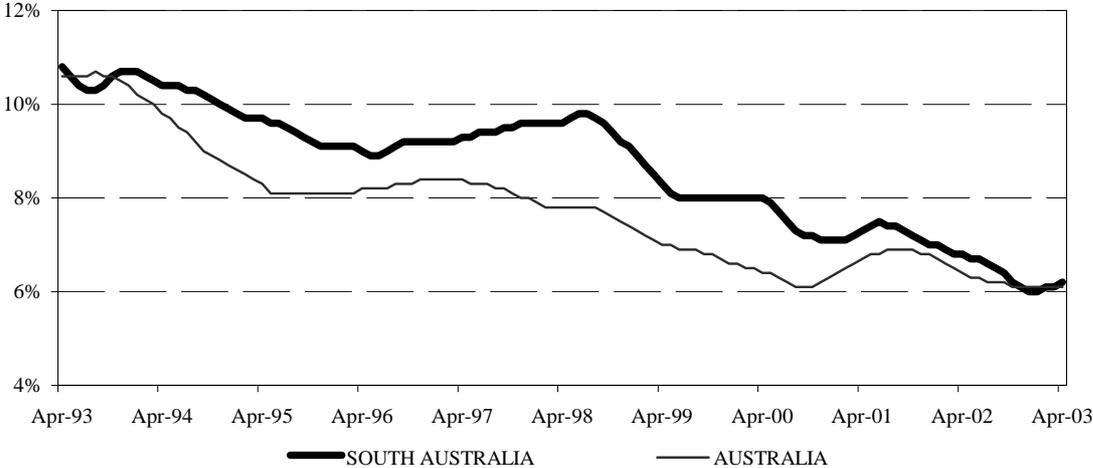
Figure 8.1 South Australian employment – trend (index numbers)



Source: ABS, Labour Force Australia, Catalogue No. 6202.0

The South Australian trend unemployment rate fell 0.6 of a percentage point to 6.2% during the 12 months to April 2003, to be only slightly above the national trend unemployment rate of 6.1%. The trend unemployment rate for South Australia had declined to 6.0% in December 2002 and January 2003 — its lowest for more than 25 years.

Figure 8.2 Unemployment rates for South Australia and Australia – trend

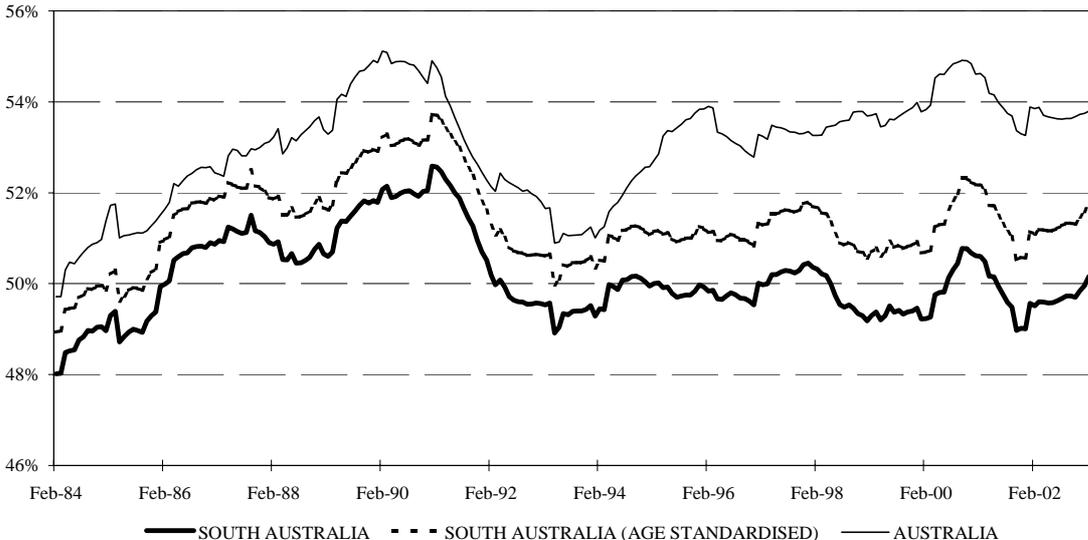


Source: ABS, Labour Force Australia, Catalogue No. 6202.0

The proportion of working age South Australians who are employed is lower than the national average. South Australia has traditionally, until recent months, had a higher unemployment rate than the national average, although the gap has converged significantly over the course of 2002.

Given that employment numbers may mask compositional issues in terms of total hours worked, Figure 8.3 shows a full-time equivalent (FTE) employed to working age population ratio to enable a truer comparison of employment participation.

Figure 8.3 Ratio of Full Time Equivalent Employment to Civilian Population Aged 15 and over – moving annual averages



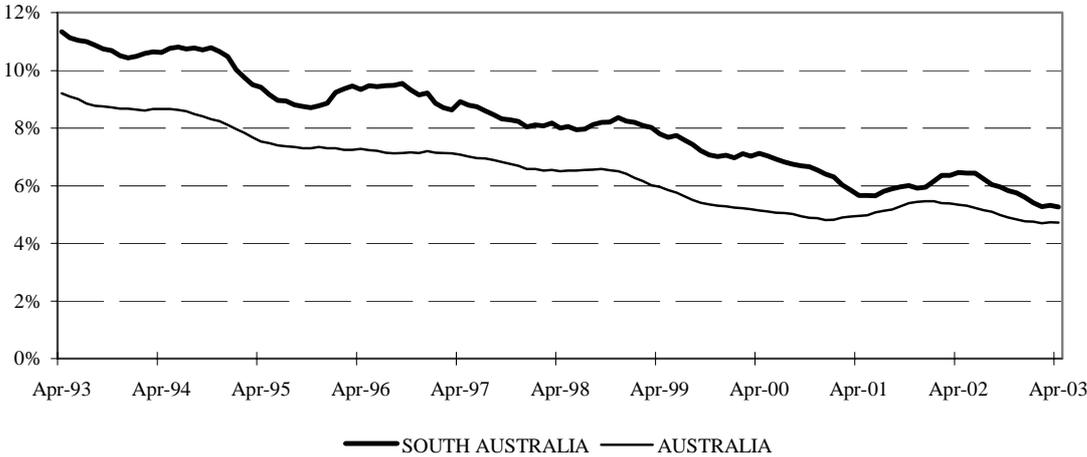
Source: ABS, Labour Force Australia, Catalogue No. 6202.0 & Treasury and Finance

This employment performance measure has barely increased since the recession of the early 1990s in South Australia. Standardising for South Australia’s relatively older age structure (ie imposing Australia’s age structure on South Australia’s employment ratio) reduces the difference between the national and the South Australian measure but there remains a difference in employment participation in South Australia relative to the national average which is not explained by demographic factors. South Australia’s longer-term employment performance has been weaker than for Australia for two decades, worsened over the nineties, but has shown a surge in performance in the last 12 months.

In the 12 months to March 2003, an average 14,000 South Australians were estimated to be long-term unemployed (ie unemployed for 12 months or more), a 13% decline from the previous 12 months. Nonetheless, the long-term unemployed remain 30% of total unemployed (compared to 24% nationally).

South Australia’s youth employment market has shown improvement, with the youth full-time unemployment rate averaging 24% in the year to April 2003 — 4.5 percentage points lower than it averaged in the previous 12 months. The youth full-time unemployment to population ratio, which provides a truer reflection of unemployment rates among the youth demographic, averaged 5.3% over this period, down 1.2 percentage points from the previous 12 months.

Figure 8.4 Ratio of youth full-time unemployment to youth population – moving annual average



Source: ABS, Labour Force Australia, Catalogue No. 6202.0

Through the year to the February quarter 2003, the bulk of South Australia’s employment gains were estimated to have occurred in the retail trade and transport and storage industries. In original terms, retail trade accounted for 45% of the total increase in South Australian employment, while transport and storage accounted for 34%. There was also significant employment growth in mining, finance and insurance, construction and communication services.

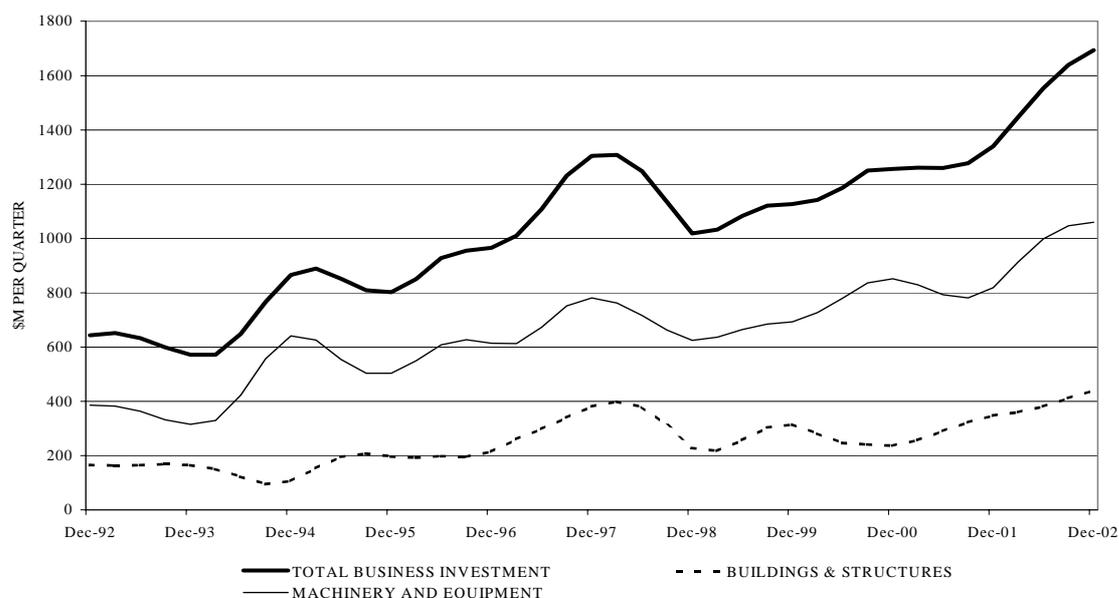
There are questions, however, about the veracity of recent Labour Force statistics. Following the 2001 census, the ABS has been ‘re-designing’ the composition of the Labour Force Survey sample and has indicated that the redesign has possibly overstated employment growth. The ABS is conducting further analyses on this issue and will publish the results once completed.

Given the signs of slowing consumer spending and a downturn in housing construction, it is unlikely that the current strong rate of job creation in South Australia will be sustained through 2003-04. The ANZ job advertisement series, a key labour demand forward indicator, started to trend slightly downwards in South Australia in March and April and the Department of Employment and Workplace Relations (DEWR) skilled vacancies index for South Australia has been trending downward since December 2002.

BUSINESS INVESTMENT

Business investment was a key driver of South Australian demand during calendar 2002, increasing in real terms by 24% and contributing 2.6 percentage points to growth in State Final Demand (SFD). Spending on building and structures rose 32%, machinery and equipment investment increased 26% and intangible fixed asset investment (such as computer software, entertainment/artistic output and mineral exploration) grew 1.5%. Investment in livestock increased by 1.6% during the year, with strong results in the first two quarters more than offsetting weak results in the last two quarters.

Figure 8.5 Real quarterly business investment in South Australia – trend



Source: ABS, Australian National Accounts, Catalogue No. 5206.0

Some of the major private sector projects under construction in South Australia during 2002-03 were:

- Holden's \$1 billion expansion of its Elizabeth car manufacturing facility
- the \$500 million SEA gas pipeline linking Victoria and South Australia
- NRG Flinders' \$150 million upgrade of the Port Augusta power station
- Tarong Energy's construction of a \$65 million wind farm at Cape Jervis
- Western Mining Corporation's \$200 million rebuilding of the solvent extraction plant with a further \$600 million to be spent on capital works over the period 2001-02 to 2003-04
- Beringer Blass Wine Estates' \$70 million expansion of the Wolf Blass winery
- Mitsubishi's \$300 million manufacturing facility upgrade and redesign
- Hines Group's \$52 million apartment block development at Hindmarsh Square
- Kimberly Clark's \$250 million investment in a new tissue machine and associated infrastructure at Millicent.

Forward-looking indicators suggest that investment prospects remain positive. Based on the ABS survey of business expectations, and assuming that the past 5 years average relationship between expected and eventual actual expenditures holds, capital expenditure in South Australia is anticipated to increase by 35% in 2002-03 and a further 21% in 2003-04.

Private sector construction activity indicators are also trending upwards. The nominal value of private non-residential buildings approved in the 12 months to March was 5.8% higher than a year earlier. At the end of the December quarter, the nominal value of private non-residential construction work yet to be done was 21% higher than a year earlier, while engineering work yet to be done was 235% higher.

Furthermore, in the March quarter issue of *Investment Monitor*, Access Economics reported an increase in the value of projects under construction of \$2 056 million — a 57% rise from the December quarter and 58% higher than a year earlier.

COSTS AND PRICES

Through the year to the March quarter 2003, the Adelaide Consumer Price Index (CPI) increased by 5.0%. In the same period, the national increase in the CPI was 3.4%. The major items contributing to the above national average increase in the Adelaide CPI were electricity, petrol, food, and holiday travel and accommodation.

During 2002-03 the Reserve Bank of Australia has adopted a neutral stance on interest rate policy, leaving the official interest rate unchanged from its June 2002 rate of 4.75%. The RBA points towards global economic weakness, slowing in the domestic economy, the drought and geopolitical tensions as reasons for holding interest rates steady.

