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CHAPTER 1: FISCAL STRATEGY AND BUDGET PRIORITIES

Overview

The Government's sound financial management was rewarded in 2004 with both Standard & Poor's and Moody's Investor Services credit rating agencies upgrading South Australia's credit rating to triple-A. This is in recognition of South Australia's robust fiscal performance, low net debt and other liabilities and the Government's strong commitment to sound financial management.

The overriding imperative of the 2005-06 Budget process is to maintain sound budget outcomes and the strength of the Government's balance sheet.

The restoration of South Australia's triple-A credit rating has provided greater flexibility within the budget strategy, supporting forecast net lending deficits in the short term where circumstances warrant increased expenditure on high priority infrastructure projects. The net lending deficits forecast in the 2005-06 Budget reflect the impact of funding the infrastructure needs of South Australia as outlined in the *Strategic Infrastructure Plan for South Australia*.

Resource allocation decisions in the 2005-06 Budget have been guided by *South Australia's Strategic Plan* objectives. New funding has been provided for multilateral initiatives:

- Road Safety — across South Australia Police, the Courts Administration Authority, and the Department for Transport, Energy and Infrastructure;
- Social Inclusion — across the Attorney-General's Department, the Departments of Transport, Energy and Infrastructure, Families and Communities, Further Education, Employment, Science and Technology and Education and Children's Services;
- Public Order and Safety — across South Australia Police, the Courts Administration Authority, the Attorney-General's Department and the Department for Administrative and Information Services;
- Skills and Business Support — across the Departments of the Premier and Cabinet, Trade and Economic Development and Further Education, Employment, Science and Technology, the South Australian Tourism Commission and a range of cuts to business taxes including land tax, debits tax, mortgage duty and rental duty;
- Science and Innovation — across the Departments of Primary Industries and Resources and Further Education, Employment, Science and Technology; and
- Environment — across the Departments of Trade and Economic Development, Primary Industries and Resources, Transport, Energy and Infrastructure, Environment and Heritage and Water, Land and Biodiversity Conservation.

In addition to the multilateral initiatives, priority has also been given to funding for:

- metropolitan hospitals;
- the expansion of specific assistance programs for those in need — through the Families and Communities and Education and Children's Services portfolios; and
- investment in future infrastructure priorities, particularly major transport projects.

At the time of the 2004-05 Budget, the Government's financial position enabled the provision of taxation relief aimed at improving business activity and assisting first homebuyers. The payroll tax rate was cut from 5.67 per cent to 5.5 per cent and both lease duty and cheque duty were abolished from 1 July 2004, ahead of the timetable for reviewing the proposed abolition of these taxes under the *Intergovernmental Agreement on the Reform of Commonwealth State Financial Relations* (IGA). The first homebuyer stamp duty concession was expanded to provide a partial stamp duty concession on first homes valued up to \$250 000. In addition, an exemption from mortgage duty was introduced for mortgages taken out to purchase a first home. The Government also confirmed the abolition of debits tax from 1 July 2005, consistent with commitments made pursuant to the IGA.

Since the 2004-05 Budget, property tax and GST grant revenue have grown more strongly than expected. This has enabled the Government to make significant expenditure decisions during 2004-05.

Significant land tax reductions were announced in February 2005. The 2005-06 Budget incorporates the provision of broad-based land tax relief to all land tax payers as well as measures taken to address a number of specific land tax issues. The option to pay land tax in quarterly instalments will also be available from the 2005-06 land tax assessment year.

The abolition of the IGA taxes will occur by 1 July 2010. Mortgage duty on refinancing transactions, residential loans for owner-occupation and mortgage discharges will be abolished on 1 July 2005 and the phased abolition of remaining mortgage duty and rental duty will be completed by 1 July 2009. The rates of stamp duty on the transfer of non-quoted marketable securities and conveyances of non-realty property will be reduced by 50 per cent on 1 July 2009 and abolished completely on 1 July 2010. The significance of the new IGA tax cuts announced in this Budget is illustrated by the fact that they are estimated to produce \$139 million of revenue in 2004-05. This is without taking account of the previously announced abolition of debits tax, which contributes a further \$60 million to 2004-05 taxation revenues.

The benefits of the program of tax cuts will be widespread; through sustaining the momentum of the State's growth and creating a more competitive business environment in South Australia.

These taxes were identified for review prior to the recent intervention of the Federal Treasurer. His intervention has resulted in these taxes being abolished over a shorter time frame than would otherwise have been the case. This shorter abolition period has been at the expense of greater expenditure in areas such as health, education, disability services, and family and community services. In order to minimise the adverse impact on these areas, the Government has accepted less robust budget outcomes than it would have preferred. A significant proportion of the impact of these tax reductions falls outside the current forward

estimates. A challenge for the 2006-07 Budget will be to address major expenditure priorities and absorb this future revenue impact while delivering sound budget outcomes.

Table 1.1 sets out the expected budget outcomes for 2005-06 and across the forward estimates.

Table 1.1: General government sector budget estimates

		2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Net operating balance	\$m	173	51	78	109	75
Net lending	\$m	59	10	-141	-88	-50
Net financial liabilities to revenue	%	82.9	80.5	80.2	78.9	77.8

The net operating balance is an accrual measure of whether revenues are sufficient to meet the expenses incurred by the Government in delivering services to the public. It is necessary for the long-term financial stability of the State that positive net operating balances are achieved.

The net lending measure is an indication of whether revenues are sufficient to cover expenses and net capital investment. A net lending deficit means that funding to meet expenditure has been accessed from sources other than revenues, resulting in increased liabilities. South Australia's strong financial position has allowed the Government to increase its expenditure on key infrastructure projects. This budget produces net lending deficits to support high priority capital investment projects, the benefits of which will be realised over future years.

General government net debt remains at historically low levels over the forward estimates. However South Australia's other major liability, unfunded superannuation, is still significant. The Government remains committed to fully funding past service superannuation liabilities by 2034. Notwithstanding the projected net lending deficits, the ratio of net financial liabilities to revenue is expected to fall across the forward estimates period. This shows that despite net lending deficits, the State's capacity to continue to meet obligations from revenue streams is strengthening.

Fiscal strategy

The major factors underpinning South Australia's credit rating upgrade in 2004 were the demonstrated fiscal discipline of the Government and the much improved balance sheet position flowing from the resultant net lending surpluses. The fiscal strategy committed the Government to achieving balanced budgets on average with balanced budget being read as net lending balance.

The achievement of this target ensured that the State's net financial liabilities did not grow in absolute terms over any sustained period. Given that the State's revenues continue to grow, a net lending balance target implies that the ratio of net financial liabilities to state revenues declines significantly. Once the State's balance sheet is in triple-A shape, the arguments for this ratio to decline further are much less compelling. However, South Australia's ratio of net financial liabilities to revenue is significantly higher than some of the other triple-A rated Australian states and so further reductions are still desirable.

An analysis of the expected growth in state revenues makes it clear that the State could record modest net lending deficits on a sustained basis and still achieve reductions in this ratio. Consequently the fiscal target adopted by the Government over the last three budgets is now more restrictive than necessary.

The cornerstone of the fiscal strategy going forward must be the achievement of net operating balances or surpluses every year. This means that revenues are covering expenses, including interest and depreciation.

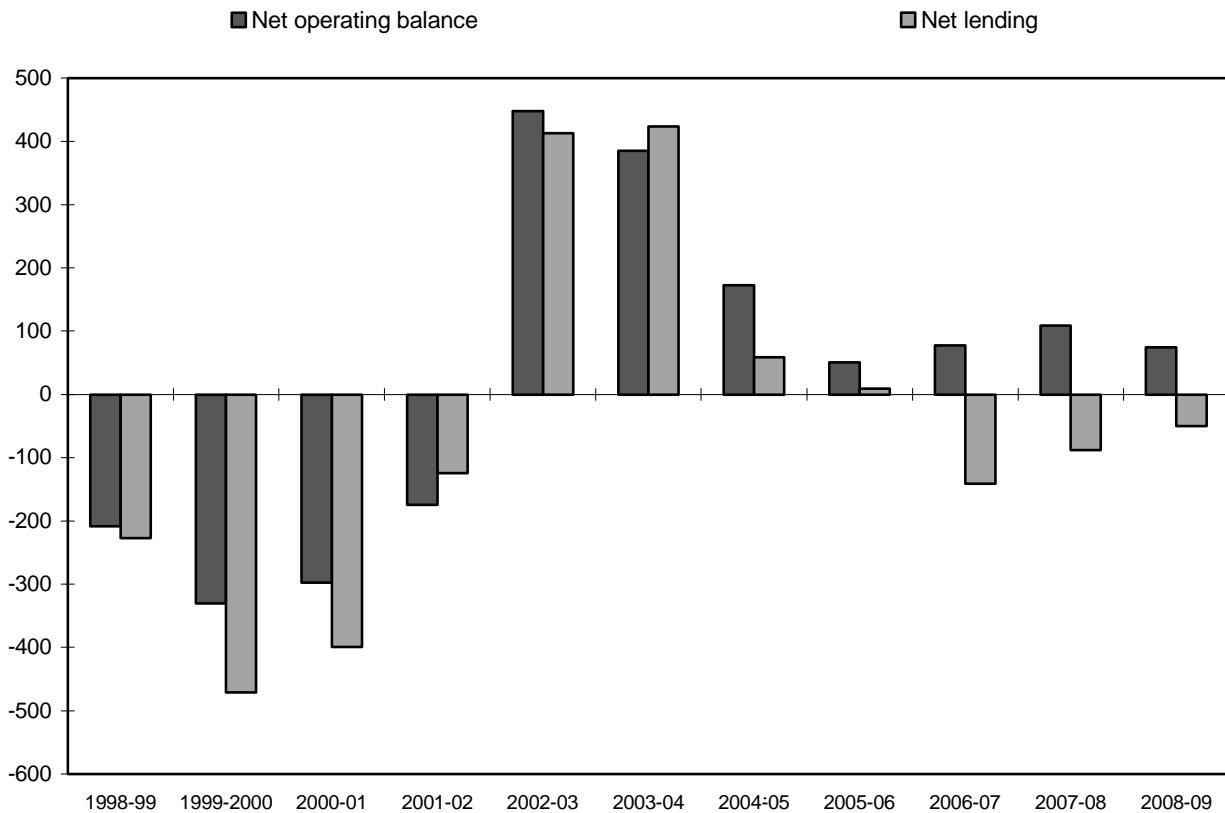
The second leg of the strategy is to ensure that net lending outcomes are consistent with a medium term decline in the ratio of net financial liabilities to state revenues. Such an outcome is consistent with modest net lending deficits.

Therefore the Government has adopted new fiscal targets in the 2005-06 Budget, namely:

- to achieve at least a net operating balance in the general government sector in every year; and
- to achieve net lending outcomes that ensure the ratio of net financial liabilities to revenue continues to decline towards that of other triple-A rated states.

The revised fiscal targets allow the State to run modest net lending deficits and so finance a higher level of investment in social and economic infrastructure. These dual targets will ensure the balance sheet continues to strengthen and that South Australia becomes entrenched as a triple-A rated state.

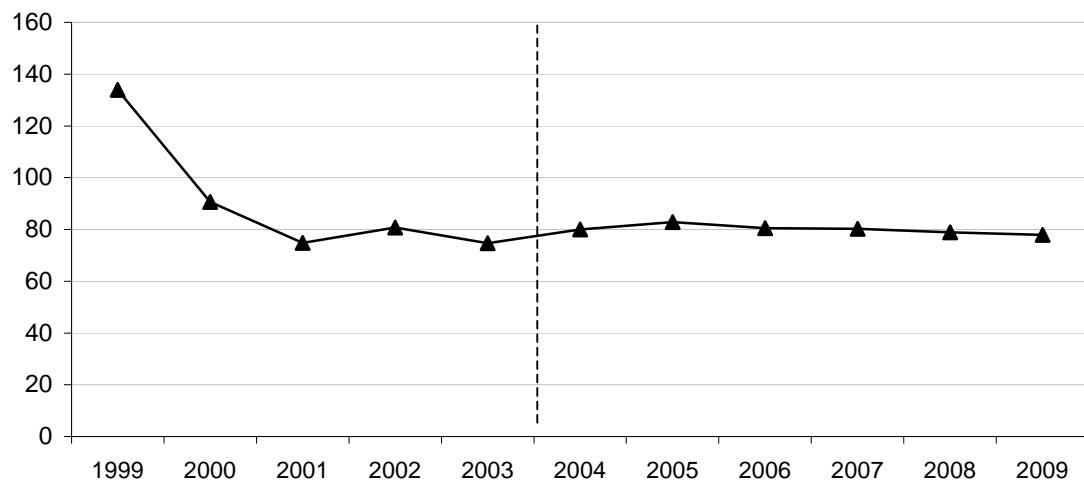
Figure 1.1 illustrates the improvement in the financial performance of the general government sector since 1998-99. Since 2002-03, the net operating balance has been, and is forecast to remain, in surplus. The forecast net lending deficits reflect the Government's commitment to infrastructure development, which will provide long-term benefits to the State.

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

1998-99 to 2003-04 are actual outcomes; 2004-05 to 2008-09 are forecasts.

Figure 1.2 illustrates the movement in the ratio of net financial liabilities to revenue since 1998-99. The significant reductions in the early years reflect the sale of the State's electricity assets. The benefits of this sale in reducing net financial liabilities were offset by the poor budget outcomes in those years (see Figure 1.1). Changes to the accounting treatment of superannuation have acted to increase the reported level of unfunded superannuation liabilities, which offset the impact of the strong budget outcomes delivered by this Government. The ratio is forecast to decline modestly across the forward estimates.

Figure 1.2: General government net financial liabilities as a percentage of revenue at 30 June ^{(a)(b)}



(a) 30 June 2005 onwards based on estimates.

(b) There is a structural break in the data from 30 June 2003. During 2003-04, the Government adopted a revised discount rate methodology to value its unfunded superannuation liability, consistent with the proposed new accounting standard for employee benefits. From 30 June 2004, the unfunded superannuation liability is valued using the national government bond rate. Changes in the bond rate more than account for the increase at 30 June 2004 and 2005.

The abolition of IGA taxes has had a severe impact on net operating balance outcomes. Table 1.2 shows the targeted net operating balance outcomes prior to, and after, the IGA taxes abolished in the 2005-06 Budget.