Wages growth in South Australia was moderate during 2001-02, with the Wage Cost Index (which measures changes in wages and salary costs without being affected by quantity, quality or compositional changes) showing an increase of 3.3%. Wages growth has strengthened moderately in the first three quarters of 2002-03, with growth through the year to the March quarter of 3.7%.

REGULATED PRIVATE UTILITY PRICES

Current price and service regulation in the electricity sector

Following privatisation, the electricity industry in South Australia is regulated under the *Electricity Act 1996* and the *Essential Services Commission Act 2002*.

The Essential Services Commission of South Australia (ESCOSA) was recently directed to undertake a review of AGLs proposed price increase to determine whether the prices can be justified as reasonable, having regard to the contributing factors and the overall objectives of the Commission.

ESCOSA has confirmed that AGL's price structure is justified. The ESCOSA's Price Inquiry final report indicated that South Australia's higher prices are primarily driven by higher network charges, which were locked in by the pricing arrangements under the Electricity Pricing Order issued by the former Government, which cannot be amended by the ESCOSA.

The largest component of an electricity bill relates to distribution charges. The current allowable return on the approved asset base for ETSA Utilities (distribution network) is 8.26% (real pre-tax).

TRANSMISSION REVENUE CAP DECISION

The Australian Competition and Consumer Commission (ACCC) commenced regulation of the transmission network in South Australia, operated by ElectraNet SA, on 1 January 2003. The current allowable return on investment for ElectraNet SA is 7.17% (real pre-tax).

The ACCC estimates that the revenue cap decision will result in a real price reduction of approximately 4% from now to the end of the regulatory period (in July 2008).

GAS PRICES

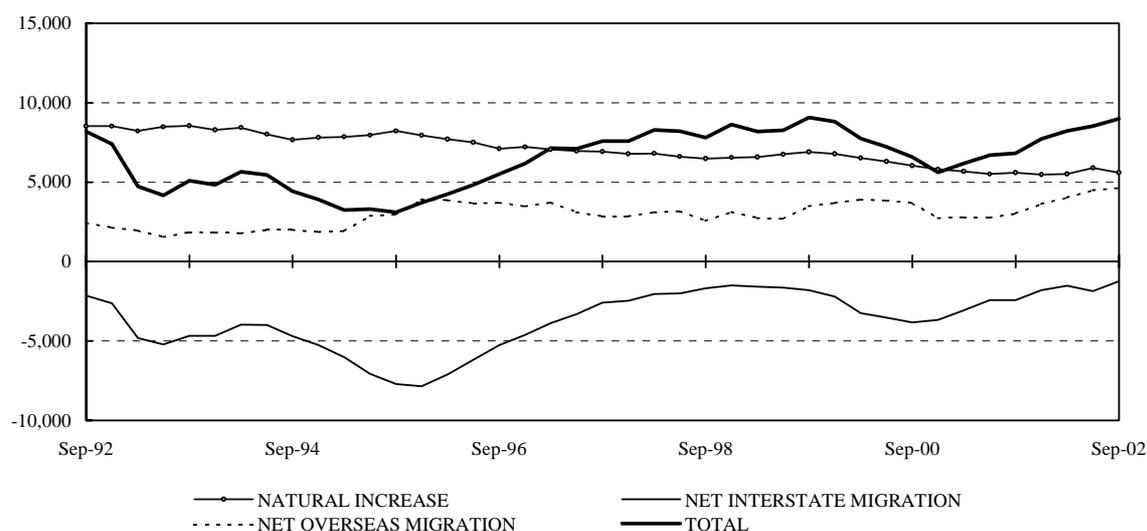
South Australia is progressing towards full retail competition in the gas markets during 2004, following retail competition for electricity from 1 January 2003. As it is expected there will be convergence between the retail gas and electricity markets, (with retailers undertaking joint marketing and sales of both) the South Australian Government has tabled legislation, the *Statutes (Gas and Electricity) Amendment Bill 2003* that transfers the licensing functions associated with regulating the gas industry to the ESCOSA.

POPULATION

The Australian Bureau of Statistics (ABS) has revised its estimates of South Australia's resident population to incorporate the results of the 2001 census. The final census results revealed an underestimation of South Australian population growth between 1996 and 2001 of around 9000 persons. This was largely due to a greater net overseas migration inflow and a smaller net interstate migration outflow than initially estimated.

Recent estimates suggest that through the year to September 2002 South Australia's resident population grew by an estimated 0.6% (or 9000 persons). This is up from the 0.5% increase in the previous 12 months, but still well below the national increase of 1.3%. Natural increase was the largest contributor to population growth in South Australia during this period, but remained virtually unchanged from the year to September 2001. In contrast, South Australia's net migration inflow was substantially higher in the year to September 2002 than in the 12 months prior: the net inflow of people from overseas rose 54%, while the net interstate outflow of people was 49% lower.

Figure 8.6 Sources of South Australian population growth (Moving Annual Totals)



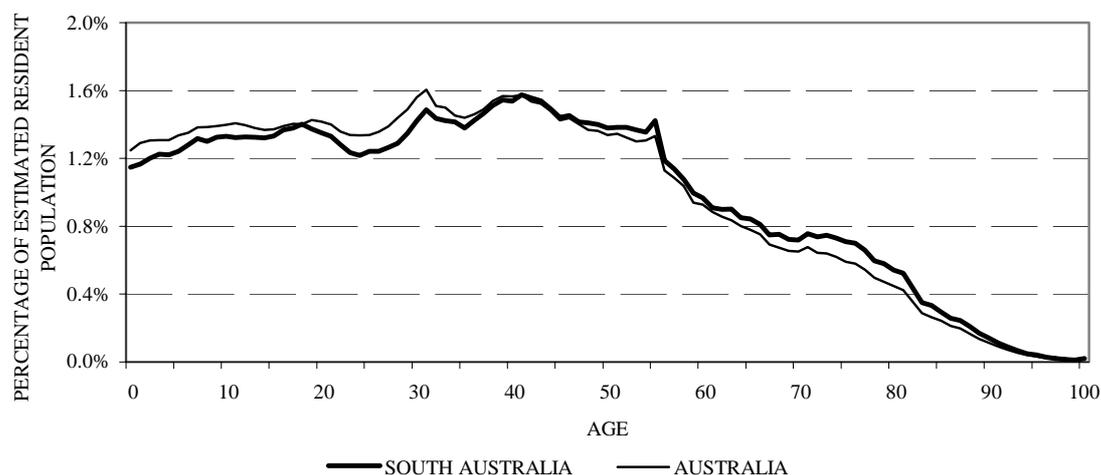
Source: ABS, Australian Demographic Statistics, Catalogue No. 3101.0

Table 8.2 Percentage point contributions to population growth – year to September 2002

	NSW	VIC	QLD	SA	WA	TAS	AUS
Natural increase	0.57	0.54	0.66	0.37	0.68	0.53	0.59
Total migration	0.39	0.85	1.61	0.22	0.72	-0.16	0.71
Overseas migration	0.80	0.75	0.70	0.31	0.94	0.11	0.71
Interstate migration	-0.41	0.10	0.91	-0.08	-0.23	-0.26	0.00
Total increase	0.95	1.39	2.27	0.59	1.40	0.37	1.29

Source: ABS, Australian Demographic Statistics, Catalogue no. 3101.0

South Australia currently has an older population structure than for Australia as a whole. At June 2002 the average age of South Australia's resident population was 38.0 years, the highest average age among the States. Australia-wide, the average age of the population was 36.5 years. People aged between 19 and 65 years accounted for 61.6% of South Australia's population, above only Tasmania with 60.4%, and below the national figure of 62.3%.

Figure 8.7 Population age structure as at June 2002

Source: ABS, Australian Demographic Statistics, Catalogue No. 3201.0

Based on long-term trends, the Department of Treasury and Finance is forecasting growth in South Australia's population of 0.55% during 2002, with just over 0.5% growth in 2003.

Table 8.3 Forecast population growth rates, South Australia and Australia – year ended December

	2002	2003	2004	2005	2006
South Australia ^a	0.55%	0.51%	0.48%	0.45%	0.43%
Australia ^b	1.31%	1.23%	1.15%	1.07%	0.99%

Source: (a) South Australian Department of Treasury & Finance.

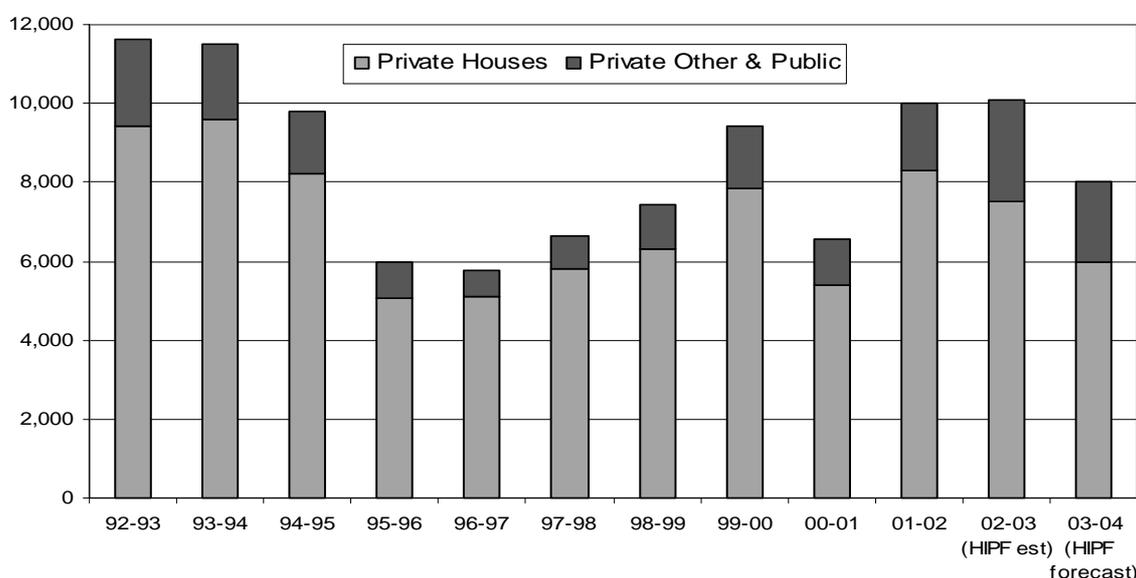
Source: (b) Supplementary estimates advice provided by the Commonwealth Treasury at the time of the Commonwealth Budget

HOUSING SECTOR

Housing construction has remained an important contributor to economic activity during the past year. Private housing investment contributed 10% of the growth in State Final Demand through the year to December quarter 2002. However, there are signs that housing construction levels have peaked and are likely to experience a downturn through 2003-04.

Figure 8.8 shows annual new dwelling commencements in South Australia. Activity has remained at high levels in 2002-03 — the Housing Industry Prospects Forum (HIPF) anticipates 10 100 dwelling commencements, a marginal increase from 2001-02 and historically a very high level of construction supported by strong growth in medium density units. The total number of private sector ‘other residential’ dwelling approvals (such as apartments and units) in South Australia in the 12 months to February 2003 was 77% higher than a year earlier. Strong investor activity at a national level is also highlighted by finance data, which shows that over the year to February 2003 the value of national lending commitments to housing investors increased by 40%, whilst new housing loans to owner-occupiers decreased by 5.4%.

Figure 8.8 Annual New Dwelling Commencements – South Australia



Source: ABS, New Dwelling Commencements, Catalogue no. 8750.0 and Housing Industry Prospect Forum forecasts

High demand for real estate by both owner-occupiers and investors has resulted in significant price increases over the year. According to the Housing Industry Association/Commonwealth Bank of Australia Housing Report, median established house prices increased 11% in Adelaide through the year to the March quarter 2002, to \$237 000.

It is anticipated however that there will be a significant downturn in building activity over the coming 12 months. Total building approvals fell 8.5% in trend terms in South Australia during the 12 months to March 2003. The HIPF is forecasting that total dwelling commencements will fall by 21% to 8000 in 2003-04, with private house commencements forecast to decline by 20% to 6000.

REGIONAL ECONOMIC CONDITIONS

POPULATION AND EMPLOYMENT

Table 8.4 shows regional population data sourced from the 1996 and 2001 ABS Population and Housing Censuses, and regional labour force data from the Commonwealth Department of Employment and Workplace Relations.

Table 8.4 Regional population and labour force data

	Adelaide	Outer Adelaide	Yorke & Lower North	Murray-lands	South East	Eyre	Northern	South Australia
Total Persons — 2001 Census ¹	1 072 585	109 696	42 688	67 159	60 260	33 137	80 972	1 467 261
Rate of population change between 1996 & 2001 Census (%)	2.6	10.5	2.1	2.6	1.2	4.0	-3.1	2.8
Unemployment Rate (%) ²								
1995-96	10.1	6.6	8.3	8.1	5.7	7.8	10.1	9.4
2000-01	7.8	5.2	6.9	6.7	4.6	8.2	9.2	7.5
Year to December quarter 2002	6.7	4.7	6.3	6.8	4.6	7.0	9.4	6.6
Total Employment ²								
1995-96	479 620	46 352	17 948	30 615	29 615	14 836	38 387	657 373
2000-01	497 299	51 908	15 104	33 872	33 491	12 791	31 716	676 179
Year to December quarter 2002	514 077	49 945	17 070	31 590	31 393	14 619	34 190	692 883

1 Source: ABS 2001 Census of Population and Housing.

2 Moving annual averages, sourced from Department of Employment & Workplace Relations, Small Labour Markets.

Between the 1996 and 2001 censuses South Australia's population grew by nearly 2.8%, an annualised growth rate of 0.5%. Outer Adelaide, which incorporates the Mount Lofty Ranges, Kangaroo Island, Fleurieu Peninsula and the Barossa, had by the far the highest growth rate over the period of 10.5% — an annualised growth rate of 2.0%. The Northern region, which includes Whyalla, Pirie, Flinders Ranges and Far North Statistical Subdivisions, was the only region to record population decline over the period.

South Australia's unemployment rate had fallen significantly since the mid 1990s (down from 9.4% in 1995-96 to 6.6% in the year to the December quarter 2002), with the greatest falls experienced in Adelaide, Yorke and Lower North and Outer Adelaide. The unemployment rate in the Northern region remains the highest in the State at 9.4%. Total employment in South Australia had risen by 5.4% since 1996, with the highest growth rates experienced in Outer Adelaide (7.8%), Adelaide (7.2%), and South East (6.0%) — over 80% of the State's total employment (and population) is concentrated in these three regions. The regions that experienced falls in total employment since 1995-96 were Eyre (down 1.5%), Yorke and Lower North (down 4.9%) and Northern (down 11%).

Table 8.5 Selected Regional Agricultural Output - \$ millions

	Field crops		Livestock and dairy		Horticulture (including wine)		Seafood		Petroleum & mining		Total	
	00-01	01-02	00-01	01-02	00-01	01-02	00-01	01-02	00-01	01-02	00-01	01-02
Adelaide	3.3	2.9	65.7	72.7	152.9	142.4	—	0.2	80.0	12.0	302	230
Outer Adelaide	55.1	75.5	162.1	210.5	304.9	279.6	17.3	18.2	29.6	14	569	598
Yorke & Lower North	660.1	764.7	201.2	179.4	35.0	35.0	30.8	27.6	14.9	20.8	942	1 028
Murray Lands	178.3	188.8	225	296.7	501.8	568.9	3.0	0.7	3.4	0.7	911	1 056
South East	110.7	178.4	340.1	439.4	253.1	155.2	63.3	66.1	23.7	21.0	791	860
Eyre	379.3	501.8	80.7	111.9	1.6	1.7	314.7	311.7	32.3	5.0	807	932
Northern	—	176.8	82.3	217.2	—	—	—	—	1 974.7	1 985	2 057	2 379
All Regions^(a)	1 330	1 889	1 170	1 528	1 250	1 183	450	425	2 140	2 058	6 340	7 083

(a) Totals may not add due to rounding

Source: Primary Industries and Resources, South Australia (PIRSA) Regional Score Cards

The value of agricultural production increased in 2001-02, buoyed by favourable exchange rates and good crop yields. (Data for 2002-03 is not yet available but will show a significant decline as a result of the drought). The value of primary production, including petroleum and mineral products, in South Australia totalled \$7.08 billion, up 12% from the value in 2000-01. Field crops and livestock rose by 42% and 31% respectively in 2001-02, whilst production in all other commodity types fell slightly. All regions except for Adelaide showed production increases in the year, with the Murray Lands, Eyre and Northern regions having the highest growth of around 16%.

The region contributing most to the State's total value of production is the Northern region, where mining activities added almost \$2 billion to the State's total value of primary industry production. The Eyre and Yorke regions contributed over half of the State's value of field crop production of almost \$1.9 billion, whilst the Murray Lands and the South East contributed almost half of the State's total livestock and dairy production. The horticulture industry, which includes wine production, is heavily represented in the Murray Lands, Outer Adelaide, South East and Adelaide, whilst seafood production is mainly concentrated in the Eyre region, with a strong presence in the tuna industry as well as other growing aquaculture industries.

UNIFORM PRESENTATION FRAMEWORK

INTRODUCTION

The presentation of Government of South Australia financial information must serve the needs of many users, including the Parliament, the Government, individual government agencies, external analysts and commentators, and the general public.

No single budget presentation can serve all these needs. A variety of different budget presentations, based on the same body of budget data, is therefore necessary.

The three main types of reporting requirements for public sector entities, and governments as a whole, are:

- general purpose financial reports
- modified Government Financial Statistics (GFS)-based cash reporting
- uniform presentation framework reporting.

Each reporting type plays an important role in ensuring the accountability of the Government and its agencies to the Parliament and the public of South Australia, and in providing information to other users of government financial information. The following discussion provides an overview of each reporting type, including the coverage of public sector entities. This is followed by an analysis of the differences in the treatment of certain transactions between the three types of reporting.

GENERAL PURPOSE FINANCIAL REPORTS

Consolidated general purpose financial reports are produced annually on an accrual accounting basis. Reporting frameworks for individual agencies are based on Australian Accounting Standards, and in particular AAS29 *Financial Reporting by Government Departments*, while whole of government financial reporting is subject to AAS31 *Financial Reporting by Government*.

SCOPE

Budget reporting

The Portfolio Statements present budget information for each portfolio on an accrual basis, in accordance with these standards.

Reporting of actuals

To meet reporting requirements of AAS31, actual results for the preceding financial year are presented for the whole of government in the *Consolidated Financial Statements* publication, comprising all public sector entities that are controlled by the Government of South Australia.

MODIFIED GFS–BASED CASH REPORTING

From 1994-95 to 2001-02, the fiscal measure adopted by the Government was the non commercial sector result, based on GFS principles as defined by the Australian Bureau of Statistics (ABS) at that time.

From the 2002-03 Budget, the Government is committed to presenting and balancing the budget based on accrual fiscal targets.

SCOPE

Budget reporting

The 2003-04 Budget outlook and forward estimates for the non commercial sector result are presented in Appendix B of the 2003-04 Budget Statement.

Reporting of actuals

Actual outcomes are presented on the modified GFS cash basis in the *Budget Results* document for the non commercial sector. This document is released in September/October each year.

MODIFIED GFS

Under GFS cash-based reporting, net advances are included below the line as a financing transaction and thus excluded from the deficit figure. The South Australian underlying non commercial sector result measure includes net advances, but excludes asset sales and items considered abnormal, for example targeted voluntary separation payments.

UNIFORM PRESENTATION FRAMEWORK

By agreement between the Commonwealth and the states and territories, each jurisdiction presents financial information on a Uniform Presentation Framework (UPF) basis with their budget papers, as well as a mid-year update for Loan Council purposes. The ABS also publishes annual government financial information for all Australian government jurisdictions on this basis each year. This document presents South Australian budget information on a uniform presentation framework basis, reflecting the scope and presentation 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 more meaningful comparisons of each government’s budget papers and financial results.

The UPF is based on the reporting standards of the ABS GFS framework. ABS format 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 UPF was revised in April 2000 to adopt accrual reporting consistent with changes at the international level and is now presented within the three primary statements: operating statement, balance sheet and cash flow statement.

The draft 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. This treatment has not been adopted 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 (fiscal balance), cash surplus, net debt, net worth, change in net worth, and net financial worth.

GFS NET OPERATING BALANCE

The GFS net operating balance, or operating result, is the excess of GFS revenue over GFS expenses. 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).

The net operating balance is a flow measure on the operating statement.

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 (ie depreciation).

Net lending is the accrual counterpart of the deficit in the cash GFS framework. 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) removes distributions paid. And the fourth component removes the initial increase in liability accruing at the beginning of finance leases and similar arrangements.

NET DEBT

The concept of net debt is the same under cash and accrual-based financial reporting. 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, minus shares and other contributed capital. Net worth incorporates a government's non-financial assets, such as land and other fixed assets which may be sold and used to repay debt, as well as certain financial assets and liabilities not captured by the net debt measure, most notably accrued employee superannuation liabilities, debtors and creditors.

The net worth measure can be obtained from the balance sheet.

Change in net worth

Change in net worth measures the variation in a government's accumulated assets and liabilities, 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.

Scope

The UPF groups 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 entities engaged in providing services free of charge or at prices significantly below their cost of production.

Public non-financial corporations are entities mainly engaged in the production of goods and services for sale in the marketplace at prices that aim to recover most of the costs involved. It includes some trading enterprises, including the Passenger Transport Board and SA Housing Trust, classified as non commercial in the South Australian Budget Papers.

Public financial corporations are entities primarily engaged in providing financial intermediation services and are able to incur financial liabilities on their own account.

Budget reporting

Under the new 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 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.14 in this appendix.

Reporting of actuals

Outcomes are presented in the *Budget Results* document released in September/October each year. In addition to the tables presented at budget time, actual reporting also contains the accrual financial statements for the public financial corporations sector.

A.6 UNIFORM PRESENTATION FRAMEWORK TABLES

Table A.1 General Government Sector Operating Statement

	2002-03 Estimated Result \$m	2003-04 Budget \$m	2004-05 Estimate \$m	2005-06 Estimate \$m	2006-07 Estimate \$m
GFS revenue (a)					
Taxation revenue	2 373	2 463	2 559	2 609	2 713
Current grants and subsidies	4 602	4 729	4 802	5 015	5 201
Capital grants	173	166	158	142	134
Sales of goods and services	930	952	981	1 008	1 019
Interest income	127	123	129	141	159
Other	947	729	717	665	619
Total revenue	9 151	9 161	9 347	9 579	9 845
<i>less</i>					
GFS expenses (b)					
Gross operating expenses (c)	6 710	6 978	7 041	7 184	7 291
Nominal superannuation interest expense	299	337	345	352	360
Other interest expenses	273	249	255	262	269
Other property expenses (c)	—	—	—	—	—
Current transfers (c)	1 479	1 516	1 581	1 651	1 629
Capital transfers (c)	61	23	17	10	10
Total expenses	8 823	9 103	9 239	9 459	9 558
<i>equals</i>					
GFS net operating balance	329	58	108	120	288
<i>less</i>					
Net acquisition of non-financial assets					
Gross fixed capital formation	420	486	444	434	580
less Depreciation	406	410	413	424	425
plus Change in inventories	2	2	—	—	—
plus Other movements in non-financial assets	—	—	—	—	—
<i>equals</i> Total net acquisition of non-financial assets	17	78	31	11	155
<i>equals</i>					
GFS net lending / borrowing (d)	312	-20	77	109	133

(a) GFS revenue is not equal to AAS31 revenue. GFS revenue includes all (mutually agreed) transactions that increase net worth. Revaluations are not considered mutually agreed transactions, and so are excluded from GFS revenue.

(b) GFS expenses are not equal to AAS31 expenses. AAS31 expenses include all transactions that decrease net worth, whereas GFS expenses exclude revaluations and other transactions not mutually agreed.

(c) These line items are disaggregated further in ABS GFS reporting.

(d) GFS net lending also equals net transactions in financial assets less net transactions in liabilities.

Table A.2 Public Non-financial Corporation (Trading Enterprises) Sector Operating Statement

	2002-03 Estimated Result \$m	2003-04 Budget \$m
GFS revenue (a)		
Taxation revenue	—	—
Current grants and subsidies	445	475
Capital grants	—	—
Sales of goods and services	1 351	1 307
Interest income	14	16
Other	85	87
Total revenue	1 895	1 884
<i>less</i>		
GFS expenses (b)		
Gross operating expenses (c)	1 471	1 425
Nominal superannuation interest expense	—	—
Other interest expenses	142	142
Other property expenses (c)	313	346
Current transfers (c)	15	13
Capital transfers (c)	6	6
Total expenses	1 948	1 931
<i>equals</i>		
GFS net operating balance	-54	-47
<i>less</i>		
Net acquisition of non-financial assets		
Gross fixed capital formation	248	263
less Depreciation	197	204
plus Change in inventories	—	—
plus Other movements in non-financial assets	—	—
equals Total net acquisition of non-financial assets	51	59
<i>equals</i>		
GFS net lending / borrowing (d)	-105	-106

(a) GFS revenue is not equal to AAS31 revenue. GFS revenue includes all (mutually agreed) transactions that increase net worth. Revaluations are not considered mutually agreed transactions, and so are excluded from GFS revenue.

(b) GFS expenses are not equal to AAS31 expenses. AAS31 expenses include all transactions that decrease net worth, whereas GFS expenses exclude revaluations and other transactions not mutually agreed.

(c) These line items are disaggregated further in ABS GFS reporting.

(d) GFS net lending also equals net transactions in financial assets less net transactions in liabilities.

Table A.3 Non-financial Public Sector Operating Statement

	2002-03 Estimated Result \$m	2003-04 Budget \$m
GFS revenue (a)		
Taxation revenue	2 211	2 287
Current grants and subsidies	4 602	4 729
Capital grants	173	166
Sales of goods and services	2 144	2 108
Interest income	90	89
Other	715	465
Total revenue	9 935	9 845
<i>less</i>		
GFS expenses (b)		
Gross operating expenses (c)	7 876	8 069
Nominal superannuation interest expense	299	337
Other interest expenses	365	342
Other property expenses (c)	3	5
Current transfers (c)	1 049	1 053
Capital transfers (c)	67	29
Total expenses	9 660	9 834
<i>equals</i>		
GFS net operating balance	275	11
<i>less</i>		
Net acquisition of non-financial assets		
Gross fixed capital formation	668	749
less Depreciation	603	614
plus Change in inventories	2	2
plus Other movements in non-financial assets	—	—
<i>equals</i> Total net acquisition of non-financial assets	67	137
<i>equals</i>		
GFS net lending / borrowing (d)	207	-126

(a) GFS revenue is not equal to AAS31 revenue. GFS revenue includes all (mutually agreed) transactions that increase net worth. Revaluations are not considered mutually agreed transactions, and so are excluded from GFS revenue.