Table 1.2: Targeted net operating balance (\$ million)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Net operating balance - before impact of IGA taxes	75	107	163	161
Impact of abolition of IGA taxes ^(a)	-24	-29	-54	-86
Net operating balance	51	78	109	75

(a) Includes indirect effects on the share of GST revenue of other states abolishing IGA taxes.

A significant portion of the impact of the abolition of the IGA taxes occurs outside the forward estimates, with the 2009-10 impact estimated to be \$81 million higher than in 2008-09. The Government will need to carefully examine the expenditure side of the budget to ensure that these revenue impacts can be accommodated. *South Australia's Strategic Plan* includes a target for the State to lead the nation in the delivery of cost effective services within five years. This is not about cutting the overall level of services but about delivering them more effectively. If this target is achieved, then the revenue impacts of the IGA taxes can be readily accommodated while delivering strong budget outcomes.

The Government's performance to date against its fiscal targets is summarised in Table 1.3.

Table 1.3: Progress in achieving the Government's fiscal targets

Target	Progress in achieving target
<i>To achieve at least a net operating balance in the general government sector in every year.</i>	The projected net operating surpluses across the forward estimates are consistent with this objective. However, significant restraint in expenditure will need to be maintained across the forward estimates in order to deliver these outcomes.
<i>To achieve net lending outcomes that ensure the ratio of net financial liabilities to revenue continues to decline towards that of other triple-A rated states.</i>	Ratio improves across the forward estimates.
<i>To ensure the State has an effective tax regime having regard to the Government's social and economic objectives.</i>	Tax measures introduced in the 2005-06 Budget deliver significant land tax relief and make progress on national tax reform commitments through the abolition of debits tax and the partial abolition of mortgage duty. The full program of IGA tax reform beyond 2005-06 is also released in the 2005-06 Budget.
<i>To provide value for money community services and economic infrastructure within available means.</i>	<p>One of the roles the Expenditure Review and Budget Cabinet Committee (ERBCC) is to undertake comprehensive expenditure reviews of all agencies, identifying scope for increased efficiencies.</p> <p>The outcomes of the expenditure review process feed into the budget process. The reviews have broad terms of reference and thus can encompass a diversity of issues including identifying improvements to strategic planning, evaluation, financial management, governance and accountability processes in order to enhance efficiency and effectiveness of government programs.</p> <p>Reviews have been completed for the former Department of Human Services and for the Department of Education and Children's Services, which have led to significant change. Reviews are underway for the Department for Administrative and Information Services and for the Justice portfolio.</p> <p>In 2004, the Public Sector Reform Unit was also established to improve the agility and responsiveness of the public sector.</p>
<i>To fully fund accruing superannuation liabilities and progressively fund past service superannuation liabilities.</i>	The Government is on target to fully fund superannuation liabilities by 2034.
<i>To ensure that risks to State finances are managed prudently, to maintain a triple-A rating.</i>	<p>In <i>South Australia's Strategic Plan</i> (released in March 2004), the Government announced a target of achieving a triple-A credit rating within three years, in line with other mainland states.</p> <p>In 2004 Standard & Poor's and Moody's Investor Services credit rating agencies upgraded South Australia's credit rating to triple-A. This was in recognition of South Australia's low net debt and other liabilities, robust fiscal performance and the Government's commitment to continued strong fiscal outcomes.</p>
<i>To ensure public non-financial corporations (PNFC) will only be able to borrow where they can demonstrate that investment programs are consistent with commercial returns (including budget funding).</i>	The Department of Treasury and Finance advises on PNFC compliance with the Government's target as part of the Cabinet project approval process. It is the Government's policy that projects approved by the relevant PNFC boards should also comply with its target.

Fiscal outlook

The achievement of the triple-A credit rating in 2004 is validation of the Government's approach to financial management. The 2005-06 Budget demonstrates the Government's continuing focus on providing funding for priority areas, including significant focus on infrastructure development. Table 1.4 shows that a positive net operating balance has been achieved across the forward estimates, with net lending deficits in the forward years supporting high priority infrastructure projects.

The full suite of accrual statements produced under the *Uniform Presentation Framework* is provided at Appendix A. Table 1.4 provides operating statement details for the general government sector for 2004-05, the budget year and over the following three forward years.

Table 1.4: General government sector operating statement — 2004-05 to 2008-09 (\$ million)

	2004-05 Budget	2004-05 Estimated	2005-06 Budget	2006-07 Estimate	2007-08 Budget	2008-09 Estimate result
GFS Revenue						
Taxation revenue	2 780	2 916	2 862	2 985	3 058	3 145
Current grants	5 051	5 195	5 427	5 553	5 769	5 932
Capital grants	177	184	182	206	212	169
Sales of goods and services	1 101	1 233	1 227	1 263	1 287	1 310
Interest income	161	147	154	157	159	166
Other	727	783	868	804	807	828
<i>Total revenue</i>	<i>9 997</i>	<i>10 458</i>	<i>10 721</i>	<i>10 968</i>	<i>11 291</i>	<i>11 549</i>
<i>less</i>						
GFS expenses						
Gross operating expenses						
Employee expenses	4 406	4 589	4 780	4 960	5 134	5 274
Depreciation	452	440	456	469	478	492
Other operating expenses	2 491	2 882	3 014	3 070	3 166	3 286
Nominal superannuation interest expense	338	307	307	309	309	308
Other interest expenses	263	242	242	225	213	205
Other property expenses	—	—	—	—	—	—
Current transfers	1 914	1 806	1 853	1 837	1 865	1 892
Capital transfers	17	19	19	20	18	18
<i>Total expenses</i>	<i>9 881</i>	<i>10 285</i>	<i>10 670</i>	<i>10 890</i>	<i>11 182</i>	<i>11 474</i>
<i>equals</i>						
GFS net operating balance	116	173	51	78	109	75
<i>less</i>						
Net acquisition of non-financial assets						
Purchases of non-financial assets	627	680	636	797	765	704
<i>less</i> Sales of non-financial assets	<i>111</i>	<i>106</i>	<i>139</i>	<i>109</i>	<i>91</i>	<i>87</i>
<i>less</i> Depreciation	<i>452</i>	<i>440</i>	<i>456</i>	<i>469</i>	<i>478</i>	<i>492</i>
<i>plus</i> Change in inventories	<i>—</i>	<i>-19</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>
<i>plus</i> Other movements in non-financial assets	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>
<i>equals Total net acquisition of non-financial assets</i>	<i>64</i>	<i>114</i>	<i>41</i>	<i>219</i>	<i>197</i>	<i>125</i>
<i>equals</i>						
GFS net lending	52	59	10	-141	-88	-50

The attachment to this chapter summarises the variations to the general government net operating and net lending estimates since the 2004-05 Budget and 2004-05 Mid-Year Budget Review.

Key budget aggregates and fiscal trends

Key budget indicators are summarised in Table 1.5.

Table 1.5: Summary of key general government budget indicators

		2003-04 Actual	2004-05 Estimated	2005-06 Budget result	2006-07 Estimate	2007-08 Estimate	2008-09
Budget balances							
Net operating balance	\$m	385	173	51	78	109	75
Net lending	\$m	424	59	10	-141	-88	-50
Cash surplus	\$m	522	62	-11	-70	-4	16
Revenue and expenses							
Revenue real growth	%	3.4	2.5	-0.2	-0.2	0.4	-0.2
Expenses real growth	%	4.4	4.9	1.0	-0.4	0.2	0.1
Interest ratios							
Net interest to revenue ^{(a) (b)}	%	0.8	0.9	0.8	0.6	0.5	0.3
Net interest plus nominal superannuation interest to revenue ^(b)	%	4.5	3.9	3.7	3.5	3.3	3.0
Debt and net financial worth ratios							
Net debt to revenue	%	2.3	1.7	1.2	1.8	1.9	1.7
Net debt plus unfunded superannuation liabilities to revenue	%	59.2	63.9	62.5	62.3	61.0	59.8
Net financial liabilities to revenue	%	80.0	82.9	80.5	80.2	78.9	77.8

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

(b) Revenue does not include interest income.

Note: Real terms calculations use the Adelaide CPI.

The ratio of net interest to revenue remains at very low levels across the forward estimates period. The forecast net lending deficits indicate that some increases in financial liabilities are anticipated. However the forecast net operating balances ensure that sufficient current year revenues are being generated to meet current year expenses including interest costs.

Net debt is forecast to remain steady across the forward estimates, with net financial liabilities increasing by approximately \$1 billion from June 2004 to June 2009. However, projected revenue growth ensures the ratio of net financial liabilities to revenue improves across the forward estimates period. Hence, in spite of projected net lending deficits, the State's capacity to meet obligations from revenue streams is strengthening.

Table 1.6: General government balance sheet position — June 2004 to June 2009 (\$ million)

As at 30 June	2004	2005	2006	2007	2008	2009
	Actual	Estimated	Budget	Estimate	Estimate	Estimate
Net debt	224	174	127	201	209	196
Unfunded superannuation	5 668	6 504	6 569	6 628	6 675	6 712
Net debt plus unfunded superannuation	5 892	6 678	6 696	6 829	6 884	6 908
Net financial liabilities	7 969	8 666	8 629	8 800	8 913	8 989
Net worth	15 760	16 293	17 065	17 638	18 126	18 594

Unfunded superannuation is similar to a debt in that it is an obligation to current and former members of the defined benefit superannuation funds that will need to be met in future years. By June 2005 unfunded superannuation liabilities will be around \$6.5 billion. On current forecasts unfunded superannuation will grow until 2011 before reducing until the liability will be fully funded in 2034.

Net financial liabilities include all the liabilities of the general government, offset by non equity financial assets of the sector, such as cash, advances and investments. This measure is broader than net debt as it includes significant liabilities other than borrowings, such as the unfunded superannuation liability and long service leave entitlements.

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

Table 1.6 shows a \$2.8 billion improvement in the net worth of the general government sector from June 2004 to June 2009. The net assets of both public non financial corporations and public financial corporations are forecast to increase across the forward estimates. Chapter 5 provides further information on changes in net worth.

Table 1.7: Interstate comparison of key budget aggregates (figures for 2005-06)

Indicators	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
General government net operating balance (\$m)	695	365	789	266	51	110	-356	34
General government net lending (\$m)	-699	-1 433	-96	-78	10	124	-367	-85
General government net financial worth per capita (\$)	6 306	1 957	4 708	6 332	3 215	4 469	8 825	-6 977
General government net debt to revenue (%)	-4.1	9.6	-66.3	0.1	1.2	-3.2	-72.1	46.3
General government net debt & superannuation liabilities to revenue (%)	39.4	66.5	-10.2	40.6	62.5	69.8	38.8	100.9
Net financial liabilities to revenue (%)	63.2	85.0	-4.0	50.3	80.5	75.2	52.7	112.1
Credit rating ^(a)	AAA	AAA	AAA	AAA	AAA	AA+	AAA	Aa2

(a) Credit rating as assigned by Standard & Poor's, other than for the Northern Territory, where the Moody's rating is shown.

Source: Vic, ACT and NT data have been sourced from the jurisdictions' 2005-06 Budget Papers. Information for other jurisdictions is sourced from 2004-05 Mid-Year Budget Review papers.

Table 1.7 compares key budget aggregates across jurisdictions. The table shows that in 2005-06 most jurisdictions are forecasting significant general government net operating balance surpluses. In contrast, all jurisdictions, with the exception of South Australia and Tasmania, are forecasting net lending deficits. This indicates that most jurisdictions are investing significant funds into infrastructure projects.

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

These comparisons need to be interpreted with care given accounting and other differences. For example, in the 2005-06 Budget, Victoria changed the valuation methodology for its unfunded superannuation liability to comply with Australian International Financial Reporting Standards. (South Australia adopted this methodology in the 2003-04 Mid-Year Budget Review). This had the effect of increasing the Victorian unfunded superannuation liability at 30 June 2005 by \$5.8 billion and thereby significantly deteriorating the ratio of net financial liabilities to revenue.

By reducing net financial liabilities as a percentage of revenue, the Government is strengthening its balance sheet thus creating a positive environment for economic growth and investment in South Australia.

Budget priorities

The 2005-06 Budget includes new operating and investing initiatives in the general government sector totalling \$883 million over the next four years. Significant support has been provided for multilateral initiatives in respect of road safety, social inclusion, public order and safety, skills and business support, science and innovation, and the environment. Significant increased funding has also been provided for hospitals.

A number of major transport infrastructure projects are also supported in this budget. These were announced in the *Strategic Infrastructure Plan for South Australia*.

Tax Cuts

The 2005-06 Budget delivers significant land tax reductions and continues progress with national tax reform through the abolition of debits tax and the removal of mortgage duty on refinancing, residential loans for owner occupation and mortgage discharges. The budget also specifies the program of IGA tax reform going forward with full abolition of mortgage and rental duty by 1 July 2009 and full abolition of stamp duty on non-quoted marketable securities and non-realty property transfers by 1 July 2010.

Expenditure priorities

The 2005-06 Budget continues to address all six key objectives of the *South Australia's Strategic Plan*, which will guide South Australia's development over the next decade. A number of initiatives have been developed as part of a multilateral approach to addressing particular objectives. By adopting a coordinated approach across a number of agencies more complete, targeted and effective initiatives are possible.

Improving well-being

The 2005-06 Budget continues the strong support for the health sector in past budgets and provides a further \$201 million over four years for additional funding in the health portfolio. These initiatives include (four-year totals):

- \$132 million for metropolitan hospitals;
- \$22 million for transition care for the aged. These additional resources are provided to match the Commonwealth's offer for additional transition care places. This will see a

further 86 places available under this program, bringing the total up to 176 (from the 90 currently available);

- \$20.8 million for mental health, with \$1.5 million per year for increases to the Assessment and Crisis Intervention Service, \$1 million per year for the Hospital at Home program to provide an alternative to hospital admission with intensive community treatment, and \$2.5 million per year for post hospital discharge intensive community treatment and support for clients. In addition, resources of \$3.8 million over four years have been provided to the Oakden Mental Health Facility. Also, in 2004-05, an additional \$25.0 million has been allocated for mental health community services; and
- \$1.4 million to support the delivery of vaccination programs in the State's schools by Local Government.