(b) GFS expenses are not equal to AAS31 expenses. AAS31 expenses include all transactions that decrease net worth, whereas GFS expenses exclude revaluations and other transactions not mutually agreed.

(c) These line items are disaggregated further in ABS GFS reporting.

(d) GFS net lending also equals net transactions in financial assets less net transactions in liabilities.

Table A.4 General Government Sector Balance Sheet

	2002-03 Estimated Result \$m	2003-04 Budget \$m	2004-05 Estimate \$m	2005-06 Estimate \$m	2006-07 Estimate \$m
Assets					
Financial assets					
Cash and deposits	2 153	2 199	2 352	2 501	2 833
Advances paid	1 162	1 133	1 095	1 049	1 016
Investments, loans and placements	172	178	198	216	233
Other non-equity assets	296	301	302	302	309
Equity	10 193	10 227	10 334	10 531	10 767
Total financial assets	13 976	14 039	14 281	14 599	15 158
Non-financial assets					
Land and fixed assets	11 076	11 142	11 170	11 218	11 408
Other non-financial assets	122	123	124	126	126
Total non-financial assets	11 197	11 265	11 294	11 344	11 535
Total assets	25 173	25 303	25 575	25 943	26 693
Liabilities					
Deposits held	446	386	419	429	462
Advances received	777	764	751	737	724
Borrowing	3 029	3 080	3 080	3 009	3 128
Superannuation liability (a)	4 506	4 611	4 707	4 804	4 897
Other employee entitlements and provisions	1 175	1 223	1 204	1 229	1 247
Other non-equity liabilities	951	912	908	906	897
Total liabilities	10 885	10 976	11 069	11 114	11 355
Net worth	14 288	14 328	14 505	14 829	15 338
Net financial worth (b)	3 090	3 063	3 212	3 485	3 803
Net debt (c)	766	719	604	409	232

(a) This line item includes unfunded superannuation.

(b) Net financial worth equals total financial assets minus total liabilities.

(c) 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.

Table A.5 Public Non-financial Corporation (Trading Enterprises) Sector Balance Sheet

	2002-03 Estimated Result \$m	2003-04 Budget \$m
Assets		
Financial assets		
Cash and deposits	248	184
Advances paid	27	32
Investments, loans and placements	13	16
Other non-equity assets	173	173
Equity	31	33
Total financial assets	492	438
Non-financial assets		
Land and fixed assets	12 041	12 198
Other non-financial assets	40	40
Total non-financial assets	12 081	12 238
Total assets	12 573	12 676
Liabilities		
Deposits held	9	9
Advances received	988	956
Borrowing	1 348	1 454
Superannuation liability (a)	1	2
Other employee entitlements and provisions	68	70
Other non-equity liabilities	341	351
Total liabilities	2 756	2 842
Net worth	9 817	9 834
Net financial worth (b)	-2 264	-2 404
Net debt (c)	2 058	2 186

(a) This line item includes unfunded superannuation.

(b) Net financial worth equals total financial assets minus total liabilities.

(c) 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.

Table A.6 Non-financial Public Sector Balance Sheet

	2002-03 Estimated Result \$m	2003-04 Budget \$m
Assets		
Financial assets		
Cash and deposits	2 239	2 283
Advances paid	201	210
Investments, loans and placements	185	194
Other non-equity assets	305	302
Equity	406	426
Total financial assets	3 336	3 413
Non-financial assets		
Land and fixed assets	23 117	23 340
Other non-financial assets	60	60
Total non-financial assets	23 177	23 400
Total assets	26 514	26 813
Liabilities		
Deposits held	294	294
Advances received	777	764
Borrowing	4 378	4 534
Superannuation liability (a)	4 506	4 611
Other employee entitlements and provisions	1 243	1 291
Other non-equity liabilities	1 028	992
Total liabilities	12 226	12 485
Net worth	14 288	14 328
Net financial worth (b)	-8 890	-9 072
Net debt (c)	2 824	2 905

(a) This line item includes unfunded superannuation.

(b) Net financial worth equals total financial assets minus total liabilities.

(c) 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.

Table A.7 General Government Sector Cash Flow Statement

	2002-03 Estimated Result \$m	2003-04 Budget \$m	2004-05 Estimate \$m	2005-06 Estimate \$m	2006-07 Estimate \$m
Cash receipts from operating activities					
Taxes received	2 373	2 463	2 559	2 609	2 713
Receipts from sales of goods and services	944	965	988	1 014	1 025
Grants/subsidies received	4 832	4 839	4 961	5 157	5 334
Other receipts	1 037	821	816	778	751
Total receipts	9 185	9 089	9 324	9 558	9 822
Cash payments for operating activities					
Payment for goods and services	-6 578	-6 893	-7 085	-7 205	-7 334
Grants and subsidies paid	-1 399	-1 366	-1 394	-1 424	-1 401
Interest paid	-268	-239	-244	-252	-259
Other payments	-27	-25	-26	-26	-26
Total payments	-8 271	-8 522	-8 749	-8 907	-9 021
Net cash flows from operating activities	915	566	574	651	802
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	34	49	27	23	18
Purchases of non-financial assets (a)	-440	-532	-468	-455	-595
Net cash flows from investments in non-financial assets	-406	-484	-442	-432	-577
Net cash flows from investments in financial assets for policy purposes (b)	64	24	38	48	9
Net cash flows from investments in financial assets for liquidity purposes	-15	-8	-15	-12	-10
Net cash flows from financing activities					
Advances received (net)	-13	-13	-13	-13	-13
Borrowing (net)	-354	26	-27	-109	81
Deposits received (net)	-51	-60	33	10	33
Dividends paid	—	—	—	—	—
Other financing (net)	-9	-9	—	—	—
Net cash flows from financing activities	-427	-57	-8	-113	101
Net increase / decrease in cash held	130	42	148	143	326
Net cash from operating activities and investments in non-financial assets	509	83	133	219	224
Distributions paid	—	—	—	—	—
Finance leases and similar arrangements (c)	—	—	—	—	—
Surplus / deficit	509	83	133	219	224

(a) The ABS disaggregates this item into new and secondhand 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.

Table A.8 Public Non-financial Corporation (Trading Enterprises) Sector Cash Flow Statement

	2002-03 Estimated Result \$m	2003-04 Budget \$m
Cash receipts from operating activities		
Taxes received	—	—
Receipts from sales of goods and services	1 371	1 329
Grants/subsidies received	456	475
Other receipts	40	49
Total receipts	1 866	1 853
Cash payments for operating activities		
Payment for goods and services	-1 075	-1 028
Grants and subsidies paid	-27	-28
Interest paid	-160	-146
Other payments	-176	-186
Total payments	-1 438	-1 388
Net cash flows from operating activities	428	465
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	82	111
Purchases of non-financial assets (a)	-313	-356
Net cash flows from investments in non-financial assets	-231	-245
Net cash flows from investments in financial assets for policy purposes (b)	-1	1
Net cash flows from investments in financial assets for liquidity purposes	4	-4
Net cash flows from financing activities		
Advances received (net)	-57	-32
Borrowing (net)	75	84
Deposits received (net)	—	—
Dividends paid	-300	-332
Other financing (net)	—	—
Net cash flows from financing activities	-282	-279
Net increase / decrease in cash held	-82	-63
Net cash from operating activities and investments in non-financial assets		
Distributions paid	197	220
Finance leases and similar arrangements (c)	300	332
Surplus / deficit	—	—
	-103	-112

(a) The ABS disaggregates this item into new and secondhand 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.

Table A.9 Non-financial Public Sector Cash Flow Statement

	2002-03 Estimated Result \$m	2003-04 Budget \$m
Cash receipts from operating activities		
Taxes received	2 211	2 287
Receipts from sales of goods and services	2 187	2 147
Grants/subsidies received	4 832	4 841
Other receipts	716	478
Total receipts	9 945	9 753
Cash payments for operating activities		
Payment for goods and services	-7 446	-7 691
Grants and subsidies paid	-971	-920
Interest paid	-377	-336
Other payments	-110	-106
Total payments	-8 903	-9 053
Net cash flows from operating activities	1 042	700
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	116	160
Purchases of non-financial assets (a)	-753	-889
Net cash flows from investments in non-financial assets	-637	-729
Net cash flows from investments in financial assets for policy purposes (b)	6	-7
Net cash flows from investments in financial assets for liquidity purposes	-11	-12
Net cash flows from financing activities		
Advances received (net)	-13	-13
Borrowing (net)	-279	111
Deposits received (net)	7	—
Dividends paid	—	—
Other financing (net)	-9	-9
Net cash flows from financing activities	-294	88
Net increase / decrease in cash held	106	39
Net cash from operating activities and investments in non-financial assets		
Distributions paid	—	—
Finance leases and similar arrangements (c)	—	—
Surplus / deficit	405	-29

(a) The ABS disaggregates this item into new and secondhand 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 Expenses by Function

	2002-03 Estimated Result \$m	2003-04 Budget \$m
General public services	591	650
Defence	—	—
Public order and safety	836	875
Education	2 105	2 209
Health	2 130	2 196
Social security and welfare	395	387
Housing and community amenities	673	706
Recreation and culture	235	227
Fuel and energy	29	29
Agriculture, forestry, fishing and hunting	115	141
Mining, manufacturing and construction	106	99
Transport and communications	576	591
Other economic affairs	277	245
Other purposes	754	748
Total GFS expenses	8 823	9 103

Table A.11 General Government Sector Taxes

	2002-03 Estimated Result \$m	2003-04 Budget \$m
Taxes on employers' payroll and labour force	645	678
Taxes on property		
Land taxes	159	187
Stamp duties on financial and capital transactions	481	424
Financial institutions' transaction taxes	61	60
Other (a)	95	113
Total	795	784
Taxes on the provision of goods and services		
Excises and levies	4	5
Taxes on gambling	335	372
Taxes on insurance	253	271
Total	592	647
Taxes on use of goods and performance of activities		
Motor vehicle taxes	340	354
Total	340	354
Total GFS taxation revenue	2 373	2 463

(a) Excludes taxes paid by general government units.

APPENDIX A

Table A.12 Reconciliation of general government net worth

	2002-03 Estimated Result \$m	2003-04 Estimate \$m	2004-05 Estimate \$m	2005-06 Estimate \$m	2006-07 Estimate \$m
Net worth at beginning of year	14 706	14 288	14 328	14 505	14 829
Change in net worth from operating transactions:					
Net Operating Balance	329	58	108	120	288
Change in net worth from other economic flows:					
Movement in retained earnings of PFCs	-701	13	8	98	127
Revaluations of investments in PNFCs	422	17	101	101	87
Revaluation of superannuation liability	-400	5	5	6	6
Other revaluation adjustments	-68	-54	-43	-1	1
<i>Subtotal</i>					
Total other economic flows	-747	-18	70	204	221
Net worth at year end	14 288	14 328	14 505	14 829	15 338

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% 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 2003-04, for all jurisdictions and in aggregate, were reviewed and endorsed by the 142nd meeting of the Australian Loan Council on 28 March 2003.

South Australia's nomination, budget and estimated outcome LCAs for 2002-03 are shown in Table A.13, with nomination and budget-time LCAs for 2003-04 shown in Table A.14. These tables are prepared in accordance with the requirements of the accrual UPF, endorsed by Loan Council in March 2000.

As Table A.13 indicates, South Australia is expecting an LCA surplus of \$408 million for 2002-03. This is a significant increase over the 2002-03 Budget (July 2002) estimated surplus of \$226 million, due primarily to an increase in the estimated non-financial public sector surplus and is a result of both increases in tax revenue and carryover of expenditure from 2001-02. This was partially offset by downward revisions to the superannuation memorandum item reflecting lower returns from FundsSA and a reduction in payments levels. On the basis of these estimates, South Australia's 2002-03 LCA outcome will exceed the 2% of total revenue tolerance limit applied to the July 2002 budget-time LCA.

South Australia's 2003-04 Budget LCA, detailed in Table A.14, is an estimated \$197 million surplus. This decrease from the \$337 million surplus, estimated at nomination time (March 2003), is primarily the result of a shift in the 2003-04 non-financial public sector result, reflecting a net increase in the purchase of non-financial assets. The change is within the tolerance limit applied to the nomination LCA.

Table A.13 Loan Council allocation 2002-03 ^(a)

	Nomination (March 2002)	Budget (July 2002)	Estimated result (May 2003)
	\$m	\$m	\$m
General government sector cash deficit/surplus	109	-40	-509
PNFC sector cash deficit/surplus	5	72	103
Total non financial public sector cash deficit/surplus ^(b)	113	32	-405
Net cash flows from investments in financial assets for policy purposes ^(c)	-10	3	-6
Adjusted total non financial public sector deficit/surplus	103	35	-411
Memorandum items ^(d)			
Operating leases ^(e)	-41	-15	-29
Recourse asset sales	0	0	0
Superannuation ^(f)	-246	-264	4
Local government	17	17	25
Home finance schemes	1	1	3
Total memorandum items	-269	-261	3
LCA deficit/surplus ^{(g)(h)}	-166	-226	-408

- (a) For the purposes of this table a surplus amount is represented as a negative while a deficit is positive.
- (b) The sum of the deficits of the general government and PNFC sector 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 an 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% of total revenue tolerance limit around South Australia's 2002-03 LCA is \$178 million.
- (h) South Australia has no infrastructure projects with private sector involvement that meet the recognition criteria for 2002-03.