South Australia's Strategic Plan targets a 40 per cent reduction in road fatalities by 2010, with an ongoing focus on reductions in fatalities and serious injuries. In order to achieve this outcome, a major road safety program is included in the 2005-06 Budget which targets speeding and the non-observance of traffic light signals at road intersections and is complemented by a range of other road safety initiatives.

As part of this program, the Government will introduce and operate an additional 48 speed/red light cameras in metropolitan and selected regional areas at a cost of \$35.6 million over four years. In addition, \$3.3 million will also be spent on replacing existing ageing SAPOL speed detection equipment. To supplement these measures, there will be a one-off increase in expiation penalties for most speeding and traffic light offences of 10 per cent in 2005-06, on top of the general level of fee and charge increases factored into the budget.

Other road safety initiatives also supported in this budget include (four year totals):

- \$22 million to improve the quality of the road network;
- \$4.3 million to implement a package of measures aimed at curbing the incidence of driving under the influence of drugs;
- \$3.0 million in 2005-06 to expand the Rural Overtaking Lanes program;
- \$2.9 million for further rail safety related upgrades to level crossings;
- \$2.6 million for a heavy vehicle compliance program; and
- \$1.4 million to combat speeding on rural highways.

Expanding opportunity

A range of measures have been supported to help those members of the community who are in need.

Specific initiatives supported in the 2005-06 Budget include (four year totals):

- \$71.6 million to expand Home and Community Care program services. This increase is supported by \$44.1 million of Commonwealth contributions. The Home and Community

Care program delivers services to assist frail older people and their carers to live independently in their own homes and improve their quality of life;

- \$20.2 million to expand the Moving On program and provide support to school leavers with severe intellectual disabilities to attend meaningful and interesting activities during the day to continue skill development and pursue interests whilst providing families and carers with a break from the demands of caring. An additional \$25.0 million has also been allocated in 2004-05 for disability services programs;
- \$18.3 million for long term provision of in home support services for people with disabilities, including psychiatric disabilities; and
- \$9.7 million for alternative care services to support children with complex needs and young people under the Guardianship of the Minister.

Additional resources have been provided for energy concessions. These are:

- a one-off Energy Concession Bonus in 2004-05 of \$150 paid to each electricity customer eligible for the Electricity Concession; and
- the ongoing extension from 1 July 2005 of the Electricity Concession to single Centrelink Allowance recipients without dependents and students in receipt of Austudy or Abstudy allowances, with the additional one-off Energy Concession Bonus of \$150 also paid to this group.

The cost of the Energy Concession Bonus is \$34.1 million in 2004-05 and \$4.6 million in 2005-06. The extension of the electricity concession has an ongoing annual cost of \$3.6 million from 2005-06.

The budget also provides \$22.1 million over four years for additional educational support to meet the needs of disabled students, Aboriginal students and students with English language difficulties, and \$1.2 million to expand the Premier's Reading Challenge to encourage more students from Reception to Year 9 to read 12 books a year.

Other initiatives that have received funding include (four year totals):

- \$8.3 million to boost skills development in South Australia by increasing the level of core training hours provided by TAFE Institutes;
- \$4.2 million to continue the "Learning Together" program. This will support measures that strengthen relationships with families that may be disengaged with schooling;
- \$3.5 million to expand concession eligibility under the existing Transport Subsidy Scheme. This initiative will mean that 5000 more people with certain sight and cognitive disabilities will be able to use the access cab system for the first time; and
- \$1.7 million to allow the continuation of skills development on the Anangu Pitjantjatjara Yankunytjatjara (APY) lands.

Growing prosperity

A range of measures have been supported to help economic growth in South Australia, including (four year totals):

- \$6.0 million to extend the Regional Development Infrastructure Fund for a further two years to establish strategic infrastructure within regional communities;
- \$5.7 million for a significant upgrade to grain transport facilities on Eyre Peninsula;
- \$4.7 million to establish a Centre of Excellence in Defence Industry Systems Capability to develop systems integration skills in areas such as electronic warfare, simulation, communications and software engineering;
- \$4.2 million to expand the activities of the Business Enterprise Centres to further assist small businesses;
- \$4.0 million to facilitate the upgrade of the Port Lincoln Airport;
- \$2.5 million in 2005-06 to provide infrastructure and supporting facilities to establish the Australian Mineral Science Research Institute at Mawson Lakes; and
- \$2.0 million in 2005-06 for an expansion of the international and domestic marketing campaigns.

The *Strategic Infrastructure Plan for South Australia* (the Plan) was released on 6 April 2005. The principal purpose of the Plan is to guide new infrastructure investment by the Government and the private sector over the next five and 10 years and improve the management and use of the State's existing infrastructure assets.

The Plan is the first major step forward in developing a more coordinated, efficient, sustainable and innovative approach to infrastructure provision. The Budget includes expenditure associated with the major transport infrastructure projects that were announced as part of the Plan:

- extension of the light rail system to the Adelaide Railway Station;
- development of the Marion Interchange;
- the South Road underpass of Anzac Highway; and
- the South Road tunnel at Port and Grange Roads extending under the Outer Harbor railway line.

The Plan also announced an investigation into extending the Noarlunga rail line to Seaford, with a view to construction during the second five-year period of the plan.

In accordance with the Plan's objectives, the Government has also announced the extension of the light rail system to Brougham Place at a total cost of \$30 million.

Attaining sustainability

New initiatives in the 2005-06 Budget include:

- \$6.2 million over four years to support sand management activities;
- \$4.0 million over four years to implement a sustainable long-term sterilisation and relocation strategy for the management of koala populations on Kangaroo Island;
- \$2.7 million over four years to establish the Australian Energy Market Commission and for the investigation of measures to manage the State's future peak energy demands;
- \$1.0 million in 2005-06 (in addition to \$6.0 million provided in 2004-05) to rationalise the number of commercial fishing licences in the Gulf Waters of South Australia;
- \$2.4 million over four years for the River Murray salt interception schemes to reduce salt loads from natural groundwater inflow, mallee clearing and irrigation development from reaching the floodplain and the River Murray;
- \$1.8 million in 2005-06 for a number of projects along the River Murray in South Australia that will provide a range of benefits including environmental water savings, improved biodiversity, rehabilitation of degraded wetlands and research into the wiser use of water; and
- \$1.4 million over four years to expand the support to the Natural Resources Management Boards.

Fostering creativity

The 2005-06 Budget includes assistance to the Carnegie Mellon University to establish a physical presence in Adelaide. This assistance is subject to the finalisation of negotiations. The Government will support the early years of its operation by providing financial support and facilities. The University will serve as an international focal point for the enhancement of Adelaide as a destination for achieving quality internationally recognised degrees and research. It will initially offer professional Master's degree programs and executive and professional non-degree education.

\$9.5 million has been provided for the development of a purpose built state-of-the-art facility (Wine Innovation Cluster) to link the existing CSIRO Plant Industry building to a new building for the Australian Wine Research Institute. This will include space for Provisor Pty Ltd (the major national research facility), SARDI viticulture staff, and grape and wine scientists of the University of Adelaide.

A grant of \$8.0 million has been allocated for the modification and refurbishment of an existing building at the UniSA campus at Mawson Lakes, in order to establish the Mawson Institute for Advanced Manufacturing.

Arts and cultural institutions within South Australia are supported with \$4.1 million being provided over four years to support various initiatives, including (four year totals):

- \$1.0 million to allow the SA Museum to refurbish the Pacific Cultures Gallery;

- \$1.0 million for the State Library to ensure it capitalises on the recent major building redevelopment;
- \$0.7 million to the Adelaide Fringe Festival to ensure its continuing viability;
- \$0.6 million for various initiatives in response to the Arts Summit; and
- \$0.4 million to ARTLAB and \$0.4 million to the History Trust to enable these organisations to continue to meet their core service delivery objectives.

Building communities

New initiatives in the 2005-06 Budget include (four year totals):

- \$8.6 million for maintaining and operating police vehicles and for other accommodation related requirements;
- \$4.7 million to enhance the capacity of SAPOL to respond to incidents in regional South Australia by upgrading the specification for the additional police aircraft announced as part of the 2004-05 Budget;
- \$4.1 million for the Royal Flying Doctor Service base at Port Augusta to ensure the continued provision of aero-medical services (primary health care, emergency evacuations and allied health transport) to the northern areas of the state;
- \$4.3 million for the upgrade of the Christies Beach Police Complex;
- \$5.2 million to implement a licensing regime, aimed at controlling access to ammonium nitrate within the State;
- \$4.1 million for the replacement of ageing emergency service vehicles, some of which were previously transferred from local government; and
- \$2.4 million to increase the State's aerial fire fighting capacity.

Efficiency measures

In order to accommodate expenditure priorities, as well as the significant tax reductions, a number of savings measures have been included in the 2005-06 Budget.

- The 2005-06 Budget includes agency efficiency savings measures totalling \$14.7 million in 2005-06, increasing to \$15.8 million annually by 2008-09. These reflect reductions in agency operating costs. The Department of Health, the Department of Education and Children's Services, the Department of Further Education, Employment, Science and Technology, South Australia Police, the Department of Correctional Services and the Aboriginal Affairs and Reconciliation functions of the Department of the Premier and Cabinet have been excluded from the efficiency measures.

The reorganisation of the delivery of metropolitan health services into three regions will realise around \$1 million a year in savings which will be redirected to mental health initiatives.

- Fleet SA will extend the holding period for non-executive vehicles from two years/40,000 kilometres to three years/60,000 kilometres. This will align with the current treatment of executive vehicles and is estimated to generate annual savings of \$3.4 million by 2008-09.

Attachment – Variations in the net operating balance and net lending estimates since the 2004-05 Budget and the 2004-05 Mid-Year Budget Review

Tables 1.8 and 1.9 provides a reconciliation of the 2005-06 Budget estimates with the corresponding estimates published in the 2004-05 Budget and the 2004-05 Mid-Year Budget Review (MYBR).

Table 1.8: Variation in the general government net operating balance and net lending from the 2004-05 Budget to the 2004-05 MYBR (\$ million)

	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate
2004-05 Budget				
Net operating balance	116	118	176	255
Less: Net acquisition of non-financial assets	64	-8	39	90
Net lending	52	126	137	165
Parameter and other variations				
Revenue - taxation	79	61	62	65
Revenue - other	225	269	225	217
Operating expenses	-143	-285	-255	-248
Net capital investment expenditure	-33	4	8	26
Net effect of parameter and other variations	128	49	40	60
Policy measures				
Revenue - other	1	5	5	4
Operating expenses	-95	-52	-65	-69
Net capital investment expenditure	-28	-8	-8	14
Net effect of policy measures	-122	-55	-68	-51
2004-05 MYBR				
Net operating balance	184	116	147	224
Less: Net acquisition of non-financial assets	126	-4	39	50
Net lending	58	120	109	174

Table may not add due to rounding.

Table 1.9: Variation in the general government net operating balance and net lending since the 2004-05 MYBR (\$ million)

	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate
2004-05 MYBR				
Net operating balance	184	116	147	224
Less: Net acquisition of non-financial assets	126	-4	39	50
Net lending	58	120	109	174
Parameter and other variations				
Revenue - taxation	77	84	92	95
Revenue - other	93	151	143	65
Operating expenses	59	-84	-149	-145
Net capital investment expenditure	2	-58	-163	-125
Net effect of parameter and other variations	231	93	-77	-110
Policy measures up to the budget				
Revenue - taxation	-	-	1	1
Revenue - other	5	4	5	5
Operating expenses	-102	-38	-22	-20
Net capital investment expenditure	9	-5	-	1
Net effect of policy measures up to the budget	-89	-39	-17	-14
Policy measures in the budget				
Revenue - taxation	-20	-82	-88	-112
Revenue - other ^(a)	2	58	82	101
Operating expenses	-148	-174	-148	-149
Net capital investment expenditure	1	-32	-67	-75
Net effect of policy measures in the budget	-165	-230	-221	-235
Use of provisions set aside in the 2004-05 Budget and the 2004-05 MYBR				
Operating expenses	24	15	15	44
Net capital investment expenditure	-	50	50	52
Net effect of use of provisions set aside	24	65	65	97
2005-06 Budget				
Net operating balance	173	51	78	109
Less: Net acquisition of non-financial assets	114	41	218	197
Net lending	59	10	-141	-88

(a) Includes the impact of the change in the Public Non-financial Corporation Ownership Framework, revenue from road safety initiatives and additional Commonwealth funding for health. The impact of agency revenue measures is less than \$1 million.

Table may not add due to rounding.

Details of parameter and other variations since the 2004-05 MYBR are provided in Table 1.10.

Table 1.10: Revenue, expense and capital investment expenditure variations (parameter and other) since the 2004-05 MYBR (\$ million)

	2004-05	2005-06	2006-07	2007-08
Revenue-Taxation				
Payroll tax	14	19	19	20
Conveyances	65	34	34	37
Land tax	-	54	62	60
Other property tax	14	13	13	13
Insurance taxes	-1	-9	-9	-10
Gambling tax	-12	-23	-23	-21
Motor vehicle taxes	-2	-3	-4	-4
Total taxation revenue	77	84	92	95
Revenue-Other				
GST revenue and competition grants	17	10	-43	-74
Royalties	7	3	2	8
Interest revenue	-26	-21	-26	-38
Reclassification of Office of Public Transport to the general government sector	21	21	22	20
Port River Expressway - Stage 2 & 3	-18	5	24	-3
AusLink	12	22	50	59
Non-government schools per capita grants	37	56	56	56
Other variations	43	55	57	38
Total other revenue	93	151	143	65
Operating Expenses				
Nominal superannuation interest expense	38	36	37	39
Interest expense	14	-	-6	-7
Carryovers	63	-1	-14	-14
Reclassification of Office of Public Transport to the general government sector	-21	-22	-20	-17
Port River Expressway - Stage 2 & 3	28	86	39	-1
AusLink	1	-13	-10	-3
Non-government schools per capita grants	-37	-56	-56	-56
Other variations	-26	-115	-119	-87
Total expenses	59	-84	-149	-145
Net Capital Investment Expenditure				
Carryovers	56	-30	-18	-8
Provision for project slippage	-48	60	-	-
Reclassification of Office of Public Transport to the general government sector	1	2	-	-1
Port River Expressway - Stage 2 & 3	-7	-70	-98	-
AusLink	-12	-9	-41	-58
Other variations	12	-12	-5	-58
Total net capital investment expenditure	2	-58	-163	-125

Table may not add due to rounding.