APPENDIX A

Table A.14 Loan Council allocation 2003-04^(a)

	Nomination (March 2003)	Budget (May 2003)
	\$m	\$m
General government sector cash deficit/surplus	-81	-83
PNFC sector cash deficit/surplus	-40	112
Total non financial public sector cash deficit/surplus ^(b)	-121	29
Net cash flows from investments in financial assets for policy purposes ^(c)	-2	7
Adjusted total non financial public sector deficit/surplus	-123	36
Memorandum items ^(d)		
Operating leases ^(e)	-34	-33
Recourse asset sales	0	0
Superannuation ^(f)	-225	-238
Local government	18	18
Home finance schemes	27	20
Total memorandum items	-214	-233
LCA deficit/surplus ^{(g)(h)}	-337	-197

- (a) For the purposes of this table a surplus amount is represented as a negative while a deficit is positive.
- (b) The sum of the deficits of the general government and PNFC sector 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 an 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% of total revenue tolerance limit around South Australia's 2003-04 LCA is \$191 million.
- (h) South Australia has no infrastructure projects with private sector involvement that meet the recognition criteria for 2003-04.

NON COMMERCIAL SECTOR

The table below presents the estimated outcome of the non commercial sector on a cash basis compared with the original budget for 2002-03.

Table B.1 Non commercial sector underlying surplus/deficit

	2002-03 Budget	2002-03 Estimated Result	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Current outlays						
General Government final consumption expenditure	5 105	5 140	5 424	5 616	5 701	5 820
Net interest payments	204	197	152	150	144	135
Subsidies paid	1 059	1 110	1 105	1 120	1 138	1 113
Other ^(a)	830	762	783	779	802	804
Total current outlays	7 199	7 209	7 465	7 664	7 785	7 873
Capital outlays						
Gross fixed capital expenditure and other capital outlays	639	478	559	521	493	587
Grants	46	66	25	19	9	9
Advances	3	- 13	6	- 11	- 22	- 4
Total capital outlays	689	531	590	529	480	592
Total outlays	7 887	7 740	8 054	8 194	8 265	8 465
Own-source revenues						
Taxes	2 183	2 373	2 463	2 559	2 609	2 713
Net operating surplus of non commercial PNFCs	38	31	39	56	36	32
Income from commercial PNFCs	271	280	269	274	272	276
Other revenue	681	696	455	484	425	380
Own-source revenues	3 172	3 380	3 226	3 373	3 342	3 401
Grants received	4 681	4 775	4 780	4 901	5 098	5 275
Total revenue and grants received	7 853	8 155	8 007	8 275	8 440	8 676
Financing transactions						
Provisions	84	89	90	90	91	91
Surplus / deficit	50	504	42	172	266	303
Abnormal items						
Stamp duty on electricity sales/ leases	—	—	—	—	—	—
Separation payments	42	10	25	—	—	—
Cost associated with asset sales	—	—	6	—	—	—
Underlying surplus / deficit	92	514	74	172	266	303

(a) Grants on-passed to local government, personal benefit payments etc.

APPENDIX B

The substantial cash surpluses in the forward years reflect the Government's fiscal policies. Achievement of zero net lending outcome on an accrual basis will typically deliver a significant cash surplus in South Australia's circumstances (see table B.2).

Taxation receipts are expected to be \$190 million higher than budgeted in 2002-03. This reflects stronger than budgeted conveyance duty receipts as the anticipated weakening in the property market in 2002-03 did not occur. Strong growth in property site values also caused higher than expected land tax receipts. Other taxes to record improvements above budget in 2002-03 include payroll tax, motor vehicle and insurance taxes together with share duty (mainly on account of one large transaction).

Commonwealth grant revenues are expected to be \$94 million higher than budgeted, of which \$81 million relates to general purpose payments and comprises upward revisions of \$24 million to guaranteed funding levels for South Australia under national tax reform arrangements and an overpayment of \$57 million by the Commonwealth in transitional grants which will be recovered by the Commonwealth in 2003-04. The improvement above budget in general purpose payments mainly reflects upward revisions to the Consumer Price Index and population. Commonwealth specific purpose grants are expected to exceed budget by \$12 million, most of which relates to capital grants partially offset by downward revisions to recurrent grants.

Table B.2 Reconciliation of the general government net lending/(borrowing) to the non commercial sector surplus/(deficit)

	2002-03 Budget	2002-03 Estimated Result	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
General government net lending / borrowing	-75	312	-20	77	109	133
<i>add back</i>						
Nominal superannuation interest expense	284	299	337	345	352	360
Accrued expenses	18	32	56	-38	18	4
Advances	-3	13	-6	11	22	4
<i>less</i>						
Accrued revenue	-3	48	-70	-21	-19	-21
Past service superannuation payment	-183	-183	-221	-230	-241	-251
Distributions from non commercial PNFCs	-11	-20	-63	-12	-23	-19
Other	20	-9	-7	-4	1	1
General government contribution to the non commercial sector surplus / deficit	46	492	7	127	218	210
<i>add back</i>						
Contribution by non commercial PNFCs	3	11	35	44	48	92
Non commercial sector surplus / deficit	50	504	42	172	266	303
<i>add back</i>						
Abnormals	42	10	31	0	0	0
Underlying non commercial sector surplus / deficit	92	514	74	172	266	303

GENERAL GOVERNMENT TIME SERIES

The Government has adopted the Australian Bureau of Statistics (ABS) defined general government sector net lending/borrowing as its primary fiscal measure.

The table below provides historical information on this measure back to 1998-99, the first year for which information in this format is available. Before 1998-99 Australian jurisdictions, and the ABS, measured government finances using a cash-based methodology.

Table C.1 General government operating statement

	1998-99	1999-2000	2000-01	2001-02
	Actual	Actual	Actual	Actual
	\$m	\$m	\$m	\$m
GFS Revenue				
Taxation revenue	2 435	2 748	2 197	2 193
Current grants and subsidies	2 867	3 098	3 992	4 485
Sales of goods and services	945	696	982	902
Interest income	143	215	169	131
Other	1 021	888	768	827
<i>Total revenue</i>	7 410	7 644	8 108	8 538
<i>less</i>				
GFS Expenses				
Gross operating expenses	5 505	5 694	6 216	6 489
Nominal superannuation interest expense	277	274	248	244
Other interest expenses	639	601	353	272
Other property expenses	4	—	—	—
Current transfers	1 206	1 345	1 545	1 663
Capital transfers	61	59	43	44
<i>Total expenses</i>	7 693	7 974	8 406	8 713
<i>equals</i>				
GFS Net operating balance	-282	-330	-297	-174
<i>less</i>				
Net acquisition of non-financial assets				
Gross fixed capital formation	373	478	427	337
<i>less</i> Depreciation	331	337	322	390
<i>plus</i> Change in inventories	-2	—	-3	3
<i>plus</i> Other movements in non-financial assets	-26	—	—	—
<i>equals</i> Total net acquisition of non-financial assets	15	140	102	-50
<i>equals</i>				
GFS net lending/borrowing	-297	-471	-399	-124

Source: 1998-99 ABS catalogue number 5501.0
1999-2000, 2000-01 and 2001-02 Budget Results publications for South Australia

CONSOLIDATED ACCOUNT

Table D.1 Summary of receipts and payments

	2003-2004	2002-2003	2002-2003
	Budget	Estimated	Budget
		Result	
	\$000	\$000	\$000
Receipts			
Taxation	2 305 710	2 228 350	2 049 700
Commonwealth general purpose grants	3 047 100	3 059 400	2 978 200
Commonwealth specific purpose grants	47 742	49 095	45 374
Contributions from State undertakings	491 436	699 496	657 554
Fees and charges	72 752	108 254	109 676
Recoveries	32 117	40 560	34 395
Royalties	74 400	81 700	88 150
Other receipts	208 915	249 261	238 948
Total receipts	6 280 172	6 516 116	6 201 997
Payments			
Appropriation Act	6 216 996	6 063 122	6 050 194
Specific appropriation authorised in various Acts	97 492	111 388	102 900
Total payments	6 314 488	6 174 510	6 153 094
Consolidated Account financing requirement	34 316	- 341 606	- 48 903
Borrowing from/payment to South Australian Government Financing Authority	34 316	- 341 606	- 48 903

CONSOLIDATED ACCOUNT

Table D.2 Estimates of payments

	2003-2004	2002-2003	2002-2003
	Budget	Estimated	Budget
		Result	
	\$000	\$000	\$000
Premier and Cabinet			
Department of the Premier and Cabinet	46 278	44 940	42 749
Administered items for the Department of the Premier and Cabinet	6 361	2 205	2 205
State Governor's Establishment	2 503	2 253	2 253
Arts SA	89 337	99 941	97 992
Tourism			
South Australian Tourism Commission	43 159	46 044	45 444
Minister for Tourism	4 862	9 307	10 066
Auditor-General			
Auditor-General's Department	9 682	9 938	9 283
Administered items for the Auditor-General's Department	766	820	820
Treasury and Finance			
Department of Treasury and Finance	38 639	36 846	36 795
Administered items for the Department of Treasury and Finance	954 498	881 716	931 287
Independent Gambling Authority	1 386	—	—
Business, Investment and Trade ^(a)			
Department for Business, Manufacturing and Trade	103 670	152 884	152 946
Administered items for the Department for Business, Manufacturing and Trade	2 538	2 095	1 590
Office of Economic Development	14 062	6 235	6 235
Primary Industries and Resources			
Department of Primary Industries and Resources	112 043	109 330	103 958
Administered items for the Department of Primary Industries and Resources	88 619	80 507	80 505
Justice ^(b)			
Department for Correctional Services	117 694	561 865	591 587
South Australian Police	342 648	—	—
Administered Items for Police and Emergency Services	49 151	40 485	4 105
Courts Administration Authority	62 789	—	—
State Electoral Office	2 065	369	200
Attorney-General's Department	49 996	—	—
Administered items for the Attorney-General's Department	53 887	49 208	49 816
Minister for Police and Minister for Emergency Services	—	—	583
Human Services			
Department of Human Services	1 584 149	1 514 318	1 491 797
Administered items for the Department of Human Services	107 680	104 498	104 498
Education and Children's Services ^(a)			
Department of Education and Children's Services	1 419 931	1 368 375	1 363 989
Administered items for the Department of Education and Children's Services	129 443	123 501	120 780
Further Education, Employment, Science and Technology			
Department of Further Education, Employment, Science and Technology	220 331	210 929	197 393

CONSOLIDATED ACCOUNT

Table D.2 Estimates of payments (continued)

	2003-2004 Budget \$000	2002-2003 Estimated Result \$000	2002-2003 Budget \$000
Environment and Conservation and the River Murray ^(a)			
Department for Environment and Heritage	92 651	82 816	91 072
Administered items for the Department for Environment and Heritage	3 838	4 053	—
Environment Protection Authority	8 775	10 504	4 702
Department of Water, Land and Biodiversity Conservation	51 151	54 838	52 857
Administered items for the Department of Water, Land and Biodiversity Conservation	38 878	12 053	16 538
Transport and Urban Planning			
Office of Local Government	2 670	2 760	—
Administered Items for the Office of Local Government	512	416	416
Planning SA	16 861	13 395	15 281
Administered Items for Planning SA	958	—	—
Transport Services	9 913	65 446	57 031
Administered items for Transport Services	13 180	13 180	13 980
Department of Transport and Urban Planning	—	—	—
Transport Planning	2 304	2 284	—
Passenger Transport Board	167 646	172 186	171 814
TransAdelaide	5 350	8 068	8 068
Office for Sustainable Social, Environmental and Economic Development	869	440	440
Administrative and Information Services			
Department for Administrative and Information Services	119 469	143 748	151 993
Administered Items for the Department for Administrative and Information Services	5 254	2 400	—
Legislature			
House of Assembly	6 092	6 393	5 906
Joint Parliamentary Services	8 672	5 906	6 393
Legislative Council	3 786	3 627	3 786
Office of Venue Management	—	—	538
Minister for Industrial Relations — Other items	—	—	503
Total payments appropriated for departments and Ministers	6 216 996	6 063 122	6 050 194
Payments for which specific appropriation is authorised in various Acts	97 492	111 388	102 900
Total Consolidated Account payments	6 314 488	6 174 510	6 153 094

(a) Several portfolios have been restructured during the year, including Education and Children's Services, Business, Investment and Trade and Environment and Conservation and the River Murray. Hence numbers contained in the agencies belonging to these portfolios will not be comparable.

(b) Presentation for Justice varies between 2002-03 and 2003-04 because appropriation will be made directly to agencies in 2003-04.