Variations in revenue estimates (parameter and other)

Since the MYBR, taxation revenues have been revised up mainly to reflect stronger growth in property values and economic activity which impact on property taxes and payroll tax revenues respectively.

These revenue gains are partly offset by downward revisions to revenue from gaming machine tax, insurance and motor vehicle taxes.

Upward revisions to conveyance duty receipts reflect stronger than anticipated property value growth during 2004-05 which flows through as a base effect to future years but is partly offset by downward revisions to transaction levels in future years.

Land tax estimates reflect the impact of stronger growth in taxable site values.

Upward revisions to site values impacting on the 2005-06 land tax assessment year have been substantial, impacting both on private land owners and large public sector land-owning entities such as the South Australian Housing Trust.

Payroll tax estimates have been revised up over the forward estimates period reflecting the strength of economic conditions in 2004-05 and upward revisions to payroll growth estimates for 2005-06.

Taxation revenue from gaming machines has been revised down due to lower than anticipated growth in net gambling revenue in 2004-05 which flows through as a base effect to future years.

Downward revisions to insurance tax revenues reflect industry assessments that premiums for business risks will fall in 2005-06 following a sustained period of strong cyclical increases.

Motor vehicle tax revenues have been revised down to reflect projected falls in new motor vehicle prices in 2005-06 in response to tariff reductions and a strong exchange rate.

Revisions to GST revenue grants reflect a higher GST pool for 2004-05, the flow through effects of which are offset by downward revisions to growth in the GST pool across the forward estimates period.

Upward revisions to royalty estimates in 2004-05 reflect a return to full production at Olympic Dam and the impact of higher prices for copper and oil. Over the forward estimates, upward revisions to royalty estimates reflect higher price assumptions for petroleum products and the commencement in 2007-08 of production from One Steel's Project Magnet.

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

Table 1.11 summarises the movements in net interest expense since the MYBR.

Table 1.11: Net interest expense (\$ million)^(a)

	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate
2004-05 MYBR	83	67	36	9
2005-06 Budget	95	88	68	54
Increase in net interest expense since MYBR	12	21	32	45

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

Table may not add due to rounding.

The net interest expense has increased since the MYBR. The 2005-06 Budget includes a stable net debt position across the forward estimates. This is in contrast to the estimates included in the MYBR, which forecast an increasing negative net debt position.

The nominal superannuation interest expense has decreased by more than \$35 million per annum since the MYBR. This is primarily the result of a change in the methodology for calculating the nominal superannuation interest expense.

An item that formally appeared as an “other economic flow” (and included as part of “other revaluation adjustments” in Table 5.2 “Reconciliation of general government net worth”) is now treated as a transaction with a positive impact on the net operating and net lending balances.

This item reflects the net impact of the assumed earnings rate on superannuation assets being greater than the government bond rate being used to calculate the superannuation liability, in respect of both new service expense and the interest expense on the liability.

For 2005-06, the change in methodology reduces the nominal superannuation interest expense by \$31.9 million.

Other smaller impacts on the nominal superannuation interest expense are the slightly higher expected earnings rate on superannuation assets in 2004-05 and the slightly lower discount rate used to estimate the superannuation liabilities.

Carryover expenditure reflects under expenditure by agencies in 2004-05, which will now be incurred in later years.

Finally, other variations have resulted in an increase in estimated expenses across the forward estimates period. This covers a range of variations, including:

- changes in central provisions for enterprise bargaining outcomes;
- accounting variations since the MYBR, such as reclassification of expenditure between operating and investing expenditure and variations in accounting treatment that result in an increase in both expenditure and revenue;
- flow through of Commonwealth specific purpose payments; and
- a variety of other parameter variations across agencies.

The carryover of capital expenditure in 2004-05 reflects delays in project expenditure. Where appropriate, an estimate of expenditure by agencies for these projects has been carried forward into future years. A \$60 million provision for capital slippage is included in 2005-06, based on the established tendency for projects to slip behind schedule.

CHAPTER 2: EXPENDITURE

Overview

This chapter describes the Government's budget expenditure decisions and trends in aggregate general government expenditure. The decisions have been guided by the Government's overall priorities as reflected in *South Australia's Strategic Plan*. The 2005-06 Budget includes new expenditure initiatives in the general government sector totalling \$883 million (operating and investing) over the next four years. Table 2.1 shows the value of operating and investing initiatives across the forward estimates.

Table 2.1: General government expenditure initiatives (\$ million)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Operating initiatives	-160.3	-140.7	-142.6	-158.7
Investing initiatives	-45.3	-79.5	-82.1	-73.5
Total	-205.7	-220.3	-224.6	-232.1

A significant part of the new expenditure initiatives fall within the portfolios of Transport, Energy and Infrastructure; Health; Families and Communities; and Justice. They are presented in full within the portfolio sections of this chapter.

In addition to the measures summarised in Table 2.1, the cyclical strength of the Government's finances has enabled the Government to make significant one-off increases to expenditures in key priority areas during 2004-05. The provision of \$25 million to support the School Pride program and \$25 million to support health initiatives were announced in the Mid-Year Budget Review (MYBR). In addition to those measures, a number of new 2004-05 expenditure initiatives, are reflected in the 2005-06 Budget papers (Table 2.30), including \$114 million in 2004-05 for the following social inclusion initiatives:

- \$34.1 million for a one-off \$150 bonus payment to each electricity customer eligible for the energy concession. The one-off Energy Concession Bonus has also been extended to Centrelink, Austudy and Abstudy recipients at a cost of \$4.6 million in 2005-06. The existing \$120 per annum energy concession has also been extended to Centrelink, Austudy and Abstudy recipients at an additional annual cost of \$3.6 million;
- \$30.0 million to support the Housing Plan for South Australia, with \$15 million to establish an Affordable Housing Fund to support the sale of social housing to existing Housing Trust tenants and reinvest the proceeds into new affordable and high needs housing, and \$15 million to accelerate urban regeneration projects in The Parks (Westwood), Salisbury North and Playford North;
- \$25.0 million for mental health community services, with \$19.3 million to provide for community based recovery support packages, and \$5.7 million for a primary health care strategy to increase consultation and liaison within community based mental health services; and

- \$25.0 million for disability services programs, with \$17.1 million for Minda and Orana to assist with further deinstitutionalisation programs and establish an aged care facility, \$1.6 million for the purchase of 25 buses for day care option providers, and a range of grants to non-government organisations to provide operational support and fund innovative projects that will assist the disabled and their families within the community.

Other 2004-05 expenditure initiatives reflected in the 2005-06 Budget include:

- \$6.0 million for the buy back of commercial marine scale fish net licences and closure of net fishing in various areas to protect fish stocks that are under serious threat, particularly garfish. Fishing effort will be reduced to more sustainable levels. A further \$1.0 million has also been made available in 2005-06;
- \$5.0 million to support the purchase and development of open space throughout the State;
- \$2.5 million for sporting and recreational community facilities, with an additional \$1.75 million in grants paid to local and community based organisations to assist in the development and improvement of recreation and sporting facilities in the community, \$500 000 for Adelaide Aquatic Centre infrastructure, and \$250 000 for shelter areas at ETSA Park;
- \$2.1 million to support the operation of the Adelaide Symphony Orchestra over the next four years; and
- \$1.3 million for the replacement of country school buses.

The 2005-06 Budget includes savings measures totalling \$75 million (operating and investing) over the next four years (Table 2.2). This includes efficiency dividends of \$61 million from agencies. The Department of Health, the Department of Education and Children's Services, the Department of Further Education, Employment, Science and Technology, South Australia Police, the Department of Correctional Services and the Aboriginal Affairs and Reconciliation functions of the Department of the Premier and Cabinet have been excluded from the efficiency dividend. The reorganisation of the delivery of metropolitan health services into three regions will realise around \$1 million a year in savings which will be redirected to mental health initiatives.

Savings of \$9 million over four years have been estimated from extending the holding period for non-executive vehicles from two years/40 000 kilometres to three years/60 000 kilometres in line with the current treatment of executive vehicles and consistent with practices in other jurisdictions.

It is estimated that by 2008-09, the change in vehicle turnover policy will see investing expenditures reduce by \$19.2 million. These savings will be partially offset by a reduction in proceeds from vehicle sales, estimated at \$14.0 million in 2008-09, and increased maintenance costs of \$1.9 million.

Table 2.2: General government expenditure savings (\$ million)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Operating savings	15.2	15.1	14.5	15.0
Investing savings	1.4	2.7	5.4	5.2
Total	16.6	17.8	19.9	20.2

Portfolio details on operating, investing and saving initiatives of this budget are provided in Tables 2.14– 2.26.

Multilaterals

In May 2003, the Economic Development Board (EDB) released its report *A Framework for Economic Development in South Australia*. As part of that report the EDB recommended that the Government adopt a multilateral, or cross-agency, approach to the development of its budget. It encouraged agencies to look beyond their own operations and work cooperatively to achieve the Government's priorities, as set out in *South Australia's Strategic Plan*.

The 2005-06 expenditure initiatives respond to priority areas, for which the service delivery measures across a number of areas of government have been developed in a coordinated fashion. These include: Road Safety; Social Inclusion; Public Order and Safety; Skills and Business Support; Science and Innovation; and Environment.

Road Safety

A coordinated road safety measure comprises nine initiatives spanning the Justice and Transport, Energy and Infrastructure portfolios. These include a comprehensive drug-driving package, an additional 48 speed/red light cameras, additional speed detection equipment, level crossing upgrades, an expansion of the rural overtaking lane program and additional resources to improve the safety and integrity of the road system. Details are shown in Table 2.3. Fines for most speeding infringements and traffic light offences will be increased by 10 per cent in addition to the standard indexation increase of 2.9 per cent.

Table 2.3: Road Safety (\$000s)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
South Australia Police				
Operating initiatives				
Road safety — operational support for the additional 48 speed / red light cameras	-3 157	-4 034	-4 380	-4 726
Road safety — speed detector equipment	-1 011	-2 154	-155	—
Road safety — targeting of speeding on rural highways	-347	-357	-367	-375
Courts Administration Authority				
Operating initiatives				
Road safety — operational support for the additional 48 speed / red light cameras	-946	-2 239	-2 296	-2 353

Table 2.3: Road Safety (\$000s) continued

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Department for Transport, Energy and Infrastructure				
Operating initiatives				
Graduated Licensing Scheme — program support	—	-678	-199	-466
Road safety — drug-driving package implementation	-500	-500	-1 000	-1 800
Road safety — heavy vehicle compliance	—	-1 199	-751	-646
Road safety — operational support for the additional 48 speed / red light cameras	-270	-466	-588	-715
Investing initiatives				
Road safety — an additional 48 speed / red light cameras	-3 750	-1 850	-1 904	-1 958
Road safety — drug-driving package implementation	-470	—	—	—
Road safety — expansion of Rural Overtaking Lane program	-3 000	—	—	—
Road safety — level crossing upgrades	-2 665	-210	—	—
Road safety — Long Life Roads	-5 000	-7 000	-10 000	—
Total	-21 116	-20 687	-21 640	-13 039

Social Inclusion

This social inclusion multilateral includes eleven measures coordinated across the Education and Children's Services, Justice, Family and Communities, Transport, Energy and Infrastructure, Further Education, Employment, Science and Technology portfolios. These include increased resources to high needs students, alternative care services to children with complex needs, expansion of the Moving On program for disabled school leavers, support for the Port Augusta Youth Support Strategy, accommodation support services for people with a mental disability, a car theft reduction program that will provide an automotive training and employment opportunity scheme for young offenders in the southern suburbs, and increased eligibility for the Transport Subsidy Scheme. Details are shown in Table 2.4.

Table 2.4: Social Inclusion (\$000s)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Attorney-General's Department				
Operating initiatives				
Port Augusta Youth Support Strategy — ongoing support	-205	-205	-205	-205
Department for Transport, Energy and Infrastructure				
Operating initiatives				
Transport Subsidy Scheme — increased eligibility for the disabled	-1 076	-756	-792	-834

Table 2.4: Social Inclusion (\$000s) continued

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Department for Families and Communities				
Operating initiatives				
Accommodation support services — provision of in home support services for people with disabilities including psychiatric disability	-2 500	-5 000	-5 250	-5 500
Alternative care — services for children with complex needs	-2 342	-2 401	-2 461	-2 522
Car theft reduction — automotive training and employment opportunity scheme for young offenders in the Southern Suburbs	-268	-245	-255	-264
Moving On program — expansion of activity programs for disabled school leavers	-4 126	-5 229	-5 360	-5 494
Energy Concession — extend coverage to Centrelink, Austudy and Abstudy recipients	-3 629	-3 629	-3 629	-3 629
Energy Concession Bonus — for extended coverage	-4 634	—	—	—
Department of Education and Children's Services				
Operating initiatives				
Additional needs students — increased resources to support high needs students	-5 358	-5 469	-5 583	-5 698
Learning Together program — extension of the existing program	-1 000	-1 025	-1 051	-1 077
Department of Further Education, Employment, Science and Technology				
Operating initiatives				
TAFE system — continuation of skills development programs on APY lands	-400	-410	-420	-431
Total	-25 538	-24 369	-25 006	-25 654

Public Order and Safety

Fifteen initiatives to improve public order and safety will be delivered across the Justice and Administrative and Information Services portfolios. These include additional support for forensic science, acquisition of an upgraded police aircraft, additional operational resources for the South Australian police force, enhancements to the CRIMTRAC information system, and implementation of a new licensing regime to control access to ammonium nitrate. Details are shown in Table 2.5.

Chapter 2: Expenditure

Table 2.5: Public Order and Safety (\$000s)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
South Australia Police				
Operating initiatives				
APY Lands — increased police resources	-180	—	—	—
<i>Criminal Asset Confiscation Act 2004</i> — increased enforcement	-934	-874	-896	-919
CRIMTRAC — enhancement of police identity information systems	—	-205	-210	-215
Office of the Director of Public Prosecutions — additional resources	-300	-306	-313	-320
Livescan Fingerprint Scanning Technology — additional support	-93	-95	-98	-100
Police — additional resourcing to recognise certain cost increases	-1 919	-2 055	-2 212	-2 427
Police aircraft — extra operating support for upgraded specification	-132	-173	-183	-194
Telecommunications Interception System — upgrade	-36	-37	-38	-39
Investing initiatives				
Christies Beach police complex — accommodation improvements	—	-500	-2 500	-1 300
<i>Criminal Asset Confiscation Act 2004</i> — increased enforcement	-105	—	—	—
CRIMTRAC — enhancement to police identity information systems	-1 655	-742	—	—
Police aircraft — upgraded specification	-4 700	—	—	—
Courts Administration Authority				
Operating initiatives				
Justices of the Peace — presiding at court actions	-396	-273	-278	-284
State Coroner's Office — extra staff and administrative support	-700	-718	-735	-754
Attorney-General's Department				
Operating initiatives				
Port Augusta Youth Support Strategy — ongoing support	-205	-205	-205	-205
Removal of statutory time limitations — investigation and prosecution of sex related offences	-700	-700	-409	-417
Department for Administrative and Information Services				
Operating initiatives				
Ammonium nitrate — implementation of new licensing regime	-1 330	-1 194	-1 220	-1 247
Forensic Science — support for increased activity	-813	-728	-743	-758
Investing initiatives				
Ammonium nitrate — implementation of new licensing regime	-181	—	—	—
Forensic Science — additional equipment acquisition	-490	—	—	—
Total	-14 869	-8 805	-10 040	-9 179

Skills and Business Support

Skills and business support will be enhanced by nine expenditure measures spanning four portfolios — Further Education, Employment, Science and Technology, Tourism, Trade and Economic Development, and Premier and Cabinet, and a range of cuts to business taxes including land tax, debits tax, mortgage duty and rental duty. The major expenditure initiatives include increases in TAFE training programs, establishment of the Australian Defence Systems Integration Centre, expansion of the Business Enterprise Centre Network, and increased support for tourism. Details are shown in Table 2.6.

Table 2.6: Skills and Business Support (\$000s)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Department of the Premier and Cabinet				
Operating initiatives				
Viva SA — increased support	-100	-100	—	—
Department of Trade and Economic Development				
Operating initiatives				
Centre of Excellence in Defence Industry Systems Capacity — establishment	-2 100	-1 030	-845	-760
Small Business services — expansion of current activity	-1 000	-1 025	-1 051	-1 077
Small Business Week — State support for an annual event	-250	-256	-263	-269
Trade support — pursue trade opportunities in emerging Asian markets	-210	-224	-239	-254
Department of Further Education, Employment, Science and Technology				
Operating initiatives				
TAFE system — skills development	-2 000	-2 050	-2 101	-2 154
South Australian Tourism Commission				
Operating initiatives				
Australian Tourism Exchange — support for the 2006 event	-500	—	—	—
Domestic and international marketing — campaign to promote South Australia as a holiday destination	-2 000	—	—	—
SA Visitor and Travel Centre — establish an information and booking outlet at the new Adelaide Airport	-250	-256	-263	-269
Business Taxes^(a)				
Debits Tax	-55 800	-61 500	-62 100	-62 700
Land Tax	-23 200	-24 100	-24 800	-25 600
Mortgage Duty	—	—	-16 100	-35 500
Rental Duty	—	—	-5 600	-12 300
Other minor duties	—	-300	-400	-400
Total	-87 410	-90 841	-113 762	-141 283

(a) Excludes land tax relief for land ownerships that are wholly residential and excludes mortgage duty on refinancing and residential loans for owner occupation.

Science and Innovation

This multilateral includes State support for the Mawson Institute for Advanced Manufacturing and the Australian Mineral Scientific Research Institute, and a substantial commitment of resources to support collaborative research and development in the wine industry - the “wine cluster”. Financial provision is also held in contingencies in relation to

the finalisation of negotiations to establish the Carnegie Mellon University in Adelaide. Details are shown in Table 2.7.

Table 2.7: Science and Innovation (\$000s)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Department of Primary Industries and Resources				
Operating initiatives				
Australian Mineral Scientific Research Institute — support to establish infrastructure and facilities at Mawson Lakes	-2 500	—	—	—
Wine Innovation Cluster — collaborative research and development support	-7 000	-2 500	—	—
Department of Further Education, Employment, Science and Technology				
Operating initiatives				
Mawson Institute for Advanced Manufacturing — grant to modify and refurbish an existing building at UniSA Mawson Lakes Campus	-2 000	-2 000	-2 000	-2 000
Total	-11 500	-4 500	-2 000	-2 000

Environment

Reflecting the Government's commitment to the environment, fifteen new initiatives will be coordinated across the portfolios of Environment and Heritage, Water, Land and Biodiversity Conservation, Primary Industries and Resources, Trade and Economic Development and Transport, Energy and Infrastructure. These include additional support for the Natural Resources Management Boards, establishment of the Australian Energy Markets Commission, sand management and a range of land remediation initiatives. Details are shown in Table 2.8.

Table 2.8: Environment (\$000s)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Department of Trade and Economic Development				
Operating initiatives				
South Australian Murray-Darling Basin Resource Information Centre — establishment	-400	-280	-284	-293
Department of Primary Industries and Resources				
Operating initiatives				
Fisheries — reducing the number of commercial net licences	-1 000	—	—	—
Fisheries Council — establishment	—	-150	-500	-513
Department for Transport, Energy and Infrastructure				
Operating initiatives				
Australian Energy Market Commission — establishment	-1 625	—	—	—
Energy Demand Management Project — managing peak demand	-330	-287	-242	-248
Land remediation — former Australian National Rail land	-1 941	-1 126	-1 160	-400
Land remediation — land previously held for the Southern Expressway	-41	-1 208	-129	-110

Table 2.8: Environment (\$000s) continued

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Investing initiatives				
Land remediation — former Ports Corporation land	—	-1 025	-5 250	-269
Administered Items for the Department for Transport, Energy and Infrastructure				
Operating initiatives				
Glenelg / West Beach Development — disposal of dredged material	-1 500	—	—	—
Department for Environment and Heritage				
Operating initiatives				
Koala management — Kangaroo Island	-1 000	-1 000	-1 000	-1 000
Sand management — Patawalonga and West Beach boat havens	-1 489	-1 533	-1 571	-1 611
Department of Water, Land and Biodiversity Conservation				
Operating initiatives				
Murray-Darling Basin Commission — increased State contribution	-100	—	—	—
South Australian River Murray Projects — additional support	-1 800	—	—	—
Natural Resources Management Boards — additional support for regional boards	-1 000	-300	200	-300
River Murray Salt Interception Scheme — operating costs	-300	-690	-700	-720
Total	-12 526	-7 599	-10 636	-5 464

These priority areas are presented, along with other spending priorities of the Government, under the objectives of *South Australia's Strategic Plan*, in Chapter 1 and in the portfolio sections of this chapter.

General Government Expenditure

General government expenditure, defined as expenses less depreciation plus capital investment, is estimated to be \$326 million higher in 2005-06 than in 2004-05. This represents a real increase of 0.3 per cent. These movements reflect the net impact of decisions to increase spending in priority areas as well as the effect of economic and financial parameters that influence the budget outlook. Growth between the 2004-05 estimated result and 2005-06 expenditure has been partially offset by the one-off expenditure measures approved in 2004-05 and described above. For this reason there are some areas where total expenditure in 2005-06 is lower than in 2004-05. Detailed explanations of trends in expenditure appear later in this Chapter.

The key drivers of the movements in expenditure are:

- demand for services in the Health and Families and Communities portfolios;
- support for a range of measures within the Justice and Transport, Energy and Infrastructure portfolios; and
- predicted growth in employee expenses.

General government investment expenditure was \$506 million in 2003-04 and is estimated to be \$677 million in 2004-05. This compares to planned expenditure in the 2005-06 Budget of \$634 million. General government investing expenditures are then estimated to increase as major new infrastructure projects get underway. Details on the composition of the investing program in 2005-06 are contained in Budget Paper 5: *Capital Investment Statement*. The main portfolios where general government investing expenditures reduce are:

- Education and Children's Services — significant one-off expenditure was allocated in 2004-05 for the Targeted Asset Program;
- Administrative and Information Services — a number of major projects finish either in 2004-05 or early in 2005-06. These include the Education Centre, stage 2 of the Automated Torrens Land Title Administration System (ATLAS) project, the Government Radio Network project and expenditure associated with the Strategic Asset Management Information System;
- Health — significant one-off expenditure was allocated in 2004-05 for the urgent replacement of bio-medical equipment and other equipment that was beyond its useful life; and
- Transport, Energy and Infrastructure — a number of large projects, with significant expenditure requirements in 2004-05, conclude during 2005-06. Examples include the Adelaide Light Rail project from Glenelg to Victoria Square, expenditure associated with the purchase of long term core plant and the City West Connector. These are partially offset by increased expenditure on the Port River Expressway project in 2005-06.

Key components of expenses

Expenses by type

Forward estimates of general government expenses by type are shown in Table 2.9.

Table 2.9: General government expenditure — forward estimates (\$ million)^(a)

	2004-05 Budget	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Employee expenses						
Salaries and wages	3 853	3 997	4 174	4 335	4 492	4 633
Other employee entitlements	553	593	606	625	642	641
Operating expenses						
Depreciation expense	452	440	456	469	478	492
Transfers	1 930	1 825	1 872	1 857	1 883	1 910
Interest expense	263	242	242	225	213	205
Nominal superannuation interest expense	338	307	307	309	309	308
Other	2 491	2 882	3 014	3 070	3 166	3 286
Total expenses	9 881	10 285	10 670	10 890	11 182	11 474
<i>less</i>						
Depreciation expense	- 452	- 440	- 456	- 469	- 478	- 492
<i>plus</i>						
Purchases of property, plant and equipment	625	677	634	794	763	701
Total expenditure on net lending basis	10 053	10 522	10 848	11 215	11 467	11 684

(a) Table may not add due to rounding.

Employee expenses

General government sector employment expenses are estimated to be \$190 million higher in 2005-06 than the 2004-05 estimated result. The major increases are expected to occur in Health, Education and Children's Services and Police.

The outcome 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.

During 2004-05 enterprise agreements were established with three major workforce groups — Public Sector Nurses, the South Australian Police and the Wages Parity (Weekly Paid) group. The Government is currently in the process of negotiations with Teachers and Lecturers (the Government's second largest workforce group) whose enterprise agreement expired in March 2005, Salaried Medical Officers, whose enterprise agreement expired in April 2005, as well as South Australian Ambulance Service and South Australian Metropolitan Fire Service employees.

An enterprise agreement was not reached with the Public Service Association and the Association of Professional Engineers, Scientists and Managers Australia, that together represent the Wages Parity (Salaried) group — the Government's largest workforce group. An interim award, providing a 3.5 per cent increase to employees from October 2004, was handed down by the Full Bench of the Industrial Relations Commission of South Australia in October 2004. The Full Bench of the Industrial Relations Commission has completed its hearings and a decision about salaries is pending.

The 2005-06 Budget fully funds current enterprise agreements (and the Government's offer to those parties with which it is in negotiations) until they expire and provides for estimated remuneration increases after existing enterprise agreements expire.

Significant budget impacts have been felt from agreements struck and provided for in 2004-05. The rate of growth in employee expenses is an area of significant fiscal concern.

Public sector employment

The estimated aggregate workforce levels in the public sector for the periods ending 30 June 2005 and 2006 are shown in Table 2.10.

Table 2.10: Public sector employment numbers^(a)

	Full time equivalent employees	
	30 June 2005	30 June 2006
	Estimate	Estimate
General government sector	69 468	69 913
Public non-financial corporations sector ^(b)	3 856	3 860
Financial corporations sector	518	538
Estimated total public sector employment	73 842	74 311

(a) Table 2.10 aligns with the annual survey of the State's public sector workforce conducted by the Commissioner of Public Employment.

(b) In the 2004-05 Budget Statement, the Office of Public Transport (around 150 full time equivalents) was included in the public non-financial corporations sector. It is now included in the general government sector.

No Targeted Voluntary Separation Package (TVSP) scheme operated during 2004-05 and no provision has been made for TVSPs in 2005-06.

Operating (non-employee) expenses

The estimated growth in other operating expenses in 2005-06 (\$132 million) is mainly due to:

- the net effect of new spending and savings decisions taken during 2004-05 and in the 2005-06 Budget; and
- general growth in goods and services expenses in line with movements in the Consumer Price Index.

The estimated growth in other operating expenses is partially offset by a \$72 million reduction in the level of gas purchases from suppliers through the Natural Gas Authority of South Australia (NGASA). There is an equivalent reduction in revenues associated with the

subsequent sale to the companies who service the community. NGASA, which is being wound up at the end of 2005, was established to assist in the transition to a fully competitive gas supply market. From 2006, companies servicing the community will purchase gas directly from gas suppliers.

Other operating expenses include the impact of the revised agreement with Microsoft. The revised agreement provides a license for most corporate desktops and their network support, with three years of upgrade assurance. Additional expenditure of \$9.8 million was incurred by the Department for Administrative and Information Services in 2004-05 to purchase the license and software assurance (refer Table 2.30). This cost will be recovered from those agencies using the licenses over a three year period from 2005-06 until 2008-09. Cost recovery amounts for each agency are reflected within Tables 2.14 - 2.26 under operating initiatives.

Transfers

Table 2.11 provides details of transfer expenses from the general government sector to other sectors of government and the private sector. These transfers include:

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

Table 2.11: General government current and capital transfer expenses (\$ million)^(a)

	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
<i>Current transfers</i>					
Subsidy payments					
To public non-financial corporations					
Community service obligation payments	108	145	144	147	151
Other subsidies	260	256	256	257	262
To public financial corporations	31	58	28	28	29
To other	756	747	759	779	827
Current grant expenses	533	524	524	524	488
Other current transfer payments	117	123	125	128	135
Total	1 806	1 853	1 837	1 865	1 892
<i>Capital transfers</i>					
Capital grant expenses	9	11	14	11	10
Other capital transfer payments	10	8	7	8	8
Total	19	19	20	18	18

(a) Table may not add due to rounding.