CONSOLIDATED ACCOUNT

Table D.2 Estimates of payments (continued)

	2003-2004 Budget \$000	2002-2003 Estimated Result \$000	2002-2003 Budget \$000
Payments for which specific appropriation is authorised in various Acts			
Salaries and allowances			
Agent-General — <i>Pursuant to Agent-General Act 1901</i>	267	254	254
Auditor-General — <i>Pursuant to Public Finance and Audit Act 1987</i>	209	206	200
Commissioner of Police — <i>Pursuant to Police Act 1998</i>	231	226	226
Electoral Commissioner and Deputy Electoral Commissioner — <i>Pursuant to Electoral Act 1985</i>	292	281	281
Employee Ombudsman — <i>Pursuant to Industrial and Employee Relations Act 1994</i>	89	89	86
Governor — <i>Pursuant to Constitution Act 1934</i>	192	182	182
Judges — <i>Pursuant to Remuneration Act 1990</i>			
Chief Justice	384	364	364
Judges	12 728	12 369	12 146
Magistrates — <i>Pursuant to Remuneration Act 1990</i>	8 192	7 768	7 459
Members of Various Standing Committees — <i>Pursuant to Parliamentary Remuneration Act 1990 and Parliamentary Committees (Miscellaneous) Act 1991</i>	612	387	387
Ombudsman — <i>Pursuant to Ombudsman Act 1972</i>	215	208	208
Parliamentary Salaries and Electorate and Expense Allowances —			
Ministers, Officers and Members of Parliament — <i>Pursuant to Parliamentary Remuneration Act 1990</i>	10 313	10 300	10 048
Senior Judge and Judges of the Industrial Relations Commission — <i>Pursuant to Remuneration Act 1990</i>	1 212	1 213	1 221
Solicitor-General — <i>Pursuant to Solicitor-General Act 1972</i>	254	239	239
Valuer-General — <i>Pursuant to Valuation of Land Act 1971</i>	102	102	99
Total salaries and allowances	35 292	34 188	33 400
Other			
Compensation for Injuries Resulting from Criminal Acts — <i>Pursuant to Criminal Injuries Compensation Act 1978</i>	6 200	6 200	6 200
First Home Owner Grant — <i>Pursuant to First Home Owner Grant Act 2000</i>	56 000	71 000	63 300
Total other	62 200	77 200	69 500
Total payments authorised by various Acts	97 492	111 388	102 900

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Table D.3 Estimates of receipts

	2003-2004 Budget \$000	2002-2003 Estimated Result \$000	2002-2003 Budget \$000
Taxation			
Payroll tax	818 700	781 600	760 100
Commonwealth places mirror payroll tax	14 300	13 700	13 300
Stamp duties	833 500	872 300	727 600
Commonwealth places mirror stamp duties	1 100	1 100	1 200
Land tax	187 700	159 800	148 600
Commonwealth places mirror land tax	700	600	500
Financial institutions duty	—	1 500	—
Debits tax	59 400	58 800	59 100
Commonwealth places mirror debits tax	400	400	400
Other taxes on property	10	850	500
River Murray Levy	15 900	—	—
Gaming machines tax	274 900	241 000	240 800
Contribution from Lotteries Commission	71 900	70 900	70 900
Contribution from Casino operations	18 400	17 500	16 900
Contribution from South Australian Totalizator Agency Board	6 400	6 000	6 800
Contribution from on-course totalizators, bookmakers and small lotteries	2 200	2 100	2 800
Recoup from Recreation and Sport Fund	200	200	200
Total taxation receipts	2 305 710	2 228 350	2 049 700
Commonwealth general purpose payments			
Competition grants	48 100	57 100	56 900
GST revenue grants	3 004 100	2 857 800	2 749 300
Transitional assistance	51 700	87 700	172 000
Transitional Grant Overpayment/Recovery	- 56 800	56 800	—
Total Commonwealth general purpose payments	3 047 100	3 059 400	2 978 200
Commonwealth specific purpose payments			
Additional First Home Owner Grants	—	6 000	1 300
Companies code — fees	10 900	10 900	10 900
Concessions to pensioners and others	18 297	17 631	17 490
Infrastructure Corporation	3 500	—	—
Debt redemption assistance	3 770	3 740	3 740
Housing interest assistance	—	—	940
Legal Aid	10 802	10 351	10 531
Native Title Legislation — administration	473	473	473
Total Commonwealth specific purpose payments	47 742	49 095	45 374

CONSOLIDATED ACCOUNT

Table D.3 Estimates of receipts (continued)

	2003-2004 Budget \$000	2002-2003 Estimated Result \$000	2002-2003 Budget \$000
Contributions from State undertakings			
Administrative and Information Services			
Dividend	50 805	55 788	35 148
Income tax equivalent	1 189	1 943	1 515
Local government rate equivalent	709	730	546
Business, Manufacturing and Trade			
Dividend	901	—	—
Forestry SA			
Dividend	20 873	26 201	20 100
Income tax equivalent	9 871	9 161	9 161
Local government rate equivalent	1	1	1
Funds SA			
Local government rate equivalent	137	134	134
HomeStart Finance			
Income tax equivalent	1 600	1 600	1 600
Industrial and Commercial Premises Corporation			
Dividend	415	311	311
Income tax equivalent	23	48	488
Land Management Corporation			
Dividend	51 479	6 133	3 266
Income tax equivalent	1 893	3 268	1 370
Local government rate equivalent	105	105	105
Lotteries Commission			
Additional lotteries dividend	3 479	—	—
Income tax equivalent	6 100	6 700	6 700
Local government rate equivalent	—	31	31
Motor Accident Commission			
Dividend	5 000	10 000	10 000
Police Security Services			
Income tax equivalent	97	120	167
Public Trustee Office			
Dividend	1 215	1 342	1 342
Income tax equivalent	311	838	818
Local government rate equivalent	26	26	26
SA Water Corporation			
Dividend	174 509	177 285	175 584
Income tax equivalent	62 313	50 129	48 292
Local government rate equivalent	900	900	900
South Australian Asset Management Corporation			
Dividend	58 500	230 000	230 000
South Australian Government Captive Insurance Corporation			
Income tax equivalent	—	—	509
Payments in lieu of other taxes	—	—	4 127
South Australian Government Employee Residential Properties			
Dividend	1 156	906	906
Income tax equivalent	465	608	359
Local government rate equivalent	938	915	—

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Table D.3 Estimates of receipts (continued)

	2003-2004 Budget \$000	2002-2003 Estimated Result \$000	2002-2003 Budget \$000
South Australian Government Financing Authority			
Dividend	18 252	84 375	84 375
Income tax equivalent	7 500	9 900	9 900
TransAdelaide			
Dividend	3 521	5 298	706
Income tax equivalent	875	504	504
Local government rate equivalent	83	83	83
Transport SA			
Dividend	4 113	10 593	3 993
Income tax equivalent	1 457	3 310	3 310
Local government rate equivalent	82	82	82
West Beach Trust			
Income tax equivalent	543	128	1 095
Total contributions from state undertakings	491 436	699 496	657 554
Fees and charges			
Auditor-General's Department — fees for audit and other sundry receipts			
	8 423	8 291	8 291
Court and probate fees	16 559	13 304	13 304
Court fines	7 456	15 371	14 371
Water Land and Biodiversity Conservation — excess water charges	1 000	1 000	1 000
Guarantee fees	17 210	18 043	17 321
Infringement notice schemes — expiation fees	22 080	52 222	55 366
Sundry fees	24	23	23
Total fees and charges	72 752	108 254	109 676
Recoveries			
Child Abuse Protection program — intrasector grants received	200	880	200
Community Development Fund — St John Australia SA Inc	—	—	100
Community Emergency Service Fund	475	- 475	—
Contingency provisions — recoveries	35	35	235
Contribution to the cost of private plated vehicles	10	10	10
Helicopter service — recovery of costs and sponsorships	2 246	2 210	2 110
Forestry			3650
Rehabilitation Fund	1 500	1 500	1 500
Legislature — sale of publications	550	550	550
Light motor vehicle fleet — rental payments recovery	4 300	4 300	4 300
National Tax Equivalent Program	12	12	12
Receipts from sale of property, plant and equipment	—	8 400	—
Recoup from Government Workers Fund	—	1 000	—
Return of Commonwealth places mirror taxes collected	16 500	15 800	15 400
Sale of evidence/transcripts	1 235	1 235	1 235
Sale of Government Gazette	150	150	150
South Australian Independent Industry Regulator	3 281	3 202	3 192
Sundry recoupments	115	112	112
Unclaimed monies	1 508	1 639	1 639
Total recoveries	32 117	40 560	34 395

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Table D.3 Estimates of receipts (continued)

	2003-2004	2002-2003	2002-2003
	Budget	Estimated	Budget
		Result	
	\$000	\$000	\$000
Royalties			
Department of Primary Industries and Resources	74 400	81 700	88 150
Total royalties	74 400	81 700	88 150
Other receipts			
Interest			
Interest on investments	97 000	93 000	84 000
Interest recoveries from general government	14 543	16 026	16 665
Interest recoveries from non commercial public trading enterprises	45 843	48 680	68 257
Interest recoveries from universities	1 418	1 414	1 414
Interest recoveries from the private sector	97	1 038	1 494
Repayment of Advances			
Adelaide Festival Centre Trust	160	160	160
Administrative and Information Services	—	—	300
Employee Housing			1 164
Land Management Corporation	7 270	22 758	13
Lotteries Commission of SA	1 452	1 367	1 403
Medical Board of South Australia	—	—	33
Minister for Education, Training and Employment	1 500	1 500	2 000
Minister for Industry, Manufacturing and Small Business	5 223	2 309	5 139
Passenger Transport Board	1 100	900	900
Primary Industries and Resources	1 017	1 017	1 382
Renmark Irrigation Trust	101	96	187
SAGERP	1 193	1 164	—
South Australian Tourism Commission	139	127	121
South Australian Housing Trust	16 951	16 213	27 660
TransAdelaide	5 381	13 381	5 381
Transport SA	125	125	241
West Beach Trust	136	136	136
Other	1 078	7 038	1 170
Repayment of equity capital contributions			
SA Water Corporation	—	16 000	16 000
Other			
Sale of land and buildings	7 188	4 812	3 728
Total other receipts	208 915	249 261	238 948
Total Consolidated Account receipts	6 280 172	6 516 116	6 201 997

SOUTH AUSTRALIAN STATE PUBLIC SECTOR ORGANISATIONS

	General Govt Sector	PNFC Sector	Financial Institutions Sector
Aboriginal Housing Authority		*	
Adelaide Cemeteries Authority		*	
Adelaide Convention Centre Corporation		*	
Adelaide Entertainments Corporation (trading as Adelaide Entertainment Centre)		*	
Adelaide Festival Centre Trust		*	
Adelaide Festival Corporation	*		
Adelaide International Film Festival.....	*		
Administrative and Information Services, Department for ^(a)	*		
Animal and Plant Control Commission	*		
Arid Areas Catchment Water Management Board.....	*		
Art Gallery Board, The.....	*		
Attorney-General's Department.....	*		
Auditor-General's Department.....	*		
Adelaide Children's Performing Arts Company (trading as Windmill Performing Arts).....		*	
Bio Innovation SA.....	*		
Board of the Botanic Gardens and State Herbarium.....	*		
Business, Manufacturing and Trade, Department for	*		
Carrick Hill Trust	*		
Correctional Services, Department for.....	*		
Country Fire Service Board	*		
Courts Administration Authority	*		
Dairy Authority of South Australia	*		
Distribution Lessor Corporation ^(b)		*	
Education Adelaide.....	*		
Education and Children's Services, Department of	*		
Emergency Services Administrative Unit.....	*		
Environment and Heritage, Department for	*		
Environment Protection Authority	*		
Eyre Peninsula Catchment Water Management Board	*		
Further Education, Employment, Science and Technology, Department of.....	*		
Generation Lessor Corporation ^(b)		*	
History Trust of South Australia	*		
HomeStart Finance.....			*
House of Assembly.....	*		
Human Services, Department of	*		
Independent Gambling Authority	*		
Independent Industry Regulator	*		

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	General Govt Sector	PNFC Sector	Financial Institutions Sector
Industrial and Commercial Premises Corporation ^(b)		*	
Information Industries Development Centre (trading as Playford Computer Enterprise Centre)	*		
Joint Parliamentary Services	*		
Justice, Department of.....	*		
Land Management Corporation.....		*	
Legislative Council.....	*		
Libraries Board of South Australia	*		
Lotteries Commission of South Australia		*	
Motor Accident Commission			*
Museum Board.....	*		
National Wine Centre	*		
Natural Gas Authority of South Australia		*	
Northern Adelaide and Barossa Catchment Water Management Board.....	*		
Onkaparinga Catchment Water Management Board.....	*		
Outback Areas Community Development Trust.....	*		
Office of Economic Development	*		
Passenger Transport Board.....		*	
Patawalonga Catchment Water Management Board.....	*		
Premier and Cabinet, Department of the	*		
Primary Industries and Resources, Department of	*		
Public Trustee.....		*	
RESI Corporation ^(b)		*	
River Murray Catchment Water Management Board.....	*		
Senior Secondary Assessment Board of South Australia	*		
South Australia Police.....	*		
South Australian Asset Management Corporation			*
South Australian Community Housing Authority			*
South Australian Country Arts Trust.....	*		
South Australian Film Corporation	*		
South Australian Forestry Corporation (trading as ForestrySA).....		*	
South Australian Government Captive Insurance Corporation	*		
South Australian Government Employee Residential Properties ^(a)		*	
South Australian Government Financing Authority			*
South Australian Housing Trust		*	
South Australian Local Government Grants Commission.....	*		
South Australian Metropolitan Fire Service.....	*		
South Australian Motor Sport Board		*	
South Australian Tourism Commission	*		
South Australian Water Corporation ^(b)		*	
South East Catchment Water Management Board.....	*		
South Eastern Water Conservation and Drainage Board	*		
State Electoral Office	*		

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	General Govt Sector	PNFC Sector	Financial Institutions Sector
State Governor's Establishment	*		
State Opera of South Australia	*		
State Supply Board.....	*		
State Theatre Company of South Australia.....	*		
Superannuation Funds Management Corporation of South Australia (trading as Funds SA).....			*
Torrens Catchment Water Management Board	*		
TransAdelaide		*	
Transmission Lessor Corporation ^(b)		*	
Transport and Urban Planning, Department of	*		
Treasury and Finance, Department of	*		
Venue Management, Office of	*		
Water, Land and Biodiversity Conservation, Department of	*		
West Beach Trust (trading as Adelaide Shores)		*	
WorkCover			*

(a) Department for Administrative and Information Services (DAIS) includes South Australian Government Employee Residential Properties which is a non commercial PNFC. The rest of DAIS is classified as part of the general government sector.