Relative to the estimates published in the 2004-05 Budget, total current transfers as shown in Table 2.11 are significantly lower across the forward estimates. This mainly reflects the reclassification of the former Passenger Transport Board (now the Office of Public Transport)

from the public non-financial corporations sector to the general government sector. As a consequence, the level of subsidies made to public non-financial corporations are reduced by around \$170 million per annum, with all expenditures and revenues for the Office of Public Transport now fully reflected in the general government sector. This reduction is partially offset by higher subsidy payments to public non-financial corporations as a result of the implementation of the new ownership framework (discussed further below). Other movements in transfer expenses arise from the effects of reclassifications of general government expenditures, including those arising from the inclusion of school expenditures in the budget estimates for the first time during 2004-05.

The estimated growth in current transfers in 2005-06 (\$47 million) is mainly due to:

- higher subsidy payments to public non-financial corporations due to increased Community Service Obligation (CSO) payments to SA Water and ForestrySA as a result of the implementation of the new ownership framework for public non-financial corporations. Under the new framework, subsidies to SA Water increase for regional water and sewerage due to revision to the value of regional (non-commercial) assets under the new CSO framework, and increases in the cost of non-commercial activities undertaken by ForestrySA in line with its charter. To the extent that these increased payments improve the profit outcomes of these corporations there is some flow on to higher dividends back to the Government; and
- higher subsidy payments to public financial corporations, in 2005-06 only, are due to the timing of Commonwealth debt redemption assistance. Under the Financial Agreement Act 1994 the Commonwealth will pay South Australia almost \$30 million in 2005-06 (an increase of \$26 million over the previous year) to compensate it for the additional cost incurred as a result of raising debt in its own name, rather than by the Commonwealth borrowing on its behalf. This is then paid to SAFA as a transfer payment.

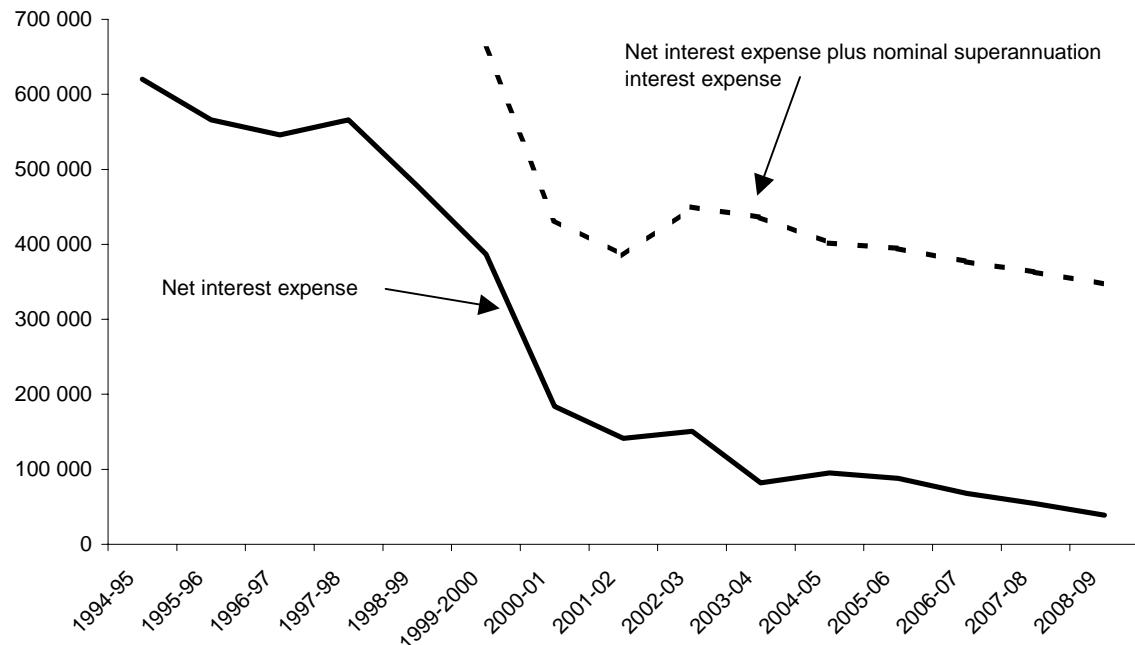
Current grant expenses fall in 2008-09 as a number of partly Commonwealth funded programs administered by the Department of Water, Land and Biodiversity Conservation end in 2007-08.

Interest expenses

General government interest expenses are projected to decline across the forward estimates period primarily reflecting a projected fall in interest rates charged by SAFA on its loans to the Treasurer.

Figure 2.1 presents a time series of actual and forecast net interest expenses. The sharp decline in net interest costs between 1997-98 and 2000-01 is due to the application of privatisation proceeds to debt reduction, which resulted in a lessening in the sensitivity of the budget to interest rate movements. Revenues previously received as dividends and tax equivalents from privatised government businesses have also been eliminated as a consequence.

Net interest expenses are relatively high compared to the level of net debt across the forward estimates. This largely reflects the effect of negative margins arising from concessional rate loans outside the general government sector.

Figure 2.1: General government sector net interest expenses: 1994-95 to 2008-09 (\$000)

Superannuation

The unfunded superannuation liability has been revised upwards since the 2004-05 Budget.

The primary factor determining the valuation of the unfunded superannuation liability is the discount rate used. Since the 2003-04 MYBR the Commonwealth 10 year bond rate has been used as the discount rate. This rate has fallen from 6.0 per cent at the time of the 2004-05 Budget to 5.3 per cent in early May 2005 resulting in an increase in the unfunded superannuation liability of \$951 million. A number of other factors affect the valuation; the result of all of these factors is that the unfunded liability at June 2005 is expected to increase by \$836 million from the June 2004 level.

The increase in the unfunded superannuation liability increases the nominal superannuation interest expenses. However, the 2005-06 Budget introduces a change in the methodology for calculating the nominal superannuation interest expense.

An item that was formerly classified as an “other economic flow” (and included as part of “other revaluation adjustments” in Table 5.2 “Reconciliation of general government net worth”) is now treated as a transaction with a positive impact on the net operating and net lending balances.

This item reflects the net impact of the assumed earnings rate on superannuation assets being greater than the government bond rate being used to calculate the superannuation liability, in respect of both new service expense and the interest expense on the liability.

For 2005-06, the change in methodology reduces the nominal superannuation interest expense by \$31.9 million.

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

Expenses by function

Expenses by function are shown in Table 2.12 according to the Australian Bureau of Statistics Government Purpose Classification.

The 2004-05 estimated result and 2005-06 estimate are not directly comparable to prior periods due to the first-time inclusion of schools and the Office of Public Transport in the general government sector. Consistent with accounting and statistical standard requirements, the revenues and expenses of schools were included in the budget estimates for the first time as part of the 2004-05 MYBR. This has the effect of boosting estimated education revenues and expenses by around \$114 million per annum, with no impact on the overall budget balance. The inclusion of the Office of Public Transport in the general government sector increases Transport and Communications revenues and expenses of the sector by approximately \$22 million. These classification changes need to be taken into account when making comparisons with previously published data for these categories.

Health (27.3 per cent) and education (25.8 per cent) each account for significant components of government expenses. The estimated increase in total expenses in 2005-06 over the 2004-05 Budget is 8.0 per cent.

Expenses in Health increase by 7.5 per cent in 2005-06 compared to the 2004-05 Budget estimate. This increase is 9.6 per cent in Public Order and Safety and 9.6 per cent in Social Security and Welfare. The increase of 11.1 per cent in Education is in part due to the inclusion of schools in the general government sector. Excluding the impact of schools, the increase is 6.1 per cent. Increases are primarily the result of demand for services in the Health and Families and Communities portfolios, a range of expenditure measures, predicted growth in employee expenses and the effect of economic and financial parameters that influence the budget outlook.

The increase of 22.1 per cent in Housing and Community Amenities is in part due to increased grants to the Housing Trust to meet its liabilities for land tax and income tax equivalents, and higher community services obligations payments to SA Water in 2005-06 as a result of the implementation of the new ownership arrangements for public non-financial corporations. The decrease in the Mining and Mineral Resources; Manufacturing and Construction reflects a reduction in the provision of firm-specific industry assistance. The decrease in Transport and Communications in 2004-05 compared to budget is in part due to expenditure for the Port River Expressway project now being classified as investing expenditure in the general government sector rather than as a grant. The increase in Other Economic Affairs in 2004-05 compared to budget is due to a one-off expense associated with variations to the Mitsubishi loan agreement. Other purposes expenses increase in 2005-06 compared to the 2004-05 estimate due to the timing of Commonwealth debt redemption assistance, as discussed earlier in the chapter.

Table 2.12: Estimate of expenses by function (\$ million)^(a)

	2003-04 Outcome	2004-05 Budget ^(b)	2004-05 Estimate	2005-06 Estimate	2005-06 % change on 2004-05 Budget
	\$m	\$m	\$m	\$m	
General public services	329	215	222	222	3.3
Defence	—	—	—	—	—
Public order and safety	900	940	959	1 030	9.6
Education	2 420	2 477	2 686	2 751	11.1
Health	2 563	2 714	2 815	2 917	7.5
Social security and welfare	545	590	659	647	9.6
Housing and community amenities	710	711	787	867	22.1
Recreation and culture	255	259	277	264	2.0
Fuel and energy	87	38	41	44	14.6
Agriculture, forestry, fishing and hunting	189	186	197	196	5.4
Mining and mineral resources (other than fuels); manufacturing and construction	87	107	93	91	-15.2
Transport and communications	624	711	644	713	0.3
Other economic affairs	219	181	229	171	-5.5
Other purposes	642	751	677	756	0.6
Total expenses	9 570	9 881	10 285	10 670	8.0

- (a) Expenses by function data are derived from information submitted by government departments and agencies. The processes for deriving these data are subject to ongoing refinements. Consequently the data may be subject to future revisions.
- (b) The 2004-05 Budget differs from that published in the 2004-05 Budget Statement for a number of categories. The variations are due to the correction of classification errors discovered subsequent to the 2004-05 Budget.

Interstate comparisons

The primary role of the Commonwealth Grants Commission (CGC), an independent Commonwealth statutory body, is to provide annual recommendations on the relative share of Commonwealth general purpose payments to be distributed to each State.

Its methodology, which produces an estimate of the level of standardised expenditure for each State for the full range of State functions, also provides the most comprehensive basis for comparing expenditure on the delivery of services between States.

The standardised expenditure for any function is the CGC's estimate of what it would cost to deliver the national average level of services in respect of that function, taking account of cost differences attributable to each State's particular circumstances. Consequently, it provides an objective benchmark against which to measure a government's actual expenditure levels.

Table 2.13 compares actual and standardised expenditures for South Australia for a wide range of government functions. In aggregate South Australia's actual expenditures in 2003-04 were \$637 million, or 7.7 per cent, above the equivalent standardised expenditure.

Table 2.13: Commonwealth Grants Commission expenditure assessments, South Australia

	2003-04	
	Difference between actual and standardised expenditure \$m	%
Education	169.8	9.8
Health	264.9	13.7
Welfare	-30.3	-3.9
Law, order and public safety	100.9	15.0
Culture and recreation	13.0	6.2
Economic activities	-118.1	-9.0
General public services	236.8	14.8
Total expenditure	637.0	7.7

Source: CGC Report on State Revenue Sharing Relativities 2005 Update.

Actual expenditures exceed standardised expenditures for most functions, while substantial below-average expenditure is shown for the 'Economic activities' function. This category covers a wide range of government activity but the major area of below-average expenditure relates to transport, comprising expenditures on roads and urban transit.

There are three possible explanations for the above-average expenditures:

- the CGC methodology or data is incorrect;
- South Australia delivers a sufficiently higher standard of service than the national average to justify this higher expenditure; or
- South Australia is inefficient in its delivery of services.

While there are always criticisms that can be made of both the CGC data and methodology, this methodology has been developed over a long period of time and is the subject of intense and competitive scrutiny by the States.

Higher expenditure levels may be appropriate where they are justified by the preferences of the South Australian community, but they are not justified when government programs are not delivered as efficiently as they should be.

Budget initiatives by Portfolio and Agency

This section reports 2005-06 Budget savings and spending initiatives by portfolio — that is, classified according to the operational and administrative structure of the Government.

Tables 2.14 - 2.26 detail the 2005-06 Budget savings and expenditure initiatives for each portfolio over the forward estimates. Savings and expenditure initiatives are shown on a gross basis, that is including expenditure of revenues received for the specific purpose. Individual initiatives within the tables are presented on a net lending basis, with the total impact of the portfolio's initiatives on both net lending and net operating balance shown. Expenditure decisions made outside of the budget process by the Government since the 2004-05 MYBR are shown as memorandum items in these tables.

The operating expenses of each portfolio as a whole are summarised in Table 2.27. The capital investment program for each portfolio is summarised in Table 2.28. Table 2.29 shows the net effect of these measures in summary form for each portfolio. Expenditure decisions since the 2004-05 MYBR that involve expenditure in 2004-05 are shown in Table 2.30. A number of new initiatives are reflected in the 2005-06 Budget papers, with expenditure to occur in 2004-05. These initiatives are also set out in Table 2.30 and where relevant discussed below.

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

Premier and Cabinet

The Budget provides significant resources to assist in the administration of the *Aboriginal Heritage Act* and the *Pitjantjatjara Land Rights Act*.

The Government has supported the operation of the Adelaide Symphony Orchestra over the next four years with an allocation of \$2.1 million in 2004-05.

Additional support is also provided to the Art Gallery and the History Trust to enable these organisations to continue to meet their core service delivery objectives. Support has also been provided to the South Australian Museum to refurbish the Pacific Cultures Gallery and the State Library to ensure it is able to capitalise on its recent major building redevelopment. Additional resources have been provided to the Adelaide Fringe Festival to ensure its continuing viability.

Resources have been provided to secure the biennial Australian International Documentary Conference for Adelaide and to implement a range of initiatives in response to the Arts Summit.

Financial provision has been held in contingencies in relation to Carnegie Mellon University establishing a physical presence in Adelaide. The Government is finalising negotiations to support the early years of its operation by providing financial support and facilities. The University will serve as an international focal point for the enhancement of Adelaide as a destination for achieving quality internationally recognised degrees and research. It will initially offer professional Masters degree programs and executive and professional non-degree education.

The savings measures within the portfolio, including those resulting from the review of the Office of the Commissioner for Public Employment, provide for a further rationalisation of administrative systems and better targeting of expenditure.