(b) Entities within the Public Non-Financial Corporations Sector, which are considered to be Commercial (formerly referred to as 'Commercial Sector').

TAX EXPENDITURE STATEMENT

INTRODUCTION

This statement provides a summary of tax expenditures incurred by the South Australian Government in 2001-02 and 2002-03.

WHAT ARE TAX EXPENDITURES?

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.

In designing a fair and equitable tax system regard must be paid to differences in capacity to pay. Thus there are differences in the tax treatment of particular groups of taxpayers and particular activities. Recognition of differential capacities to pay is, for example, embedded in progressive income tax structures which exempt very low incomes and apply differential marginal tax rates that rise with income levels. Differential tax treatment of this kind is considered integral to the design and structure of the tax system.

Other forms of differential tax treatment, however, may more appropriately be characterised as preferential; they are motivated by other policy objectives, be they social, economic or political. By providing tax concessions, the tax system can be used as an alternative to the direct provision of financial support.

The term 'tax expenditure' refers to this second category of differential tax treatment where the difference constitutes a departure from the tax standard or benchmark.

Examples of tax expenditures can include:

- tax exemptions
- reduced rates of taxation
- tax rebates or deductions
- 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.

WHY MEASURE TAX EXPENDITURES?

The immediate and direct impact of 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 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. Whereas direct government expenditures (eg on education, health and law and order) are subject to

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regular scrutiny and evaluation through the budgetary and parliamentary processes, tax expenditures are not exposed to the same degree of critical appraisal. If the community is informed about the full range of expenditures being incurred (including tax expenditures), the Government should be better placed to ensure that resources, in total, are committed to the areas that more clearly reflect policy priorities. Actual expenditure decisions by Government may differ depending on whether or not those decisions are taken in the knowledge of ongoing commitments, the relative merits of which may have altered over time.

Concessions given in response to a specific situation may be allowed to continue long after the need for relief has diminished or, in some cases, disappeared. A precedent can also operate as ‘the thin end of the wedge’ with the result that concessions which start out as small, in terms of their revenue cost, and subject to stringent eligibility requirements, over time become broader in their application and more revenue costly.

In practice, it is often the case that taxes which are applied to private sector activities are not applied to government activities. While in recent years commercial government businesses have been required to pay taxes and tax ‘equivalents’ to put them on a more compatible footing with private sector competitors, non-commercial government activities tend to be, by and large, exempt from many taxes. While such exemptions are part of the tax expenditure family, their implications are somewhat different from private sector tax concessions. Removal of government tax exemptions would arguably not impact on the net budgetary position, as the additional costs faced by non commercial agencies would need to be matched by additional funding to maintain service levels. Rather, tax expenditures that relate to the non commercial sector of government are of interest from the perspective that they reveal the extent to which expenditure on public services would be higher in the absence of tax concessions, rather than indicating net budgetary impacts.

VALUATION OF TAX EXPENDITURES

There are a number of possible alternative approaches which can be taken to quantify tax expenditures. These include:

- 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) which 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.
- the *revenue gain* method, which estimates the increase in revenue that might arise if existing concessions were abolished, taking into account possible behavioural effects flowing from the removal of the concession.

Notwithstanding the merits of the revenue gain approach, the simplicity of the revenue forgone method results in this being the most commonly used methodology in measuring tax expenditures in other jurisdictions, including the Commonwealth Government.

One of the deficiencies of this approach lies in the assumption 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. For example, in using the revenue forgone methodology to estimate the tax expenditure associated with the payroll tax threshold, the estimated revenue cost takes no account of the possibility of small firms’ share of employment being reduced if the threshold were abolished. Therefore, the revenue forgone methodology may give rise to a higher estimate than would be the actual revenue gained from the abolition of the threshold.

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Despite this, the revenue forgone methodology has been used as the basis for the estimates contained in this tax expenditure statement.

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.

For land tax a proportional rate without any threshold has been adopted as the benchmark. The rate has been chosen so as to be revenue neutral with current arrangements in respect of landholdings which are currently taxable. This approach has been adopted, rather than the payroll tax approach, because land tax includes a number of marginal rates. These marginal rates would be hard to justify in terms of tax design principles alone.

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 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.

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.

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 debits tax and some payroll tax exemptions have not been quantified. As such the aggregate total of the estimates contained in Table F.1 below does not represent the total value of assistance provided by tax expenditures.

The two largest tax expenditures are the payroll tax threshold and land tax concessions which relate to the general threshold and 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 2002-03 (\$436 million) represent 55% of total payroll tax revenue collections.

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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 5.67% in 2002-03, and a rate of 5.75% in 2001-02 above an annual threshold equivalent to \$504 000 in 2002-03 and \$456 000 in 2001-02. The threshold exemption results in a large number of small businesses not becoming 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 \$340 million for 2002-03 in respect of private sector employers. This comprises \$243 million in revenue forgone from small businesses that are not liable for payroll tax, and \$97 million in respect of employers who are liable for payroll tax but benefit from not paying on the first \$504 000 wages per annum.

Several other groups of taxpayers are exempted 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 \$53 million in 2002-03. Other expenditures include local government councils (\$12 million), non-profit hospitals and providers of health services (\$6 million), and non-profit schools (\$6 million). The Government also offers schemes whereby businesses can claim payroll tax rebates in respect of trainees (\$5 million) and export activity (\$5 million).

STAMP DUTIES

Stamp duties apply to a range of transactions including conveyances, mortgages, leases, insurance and rental transactions. There are a large number of exemptions contained in stamp duty legislation, many of which cannot be quantified. Of those that have been quantified, conveyance duty and stamp duty on the renewal certificate for motor vehicle registration third party have the largest tax expenditures. The total tax expenditure in 2002-03 for stamp duties (\$39 million) is equivalent to 8% of stamp duty revenues.

Total tax expenditures for conveyance duty amount to \$22 million in 2002-03. The major tax expenditure in 2002-03 is in relation to exemptions for corporate reconstructions totalling \$10 million. First home owners are eligible for a full stamp duty concession on home purchases valued up to \$80 000. The maximum concession payable is \$2 130. A partial concession applies for first home purchases valued between \$80 000 and \$130 000. The total cost of this exemption in 2002-03 is estimated to be \$ 5 million. The stamp duty exemption for family farms transfers is also estimated to cost \$5 million in 2002-03.

Approximately \$17 million of stamp duty tax expenditures in 2002-03 relate to concessions 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.

LAND TAX

Total land tax expenditures are estimated at \$256 million in 2002-03. This represents 161% of total land tax collections.

Land tax is calculated on the aggregate taxable value of all land held by a person as at 30 June of the preceding year for which the tax is levied. No tax is payable if the total taxable value of all land is less than \$50 000. A marginal tax rate structure applies above this threshold, with increasing marginal tax rates applied as the value of landholdings increases.

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As noted above, the quantification of tax expenditures for land tax has been based on an approach which departs from the general principle of benchmarking against existing tax structures. Instead of calculating the value of tax expenditures according to the existing marginal rate structure including the tax threshold, land tax expenditures have been calculated by reference to a flat tax rate of 0.58% of site value with no threshold. A proportional tax rate structure has been used rather than the existing variable rate structure as the benchmark in order to identify tax expenditures that apply to low marginal rate land value ranges as well as the zero rate value ranges (that is land values below the threshold). This methodology also produces negative tax expenditures for the high rate land value ranges which would be subject to a lower tax burden under a proportional rate structure.

The 0.58% rate represents the tax rate that would be required to achieve a revenue neutral change from the existing structure to one which involved no threshold or marginal rates. While this would collect the same aggregate level of tax from those landholdings which are currently taxable, it would reduce tax liabilities for those with total landholdings above \$380 000, and increase tax liabilities for those taxpayers with total landholdings below \$380 000 in 2002-03

Based on this benchmark, the tax expenditure associated with the \$50 000 general threshold is estimated to be \$18 million in 2002-03.

The exemption from land tax for land used as the principal place of residence (provided the land is owned by a natural person as distinct from a corporate body) is estimated to cost \$172 million in 2002-03.

Land used for primary production, provided it meets certain criteria, is also exempted from land tax liabilities. Total tax expenditure in relation to this exemption is estimated at \$58 million in 2002-03.

Finally, there are many other exemptions from land tax liabilities as specified in Section 4 of the Land Tax Act 1936. These include land used for religious purposes, State-subsidised hospitals, libraries, park lands, conservation of native flora and fauna, sporting activities and so on. Total tax expenditures in relation to Section 4 of the Land Tax Act 1936 amount to approximately \$8 million in 2002-03.

GAMBLING TAXES

Tax expenditures for gambling taxes arise due to the differential treatment of non-profit venues and hotels in relation to gaming machine taxation. In South Australia, non-profit venues are subject to a tax structure that is relatively less severe than that applicable to hotels.

In 2002-03, the benefit to non-profit venues of the tax differential (based on the 2002-03 tax structure) is estimated to be \$4 million or 1% of total gambling tax collections.

FINANCIAL TRANSACTION TAXES

Financial transaction taxes include financial institutions duty (FID) and debits tax. Although FID was abolished on 1 July 2001, the monthly lag in collection arrangements resulted in some revenue being collected in 2001-02. Quantified tax expenditures for FID mainly relate to concessions granted to pensioners whereby the receipt of Commonwealth Government pensions via direct credit into a designated bank account, and other similar payments, are exempt from FID. A similar concession applies to payments made under the First Home Owner Grant (FHOG) Scheme and is estimated to cost \$82 000.

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While debits tax legislation does contain a number of exemptions, no expenditures in relation to debits tax were able to be quantified.

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. The level of remissions that the Government has since provided has meant that property owners (fixed and mobile) now collectively contribute only half of the total levy proceeds. The remaining levy is funded 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 region. 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 gives the ESL for residential property a dominant character of a poll tax. A 'benchmark' or ideal version of the ESL constructed according to normal tax design principles has not yet been identified for the purposes of this tax expenditure statement.

PETROLEUM AND LIQUOR SUBSIDIES

The summary table below includes, as memo items, expenditure on petroleum and liquor subsidies. While these subsidies are outlays rather than tax concessions, they are shown as memo items to the Tax Expenditure Statement as a result of their historical linkage to taxation. Until 1997 the States and Territories imposed taxes (called business franchise fees) on petroleum, liquor and tobacco. A High Court decision threw into doubt the Constitutional validity of these taxes, leading to their abolition. In order to protect State revenues, the Commonwealth imposed surcharges on its taxes on these products and returned the additional revenue generated to the States and Territories. To ensure that the effective tax burden remained unchanged as a result of these arrangements, the States and Territories funded subsidies out of their revenues to replicate the concessional treatment applied to some activities under the business franchise fee system. As part of the changes to Commonwealth-State financial arrangements which commenced with the introduction of the GST from 1 July 2001, the business franchise fee replacement grants from the Commonwealth have ceased, but the States continue to provide most of the previously provided subsidies.

South Australian petrol subsidies of \$16 million in 2002-03 relate to support for non-metropolitan petroleum users through the zonal system. Liquor subsidies of \$10 million in 2002-03 relate to cellar door and mail order sales of wine.

Prior to 2002-03, liquor subsidies were provided in respect of low alcohol beer and wine and cellar door and mail order sales of wine. From 1 July 2002, low alcohol beer subsidies were terminated and replaced by a concessional national excise structure for low alcohol beer. State subsidies for low alcohol wine (including cider) also ceased from 1 July 2002. These changes in subsidy arrangements account for the reduction in liquor subsidy expenditures in 2002-03.