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

Table 2.14: Premier and Cabinet — savings and expenditure initiatives (\$000)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Operating initiatives	-3 053	-3 115	-2 726	-2 869
Investing initiatives	-500	-500	—	—
Savings initiatives	1 400	1 435	1 471	1 508
Impact on net lending	-2 153	-2 180	-1 255	-1 361
Impact on net operating balance	-1 653	-1 680	-1 255	-1 361
Department of the Premier and Cabinet				
Operating initiatives				
AustralAsia Railway Corporation — ongoing State contribution	-150	-150	-100	-100
Clipsal 500 — additional State and business promotion associated with the annual V8 race	-50	-51	-53	-54
Queen's Baton Relay — Melbourne 2006 Commonwealth Games	-110	—	—	—
Software licensing — revised arrangements	65	65	65	—
State protocol — additional resources	-100	-103	-105	-108
South Australia's Strategic Plan — Public Indicator report	-350	—	—	—
Viva SA — increased support	-100	-100	—	—
Savings initiatives				
Administrative measures — reduction in operating costs	450	461	473	485
Aboriginal Affairs and Reconciliation				
Operating initiatives				
Aboriginal Heritage Act — expansion of administrative capacity	-1 000	-1 025	-1 051	-1 077
Pitjantjatjara Land Rights Act administration — replacement of withdrawn Commonwealth support	-253	-790	-809	-830
Arts SA				
Operating initiatives				
Adelaide Fringe Festival — increased support	-200	-150	-150	-150
ARTLAB — sustaining paper conservators skills base	-100	-100	-100	-100
Arts Summit — various initiatives	-300	-300	—	—
History Trust — additional resources	-100	-100	-100	-100
Software licensing — revised arrangements	20	20	20	—
State Library — additional resources	-250	-256	-263	-270
Australian International Documentary Conference — resources to secure the conference for Adelaide	-75	-75	-80	-80

Table 2.14: Premier and Cabinet — savings and expenditure initiatives (\$000) continued

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Savings initiatives				
Administrative measures — reduction in operating costs	950	974	998	1 023
Investing initiatives				
SA Museum — Pacific Cultures Gallery	-500	-500	—	—
Memorandum Items - Measures up to the 2005-06 Budget				
Operating initiatives				
Government House — security upgrade	-210	-10	-10	-11
Yalata Community Centre — operational support	-50	-100	-100	-100
Office of the Commissioner for Public Employment — implementation of the outcomes of the review	594	623	1 893	1 926

Trade and Economic Development

Resources have been provided to further develop South Australia into the defence capital of Australia, a key target of *South Australia's Strategic Plan*. A Centre of Excellence in Defence Industry Systems Capability (CEDISC) will be established to develop systems integration skills in areas such as electronic warfare, simulation, communications and software engineering. A one-off allocation has also been made in 2005-06 to assist with the development of a business case to examine the potential to increase the permanent presence of the Army within the State.

Additional resources are provided to enable the Small Business Week to be held annually. This initiative will assist small business through a range of seminars and workshops aimed at improving business capability. An expansion in the activities of the Business Enterprise Centres and additional resources to the Regional Development Boards for business advisors will further assist small businesses across the State.

The extension of the Regional Development Infrastructure Fund for a further two years will provide support to establish strategic infrastructure within regional communities.

The South Australian Murray-Darling Basin Resource Information Centre will be established to identify areas within the South Australian Murray-Darling Basin region suitable for sustainable development that will assist in meeting the goal of trebling South Australia's export income.

The trebling of exports is a key target of *South Australia's Strategic Plan* with China and emerging markets in India and South East Asia seen as crucial in meeting this target. Increased support is provided to assist businesses currently operating or intending to operate in these markets.

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

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

Table 2.15: Trade and Economic Development — savings and expenditure initiatives (\$000)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Operating initiatives	-8 890	-6 795	-2 662	-2 653
Investing initiatives	—	—	—	—
Savings initiatives	609	625	640	656
Impact on net lending	-8 281	-6 170	-2 022	-1 997
Impact on net operating balance	-8 281	-6 170	-2 022	-1 997
Department of Trade and Economic Development				
Operating initiatives				
Army Presence in South Australia — development of a business case	-350	—	—	—
Centre of Excellence in Defence Industry Systems Capability — establishment	-2 100	-1 030	-845	-760
Small business services — expansion of current activity	-1 000	-1 025	-1 051	-1 077
Port Lincoln Airport — redevelopment ^(a)	-1 600	-1 000	—	—
Regional Development Infrastructure Fund	-3 000	-3 000	—	—
Small Business Week — State support for an annual event	-250	-256	-263	-269
Software licensing — revised arrangements	20	20	20	—
South Australian Murray-Darling Basin Resource Information Centre — establishment	-400	-280	-284	-293
Trade support — pursue trade opportunities in emerging Asian markets	-210	-224	-239	-254
Savings initiatives				
Administrative measures — reduction in operating costs	609	625	640	656

(a) Over and above these amounts \$1.400 million will be provided through the existing resources of the Strategic Industry Support Fund to facilitate a \$4 million upgrade.

Treasury and Finance

In February 2005, the Government announced a major land tax relief initiative. The budget incorporates the financial impact of adjustments to the land tax scale and the lifting of the tax-free threshold to provide broad-based relief. The budget provides for the introduction of specific land tax exemptions and an option to pay land tax on a quarterly basis. Resources are provided to Revenue SA to administer the initiative.

Administrative savings have also been budgeted for in the Department of Treasury and Finance.

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

Table 2.16: Treasury and Finance — savings and expenditure initiatives (\$000)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Operating initiatives	-271	-232	-233	-329
Investing initiatives	—	—	—	—
Savings initiatives	450	461	473	485
Impact on net lending	179	229	240	156
Impact on net operating balance	179	229	240	156
Department of Treasury and Finance				
Operating initiatives				
Revenue SA — additional resources for administration of Land Tax relief	-320	-280	-280	-280
Software licensing — revised arrangements	95	95	95	—
Savings initiatives				
Administrative measures — reduction in operating costs	450	461	473	485
Support Services to Parliamentarians				
Operating initiatives				
Electorate Offices — administrative support	-46	-47	-48	-49
Memorandum Items - measures up to the 2005-06 Budget				
Operating initiatives				
<i>Gaming Machines (Miscellaneous) Amendment Act 2004 — increased Gamblers Rehabilitation Fund contribution</i>	-1 595	-1 539	-1 481	-1 420

Justice

The budget maintains the Government's commitment to provide additional resources for South Australian Police (SAPOL) and for the administration of justice within the State.

Significant additional resources are provided to Justice agencies to pursue criminal asset confiscations, for the continuing crackdown on organised crime and its association with the security industry and for the enhancement of crime information systems.

Resources have been provided to SAPOL for the upgrade of the Christies Beach Police Complex, for maintaining and operating police vehicles and for other accommodation related requirements.

The capacity of SAPOL to respond to incidents in regional South Australia will be enhanced by a significant upgrade to the specification of the additional police aircraft announced as part of the 2004-05 Budget.

The Government is continuing its commitment to road safety by providing additional resources to replace ageing SAPOL speed detection equipment. Support has been provided to SAPOL and the Courts Administration Authority for operations related to the deployment of 48 additional speed/red light cameras in metropolitan Adelaide and in selected regional areas.

The budget provides additional resources to the Attorney-General's Department for the Office of the Director of Public Prosecutions. This includes additional operational resources and specific resources relating to the investigation and prosecution of sex related offences, (pre 1982) resulting from the removal of relevant statutory time limits. Significant extra staff and administrative support have also been provided to the State Coroner's Office. In addition, resources are provided to enable Justices of the Peace to preside at certain court actions to assist in relieving pressure on the courts system. Resources have also been provided to maintain support for the Port Augusta Youth Support Strategy.

In the area of emergency services, the budget provides significant resources for the replacement of ageing emergency service vehicles, some of which were transferred from local government, as well as for increased aerial fire fighting capacity. The Country Fire Service will also benefit from extra resources for operational planning and preparedness.

Additional resources have been provided for stage 2 of a project to upgrade fire safety systems in the State's prisons.

The budget also provides resources to double the Government's multicultural community support grants.

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

Table 2.17: Justice — savings and expenditure initiatives (\$000)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Operating initiatives	-20 171	-19 435	-18 071	-19 782
Investing initiatives	-7 260	-1 642	-2 500	-1 300
Savings initiatives	1 800	1 845	1 891	1 938
Impact on net lending	-25 631	-19 232	-18 680	-19 144
Impact on net operating balance^(a)	-18 436	-18 095	-17 027	-18 691
South Australia Police				
Operating initiatives				
APY Lands — increased police resources	-180	—	—	—
<i>Criminal Asset Confiscation Act 2004</i> — increased enforcement	-934	-874	-896	-919
CRIMTRAC — enhancement of police identity information systems	—	-205	-210	-215
Livescan Fingerprint Scanning Technology — additional support	-93	-95	-98	-100
Police — additional resourcing to recognise certain cost increases	-1 919	-2 055	-2 212	-2 427
Police aircraft — extra operating support for upgraded specification	-132	-173	-183	-194
Road safety — operational support for the additional 48 speed / red light cameras	-3 157	-4 034	-4 380	-4 726
Road safety — speed detector equipment	-1 011	-2 154	-155	—
Road safety — targeting of speeding on rural highways	-347	-357	-367	-375
Software licensing — revised arrangements	201	201	201	—
Telecommunications Interception System — upgrade	-36	-37	-38	-39

Table 2.17: Justice — savings and expenditure initiatives (\$000) continued

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Investing initiatives				
Christies Beach police complex — accommodation improvements	—	-500	-2 500	-1 300
<i>Criminal Asset Confiscation Act 2004</i> — increased enforcement	-105	—	—	—
CRIMTRAC — enhancement to police identity information systems	-1 655	-742	—	—
Police aircraft — upgraded specification	-4 700	—	—	—
Courts Administration Authority				
Operating initiatives				
Accommodation — additional lease expenses	-150	-154	-158	-162
Justices of the Peace — presiding at court actions	-396	-273	-278	-284
Road safety — operational support for the additional 48 speed / red light cameras	-946	-2 239	-2 296	-2 353
Software licensing — revised arrangements	141	141	141	—
State Coroner's Office — extra staff and administrative support	-700	-718	-735	-754
Savings initiatives				
Administrative measures — reduction in operating costs	600	615	630	646
Attorney-General's Department				
Operating initiatives				
Justice portfolio — partial reversal of 2003-04 savings measure	-3 357	-1 365	-1 351	-1 336
Multicultural Grants Scheme — increased support	-200	-200	-200	-200
Office of the Director of Public Prosecutions — additional resources	-300	-306	-313	-320
Port Augusta Youth Support Strategy — ongoing support	-205	-205	-205	-205
Removal of statutory time limitations — investigation and prosecution of sex related offences	-700	-700	-409	-417
Software licensing — revised arrangements	290	290	290	—
Savings initiatives				
Administrative measures — reduction in operating costs	1 150	1 179	1 208	1 238
Administered Items for the Attorney-General's Department				
Operating initiatives				
Bodies in the Barrel Case — additional expenses	-2 500	—	—	—
Criminal cases — provision for additional expenses	-350	—	—	—
Correctional Services				
Operating initiatives				
Corrections officers — settlement of industrial claim	-742	-758	-773	-789
Prisoner movement — additional expenses	-470	-486	-503	-521
Software licensing — revised arrangements	102	102	102	—
Investing initiatives				
Fire Safety Systems — stage 2 upgrade	-800	-400	—	—

Table 2.17: Justice — savings and expenditure initiatives (\$000) continued

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Emergency Services Administrative Unit				
Operating initiatives				
Emergency services vehicles — replacement of existing vehicles through lease arrangements	-630	-954	-1 133	-1 407
Software licensing — revised arrangements	37	37	37	—
Workers compensation — recognition of obligations	-514	-576	-628	-676
Savings initiatives				
Administrative measures — reduction in operating costs	50	51	53	54
Country Fire Service				
Operating initiatives				
Aerial fire fighting — increased capacity	-370	-670	-687	-704
Operational planning and preparedness — increased support	-612	-627	-643	-659
Software licensing — revised arrangements	9	9	9	—
Memorandum Items - measures up to the 2005-06 Budget				
Operating initiatives				
Combating organised crime — increased investigation, prosecution and licencing capacity	-1 111	-925	-1 000	-1 069
Community organisations — Land Tax relief	-260	-260	-260	-260
Kapunda Road Royal Commission — resources to support operations ^(b)	-65	—	—	—
State rescue helicopter service — revised contractual arrangements	-630	-100	400	610

(a) Impact on net operating balance does not equal Operating initiatives less Savings as a result of depreciation expenses of \$65 000 in 2005-06, \$505 000 in 2006-07, \$847 000 in 2007-08 and \$847 000 in 2008-09 arising from investing initiatives funded in the 2005-06 Budget. This depreciation is not shown in the investing measures as it does not affect net lending.

(b) An additional \$485 000 also provided in 2004-05.

Primary Industries and Resources

Additional resources of \$7.0 million have been provided to rationalise the number of commercial fishing licences in the Gulf Waters of South Australia (\$6.0 million in 2004-05 and \$1.0 million in 2005-06). This measure will provide for the future sustainability of key marine scalefish species. The Government has offered marine scalefish licence holders with net endorsements, the opportunity to relinquish their net endorsement and their entire marine scalefish licence as part of a voluntary buyback.

The Government will also spend an additional one-off \$5.0 million in 2004-05 on the purchase and development of open space throughout the State.

Resources are provided for infrastructure and supporting facilities to establish the Australian Mineral Science Research Institute at Mawson Lakes. Support has also been provided for the development of a purpose built state-of-the-art facility (Wine Innovation Cluster) to link the existing CSIRO Plant Industry building to a new building for the Australian Wine Research Institute (AWRI). This will include space for Provisor Pty Ltd (the major national research

facility), SARDI Viticulture staff, and grape and wine scientists of the University of Adelaide. The Wine Innovation Cluster will contain the following features:

- space for visiting researchers to access the facilities;
- development of multiple-user laboratories for grape and wine sample preparation for chemical analysis;
- collocated fermentation laboratories with multi-scale fermentation capabilities;
- joint operation and development of sensory facilities;
- collocation of AWRI, Provisor and the University of Adelaide analytical chemistry equipment with CSIRO analytical laboratories to develop a world-leading analytical chemistry cluster with a grape and wine focus;
- a capacity to develop metabolomics for use in wine and grape research; and
- a collocated multidisciplinary research capacity to develop practical tools for whole of chain management of colour, tannin, aroma and flavour features in grape and wine which contribute to quality.