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Table F.1; Summary of tax expenditures

Tax expenditures	2001-02 \$m	2002-03 \$m
PAYROLL TAX ^(a)		
Threshold exemption	321.3	339.7
<i>of which:</i>		
<i>benefit to existing taxpayers with payrolls above the threshold</i>	84.6	96.7
<i>benefit to employers with payrolls below the threshold</i>	236.7	243.1
Export rebates	3.5	4.5
Trainee rebates	12.6	5.0
Firm specific relief	5.6	6.4
Public benevolent institutions	2.7	2.9
Public hospitals exemption	49.8	52.7
Non-profit schools or colleges at or below secondary level	5.8	6.2
Non-profit hospital and health providers exemption	5.7	6.0
Child care centres	0.2	0.3
Local government council exemption	11.3	12.0
Assistance for motion picture production companies	0.1	0.4
TOTAL FOR PAYROLL TAX	418.8	436.1
STAMP DUTIES		
Conveyance duty		
Family farm exemption	5.6	5.0
First home owner concessions ^(b)	10.4	4.6
Corporate reconstructions	0.4	10.2
Inner city housing rebate	0.3	0.2
General remissions	0.6	1.8
Mortgage duty		
Primary producer loans and rural branch bank closures	0.3	0.2
Dairy Structural Adjustment Program	0.5	0.1
General remissions	0.0	0.1
Stamp duty on renewal certificate for motor vehicle registration and compulsory third party insurance (CTP)		
The Crown and vehicles registered under the Continuous Government Registration Scheme	1.1	1.1
Hire vehicles with greater than 12 seats	0.1	0.1
Councils	0.3	0.3
Conditionally registered vehicles	3.1	3.1
Incapacitated ex-servicemen and other persons	0.2	0.2
Pensioners and State concession card holders	11.7	11.8
Share duty - general remissions	< 0.1	< 0.1
Stamp duty on motor vehicle registrations - general remissions	< 0.1	< 0.1
TOTAL FOR STAMP DUTIES	34.5	38.8

APPENDIX F

Tax expenditures	2001-02 \$m	2002-03 \$m
LAND TAX		
Threshold exemption (value of exemption to land holdings below the threshold)	17.9	17.7
Effect of actual land tax structure vis a vis proportional rate benchmark:		
In respect of land holdings less than \$380 000 in 2002-03 ^(c)	43.1	50.2
In respect of land holdings greater than \$380 000 in 2002-03 ^(c)	-43.1	-50.2
Principal place of residence	142.9	171.6
Primary production	49.6	58.4
Other exemptions ^(d)	7.3	7.9
TOTAL FOR LAND TAX	217.6	255.6
GAMBLING TAXES		
Differential taxation treatment of non-profit businesses.	3.9	4.3
TOTAL FOR GAMBLING TAXES	3.9	4.3
FINANCIAL TRANSACTION TAXES		
Exemptions for pensioners	0.3	0.0
Receipt of FHOG	0.1	0.0
TOTAL FOR FINANCIAL TRANSACTION TAXES	0.4	0.0
EMERGENCY SERVICES LEVY		
Pensioner concessions	6.6	6.2
General remissions		
fixed property	39.2	59.7
mobile property	8.4	9.0
TOTAL FOR EMERGENCY SERVICES LEVY ^(e)	54.2	74.8
MEMORANDUM ITEMS		
Liquor subsidies ^(f)	13.7	10.0
Petroleum subsidies ^(f)	16.2	15.5
TOTAL FOR MEMORANDUM ITEMS	29.9	25.5

(a) Costings reflect the combined impact of growth in payrolls and the reduction in the rate from 5.75% to 5.67% and increase in the threshold from \$456 000 to \$504 000 which took effect on 1 July 2002. Costings of specific exemptions for 2001-02 differ from those published in the 2002-03 Budget reflecting new data from WorkCover.

(b) Relates to the first homeowner stamp duty relief scheme. In addition, since July 2000 in accordance with undertakings under the Intergovernmental Agreement, the State Government administers and funds grants under the First Home Owner Grant (FHOG) Scheme. These grants are reported on the expenditure side of the Budget.

(c) In 2001-02, a revenue neutral proportional rate of 0.56% would have been required with a \$370 000 landholding value determining which property holders would be better off and which would be worse off.

(d) 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.

(e) The increase in general remissions reflects an increase in the emergency services expenditure target for 2002-03 and the inclusion of remission costs for government-owned property (prior to 2002-03, government property holdings were not billed individually; rather a single payment was made by the government in respect of all of its property).

(f) Subsidies for petroleum and liquor are reported on the expenditure side of the Budget but, nonetheless, are presented as memo items in the Tax Expenditure Statement. State subsidy schemes were introduced in 1997 as part of the replacement arrangements for State petrol and liquor franchise fees after their Constitutional validity was thrown into doubt by a High Court decision. Subsidies for low alcohol beer ceased from 1 July 2002 when a national excise concession scheme for low alcohol beer was introduced by the Commonwealth. State subsidies for low alcohol wine (apart from cellar door sales) also ceased from 1 July 2002.

GLOSSARY OF TERMS USED IN BUDGET PAPERS

Abnormal items: Items of revenue and expense included in the operating result for the period that are considered abnormal by reason of their size and effect on the operating result for the period.

Accountability: The obligation of one party to explain or justify to another what has been done, what is being done and what has been planned.

Accrual accounting: The accounting approach by which revenues, 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 accounting principles.

Accrual GFS principles: Budget principles based on accrual standards established by the Australian Bureau of Statistics.

Accrual statements: The three main agency financial statements, including the Operating Statement, the Statement of Financial Position and the Statement of Cash Flows.

Administered items: Resources that an agency has legal custody of but does not control because it may not deploy them to meet its own objectives.

Assets: Assets represent future economic benefits or service potential controlled by an entity as a result of past transactions.

Australian Accounting Standards: Professional standards showing the acceptable method(s) of measuring and recording financial transactions, and the level of disclosure required in financial statements.

Cash accounting: The cash basis of accounting, which recognises the financial effects of transactions or other events only when cash has been received or paid.

Commonwealth General Purpose Capital Payments: Commonwealth payments to the States and the Territories for capital purposes. Not earmarked for specific purposes.

Commonwealth General Revenue Assistance: 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 Treasurer's main operating account.

Controlled items: Resources that an agency is able to control, and therefore deploy, to meet its objectives.

Cost allocation: Apportioning revenues and expenses (including overheads) to output classes to ensure the full cost of delivery is measured.

Current operating surplus/deficit: An accrual measure of operating revenue less operating expenses.

Deposit account: Account used by agencies for expenditure and receipts as part of their normal operations. A deposit account is 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.

Distribution: Dividends plus income tax equivalents of government businesses.

Earnings before interest and income tax (EBIT): Operating profit before income tax and gross interest expense.

Earnings before depreciation, interest and tax (EBDIT): Operating profit before income tax, depreciation and gross interest expense.

Equity: Equity represents the owner's residual interest in the assets after deduction of their liabilities.

Equity contribution: The investment of additional cash in an agency to increase its asset base or reduce its debt.

Expense: Expenses represent future consumption or losses of future economic benefits in the form of reduction in assets or increases in the liabilities of the entity. Expenses result in a decrease in equity but do not include distributions to owners.

Extraordinary items: Items of revenue and expense, which are attributable to transactions, or other events of a type that are outside the ordinary operations of the entity and are not of a recurring nature.

Financing: A measure of the means by which governments finance net outlays or invest net surpluses. It is the difference between total outlays and revenue and grants received.

Funds flow interest cover: A measure of the extent to which earnings before depreciation, interest and tax (EBDIT) cover gross interest expenses of a business.

General government: A sector of Government which includes all government agencies who provide services free of charge or at prices significantly below the cost of production or provide regulatory services. The provision of services are financed by general revenue.

Government Financial Statistics: A series of reports prepared by the Australian Bureau of Statistics based on accrual international concepts, providing standardised reports for the public sectors.

Gross interest expense: An amount charged to the profit and loss account, which includes finance charges on finance leases and all debt related expenses.

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 tax: Income tax expense, or income tax equivalent expense on operating profit before tax (including abnormal items) calculated using tax effect accounting (AAS3).

Investment income: Income received and receivable on financial assets.

Inputs: Labour, material and other resources used to produce and deliver outputs.

Key performance indicators (KPIs): Key quantity, quality, timeliness and cost/price attributes of outputs for which performance targets are set and monitored.

Liabilities: Liabilities represent present obligations to make payments or render services as a result of past transactions.

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 borrowing position: A GFS measure when the net operating balance, less acquisition of non financial assets, plus consumption of fixed capital is in deficit. A deficit indicates that there are insufficient revenues to meet all accruing operating expenses (less depreciation) and investment expenditures.

Net financing requirements: Comprises deficit/surplus less net advances received from other parts of the non-financial public sector in order to provide an unduplicated measure of the sector's demand for financing.

Net operating balance: Measures the operating result of a sector under UPF principles, it is the excess of revenue over expenses, plus net transfers.

Net lending position: A GFS measure when the net operating balance, less acquisition of non financial assets, plus consumption of fixed capital is in surplus. A surplus indicates that sufficient revenues are available to meet all accruing operating expenses (less depreciation) and investment expenditures.

Non commercial sector: Excludes financial enterprises (eg Superannuation Funds Management Corporation, Motor Accident Commission) and commercial enterprises (Distribution Lessor Corporation, Generation Lessor Corporation, RESI Corporation, SA Water, Ports Corporation and the Industrial and Commercial Premises Corporation).

Non commercial sector deficit/surplus: Comprises financing less increase in provisions. The deficit/surplus excludes increase in provisions because these financing transactions involve funds generated within the sector itself (eg depreciation charges). As such, deficit/surplus is the broadest measure of the financing requirement for each sector involving funds from outside that sector.

Non Commercial Sector Underlying Deficit/Surplus: The underlying deficit/surplus excludes major one-off items for example, net proceeds from the sale of government businesses and targeted separation payments.

Non financial public sector: The combination of the general government sector and public non financial corporations.

Operating margin: EBIT before investment income as a percentage of total revenue less investment income.

Operating Statement: The financial statement disclosing the revenues, expenses (and their sources) and the operating result for a period.

Prudential Management Group: Comprises the Chief Executives of Justice, and Premier and Cabinet, and the Under Treasurer. Its role is to be responsible to Cabinet for the provision of advice and assistance to agencies on the integrity of processes used in the delivery of projects and arrangements with the private sector.

Public financial corporations (PFC): Publicly owned financial institutions such as SAFA and WorkCover.

Public non financial corporations (PNFC): All government entities, which generate the majority of their revenue from user charges, excludes financial institutions.

Public sector: Government departments and statutory authorities. In accordance with the practice of the Australian Bureau of Statistics, public sector financial institutions are excluded from financial and workforce information provided on the non-financial public sector.

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 Australian Non-Farm GDP price deflator, unless specifically stated otherwise.

Return on assets: EBIT as a percentage of total assets.

Revenue: Revenue includes an inflow or saving in outflows of future economic benefits that result in an increase in equity. Revenues are in the form of increases in assets or reductions in liabilities that do not relate to contributions by owners.

Statement of Financial Position: A statement showing the financial position (at a specific time) of an agency in terms of its assets, liabilities and equity (otherwise known as a Balance Sheet).

Strategic resource allocation: The allocation of resources based on identified policy priorities of Government, usually over the medium term.

ABBREVIATIONS USED IN BUDGET PAPERS

AAS	Australian Accounting Standards
ABARE	Australian Bureau of Agricultural and Resource Economics
ABS	Australian Bureau of Statistics
ACC	Adelaide Convention Centre
ACCC	Australian Competition and Consumer Commission
AFCT	Adelaide Festival Centre Trust
AGL	Australian Gas and Light
AHCA	Australian Health Care Agreement
ANTA	Australian National Training Authority
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
BBA	budget balancing assistance
BITS	Building on Information Technology Strengths
BOOT	Build, own, operate and transfer
CBA	Commonwealth Bank of Australia
CGC	Commonwealth Grants Commission
CN	competitive neutrality
COAG	Council of Australian Governments
CPA	Competition Principles Agreement
CPI	Consumer Price Index
CSDA	Commonwealth–State Disability Agreement
CSHA	Commonwealth–State Housing Agreement
CSTDA	Commonwealth-State and Territory Disability Agreement
CSO	community service obligation
CTP	compulsory third party
DAMP	detailed asset management plan
DBMT	Department for Business, Manufacturing and Trade
DEWR	Department of Employment and Workplace Relations

DFD	Domestic Final Demand
EBDIT	earnings before depreciation, interest and tax
EBIT	earnings before interest and income tax
EBIDD	earnings before interest, dividends and depreciation
EDB	Economic Development Board
EPO	electricity pricing order
ERBCC	Expenditure Review and Budget Cabinet Committee
ESCOSA	Essential Services Commission of South Australia
ESL	Emergency Services Levy
FAG	financial assistance grant
FHOG	First Home Owner Grant
FID	financial institutions duty
FOT	Flinders Osborne Trading Pty Ltd
FTE	full time equivalent
Funds SA	Superannuation Funds Management Corporation of South Australia
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GMA	Guaranteed Minimum Amount
GPP	general purpose payment
GSP	Gross State Product
GST	Goods and Services Tax
HCC	Hellenic Cadastre Consult
HFE	horizontal fiscal equalisation
HIPF	Housing Industry Prospects Forum
HOME	Home Ownership Made Easy
ICPC	Industrial and Commercial Premises Corporation
ICT	information and communications technology
IGA	intergovernmental agreement
IMF	International Monetary Fund
IOA	interconnection operating agreement

IT	information technology
KPI	key performance indicator
KT	Ktimatologio SA
LCA	Loan Council Allocation
LGA	Local Government Association
LGFA	Local Government Finance Authority of South Australia
MAC	Motor Accident Commission
MSCII	Morgan Stanley Capital International Index
NCC	National Competition Council
NCP	National Competition Policy
NDRA	Natural Disaster Relief Arrangements
NFD	non-Farm deflator
NGASA	Natural Gas Authority of South Australia
NGR	net gambling revenue
NPV	net present value
NTER	National Tax Equivalent Regime
NWR	net wagering revenue
OACIS	Open Architecture Clinical Information System
OCPL	Osborne Cogeneration Pty Ltd
OED	Office of Economic Development
PFC	public financial corporations
PNFC	public non financial corporations
PPP	Public Private Partnerships
RBA	Reserve Bank of Australia
SAAMC	South Australian Asset Management Corporation
SAAP	Supported Accommodation Assistance Program
SAFA	South Australian Government Financing Authority
SAHT	South Australian Housing Trust
SAICORP	South Australian Government Captive Insurance Corporation
SAIIR	South Australian Independent Industry Regulator

SAIPAR	South Australian Independent Pricing and Access Regulator
SARI	South Australian Racing Industry
SARS	Severe Acute Respiratory Syndrome
SATAB	South Australian Totalizator Agency Board
SFD	State Final Demand
SGIC	State Government Insurance Corporation
SPP	specific purpose payments
S&P	Standard and Poor
TAB	Totalizator Agency Board
TAFE	Technical and Further Education
TCCP	Third Party Premiums Committee
TER	Tax Equivalent Regime
TNTS	The New Tax System
TVSP	targeted voluntary separation package
UPF	Uniform Presentation Framework
VET	vocational education and training