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

Table 2.18: Primary Industries and Resources — savings and expenditure initiatives (\$000)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Operating initiatives	-10 615	-2 772	-628	-789
Investing initiatives	—	—	—	—
Savings initiatives	1 592	1 632	1 672	1 714
Impact on net lending	-9 023	-1 140	1 044	925
Impact on net operating balance	-9 023	-1 140	1 044	925
Department of Primary Industries and Resources				
Operating initiatives				
Australian Mineral Scientific Research Institute — support to establish infrastructure and facilities at Mawson Lakes	-2 500	—	—	—
Fisheries — reducing the number of commercial net licences	-1 000	—	—	—
Fisheries Council — establishment	—	-150	-500	-513
Software licensing — revised arrangements	118	118	118	—
Wine Innovation Cluster — collaborative research and development support	-7 000	-2 500	—	—
Savings initiatives				
Administrative measures — reduction in operating costs	1 350	1 384	1 418	1 454

Chapter 2: Expenditure

Table 2.18: Primary Industries and Resources — savings and expenditure initiatives (\$'000) continued

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Planning SA				
Operating initiatives				
Software licensing — revised arrangements	18	18	18	—
Savings initiatives				
Administrative measures — reduction in operating costs	200	205	210	215
Office of Local Government				
Operating initiatives				
Software licensing — revised arrangements	3	3	3	—
Savings initiatives				
Administrative measures — reduction in operating costs	42	43	44	45
Office for Sustainable, Social, Environmental and Economic Development				
Operating initiatives				
Software licensing — revised arrangements	2	2	2	—
Outback Areas Community Development Trust				
Operating initiatives				
Community programs — expansion	-256	-263	-269	-276
Memorandum Items - measures up to the 2005-06 Budget				
Operating initiatives				
Cattle Industry Fund — control of Bovine Johne's disease in South Australia ^(a)	-732	-701	64	75
Lower Eyre Peninsula — Agriculture, Natural Resources and Biodiversity Re-establishment Program ^(b)	-2 655	-2 195	—	—
Marine pests — State contribution to national system of prevention and management	-780	-788	-795	—
Investing				
Andamooka water supply — new supply pipeline ^(c)	-200	—	—	—

(a) \$302 000 also provided in 2004-05.

(b) Includes contributions from the Commonwealth of \$1.640 million in 2004-05 and \$1.040 million in 2006-07. Over and above these amounts \$100 000 is spent in 2004-05 and \$400 000 has been redirected from existing resources.

(c) Project managed by the Department for Transport, Energy and Infrastructure in 2004-05.

Transport, Energy and Infrastructure

The 2005-06 Budget provides support for a range of significant transport and infrastructure projects.

Resources have been provided for an underpass at the intersection of South Road and Anzac Highway, as well as a tunnel to run beneath Grange Road, Port Road, and the adjacent rail crossing. These projects will significantly improve the flow of traffic on Adelaide's major north-south transport corridor.

This Government is also investing \$22 million in improving the quality of our road network with the new "long life roads program". Resources have also been provided for the upgrade of the DV Fleming bridges on South Road and for further rail safety related upgrades to level crossings. The City of Adelaide will realise multiple benefits from stage 2 of the North Terrace redevelopment project and resources are also provided for a significant upgrade to grain transport facilities on Eyre Peninsula.

Adelaide public transport will also receive significant support in the budget, with the extension of the Glenelg tramline from Victoria Square to North Terrace (adjacent to the Adelaide Railway Station), with a further allocation set aside to fund additional line extensions, including the possibility of extending the line past the Adelaide Oval and Women's and Children's Hospital to Brougham Place. The development of the Marion Interchange, will also provide another significant boost towards achieving *South Australia's Strategic Plan* public transport target. The Government's commitment to social inclusion is being recognised in transport by the commitment to broadening the eligibility of people with certain disabilities to access the South Australian Transport Subsidy Scheme. This will mean that 5000 more people with certain sight and cognitive disabilities will be able to use the access cab system for the first time.

In line with the Government's commitment to reducing the State's road toll, resources have been provided for the acquisition and installation of 48 new speed/red light cameras.

Marine safety will be enhanced by expanded funding for a 24 hour marine radio monitoring service.

The budget also provides additional resources for the establishment of the Australian Energy Market Commission and for the investigation of measures to manage the State's future peak energy demands.

Savings measures within the portfolio are designed to provide for a further rationalisation of administrative systems and for a better targeting of current expenditure.

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

Table 2.19: Transport, Energy and Infrastructure — savings and expenditure initiatives (\$000)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Operating initiatives	-14 167	-4 897	-5 945	-6 494
Investing initiatives	-35 671	-77 175	-78 109	-71 371
Savings initiatives	4 100	4 202	4 308	4 416
Impact on net lending	-45 738	-77 870	-79 746	-73 449
Impact on net operating balance^(a)	-10 067	-1 332	-2 790	-3 372

Table 2.19: Transport, Energy and Infrastructure — savings and expenditure initiatives (\$'000) continued

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Department for Transport, Energy and Infrastructure				
Operating initiatives				
Australian Energy Market Commission — establishment	-1 625	—	—	—
Energy Demand Management Project — managing peak demand	-330	-287	-242	-248
Graduated Licensing Scheme — program support	—	-678	-199	-466
Kangaroo Island roads — upgrades ^(b)	-117	-400	-400	-400
Land remediation — former Australian National Rail land ^(c)	-1 941	-1 126	-1 160	-400
Land remediation — land previously held for the Southern Expressway ^(d)	-41	-1 208	-129	-110
Marine safety — radio monitoring service	-600	-600	-646	-662
Marion interchange — change to grants to TransAdelaide to facilitate the redevelopment ^(e)	-5 740	2 150	-211	-213
Road safety — drug-driving package implementation	-500	-500	-1 000	-1 800
Road safety — heavy vehicle compliance	—	-1 199	-751	-646
Road safety — operational support for the additional 48 speed / red light cameras	-270	-466	-588	-715
Relocation assistance — Birkenhead infrastructure	-600	—	—	—
Software licensing — revised arrangements	173	173	173	—
Transport Subsidy Scheme — increased eligibility for the disabled	-1 076	-756	-792	-834
Investing initiatives				
DV Fleming bridges — upgrade	-1 855	—	—	—
Electricity and Gas Compliance Management database — replacement	-265	—	—	—
Eyre Peninsula Grain Transport Plan — infrastructure upgrade	-2 563	-3 150	—	—
Land remediation — former Ports Corporation land ^(f)	—	-1 025	-5 250	-269
Light Rail — extension to Adelaide Railway Station	-4 400	-16 600	—	—
Light Rail — extension to Brougham Place	-300	-12 000	-12 700	-5 000
Marine safety — radio monitoring service	-118	-135	—	—
Port Wakefield road upgrade — land acquisition	—	—	-3 231	—
Public transport infrastructure — upgrade to environmental and industry standards	-1 025	-525	-862	-1 214
Road safety — an additional 48 speed / red light cameras	-3 750	-1 850	-1 904	-1 958
Road safety — drug-driving package implementation	-470	—	—	—
Road safety — expansion of Rural Overtaking Lane program	-3 000	—	—	—
Road safety — level crossing upgrades	-2 665	-210	—	—
Road safety — Long Life Roads	-5 000	-7 000	-10 000	—
South Road underpass — Anzac Highway	-5 130	-14 710	-15 080	-22 080
South Road tunnel — Port Road and Grange Road	-5 130	-15 770	-22 620	-40 850
Sturt Highway extension — land acquisition	—	-4 200	-6 462	—
Savings initiatives				
Administrative measures — reduction in operating costs	4 100	4 202	4 308	4 416

Table 2.19: Transport, Energy and Infrastructure — savings and expenditure initiatives (\$000) continued

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Administered Items for the Department for Transport, Energy and Infrastructure				
Operating initiatives				
Glenelg / West Beach Development — disposal of dredged material	-1 500	—	—	—
Memorandum Items - measures up to the 2005-06 Budget				
Operating initiatives				
Walkerville office — disposal of car park land	3 730	700	—	—
North Terrace Redevelopment — stage 2	-3 220	—	—	—
Railcar maintenance — revised contractual arrangements	-456	-866	-628	272
Adelaide metropolitan bus services — revised contractual arrangements ^(g)	-3 345	-3 338	-3 316	-3 350
New Portfolio arrangements — additional resources	-483	-494	-505	-517
(a)	Impact on net operating balance does not equal Operating initiatives less Savings as a result of depreciation expenses of \$637 000 in 2006-07, \$1.153 million in 2007-08 and \$1.294 million in 2008-09 arising from investing initiatives funded in the 2005-06 Budget. This depreciation is not shown in the investing measures as it does not affect net lending.			
(b)	Expenditure funded through an increase in port charges.			
(c)	The sale of former Australian National Rail land is reflected in the budget for the first time. Amounts included are \$8.240 million in 2005-06, \$6.410 million in 2006-07, \$1.910 million in 2007-08 and \$1.295 million in 2008-09.			
(d)	The sale of land previously held for the Southern Expressway is reflected in the budget for the first time. Amounts included are \$2.300 million in 2006-07, \$2.600 million in 2007-08 and \$2.300 million in 2008-09.			
(e)	This reflects the contribution to TransAdelaide. Project construction will be undertaken by TransAdelaide. The current schedule of works are \$5.740 million in 2005-06 and \$1.050 million in 2006-07.			
(f)	The sale of former Ports Corporation land is reflected in the Budget for the first time. Amounts included are \$852 000 in 2005-06, \$2.487 million in 2006-07, \$6.272 million in 2007-08 and \$7.576 million in 2008-09.			
(g)	These amounts are over and above those provided for in the 2004-05 Mid-Year Budget Review of \$6.825 million in 2005-06, \$7.100 million in 2006-07, \$7.397 million in 2007-08 and \$7.694 million in 2008-09.			

Health

The 2004-05 Budget provided \$603 million over four years for new initiatives across the former Human Services portfolio, including \$239 million of additional funding to sustain services in metropolitan hospitals.

The 2005-06 Budget again provides for substantial new expenditure in the health portfolio. This includes \$132 million to maintain current hospital services and support increased activity levels. Additional support is also provided:

- for transition care for the aged. Consistent with the Generational Health Review this program is aimed at addressing the overcrowding and long waiting lists existing in the public hospital system partially as a result of frail aged people inappropriately occupying hospital beds. Additional resources are provided to match the Commonwealth's offer for 176 transition care places. This will see the program places increase from 90 to 176 places;
- to support the delivery of vaccination programs in the State's schools by local government; and

- to develop a long term management system aimed at reducing and managing waiting lists and waiting times for elective surgery.

The 2004-05 Mid-Year Budget Review included additional one-off support of \$25 million in 2004-05 for elective surgery, biomedical equipment, reduction of dental waiting lists and mental health initiatives.

Additional resources have been provided to support mental health initiatives, particularly community support and home treatment. These include:

- one-off support of \$25.0 million in 2004-05 for mental health community services, with \$19.3 million to provide for community based recovery support packages and \$5.7 million for a primary health care strategy to increase consultation and liaison within community based mental health services; and
- ongoing funding commencing in 2005-06, with \$1.5 million per year for increases to the Assessment and Crisis Intervention Service, \$1.0 million per year for the Hospital at Home program to provide an alternative to hospital admission with intensive community treatment and \$2.5 million per year for post hospital discharge intensive community treatment and support for clients.

In addition, the Government has made a number of decisions that have seen additional resources directed towards the health portfolio. These include:

- redevelopment of the Murray Bridge, Port Adelaide and Playford Ambulance Stations and replacement of South Australian ambulance information systems; and
- expenditure for the new Visiting Medical Specialist enterprise agreement.

The reorganisation of the delivery of metropolitan health services into three regions will result in administrative savings, which will be redirected to mental health initiatives.

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

Table 2.20: Health — savings and expenditure initiatives (\$000)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Operating initiatives	-47 728	-51 498	-51 321	-54 397
Investing initiatives	—	—	—	—
Savings initiatives	1 000	1 025	1 051	1 077
Impact on net lending	-46 728	-50 473	-50 270	-53 320
Impact on net operating balance	-46 728	-50 473	-50 270	-53 320
Department of Health				
Operating initiatives				
Elective surgery — improved management system to reduce waiting lists	-750	—	—	—
Consolidated financial reporting — resources to improve financial management within the Department of Health ^(a)	-1 943	-1 850	-118	—
Mental health — additional resources for community support and home treatment	-5 000	-5 125	-5 253	-5 384

Table 2.20: Health — savings and expenditure initiatives (\$000) continued

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Metropolitan hospitals — increased operational support to address demand pressures	-31 233	-32 283	-33 376	-34 749
Nursing — additional resources for agency nurses	-3 099	-3 260	-3 346	-3 432
Oakden mental health beds — reversal of existing savings measure	-920	-940	-960	-980
Patient transport — increased operational support to address demand pressures	-718	-736	-754	-773
Royal Flying Doctor Service — Port Augusta base	-1 000	-1 025	-1 050	-1 075
Software licensing — revised arrangements	1 309	1 309	1 309	—
Transition Care for the aged — increase in the number of available places	-2 851	-6 230	-6 386	-6 546
Tregenza Aged Care Services — increased resources	-1 043	-1 088	-1 111	-1 134
Vaccination programs — increased resources to support local government service provision	-480	-270	-276	-324
Savings initiatives				
Metropolitan health services — reorganisation into three regions	1 000	1 025	1 051	1 077
Memorandum Items - measures up to the 2005-06 Budget				
Operating initiatives				
Visiting Medical Specialists — enterprise bargaining outcomes	-3 048	-3 099	-3 208	-3 319
SA Ambulance Service — additional resources	-200	-400	-600	-800
Women's and Children's Hospital — contract for cleaning and other services	-742	-767	-793	-821
Investing initiatives				
Repatriation General Hospital — rescheduled construction of mental health facility	-5 740	—	—	—
Flinders Medical Centre — rescheduled construction of the Margaret Tobin mental health centre ^(b)	-9 587	—	—	—
SA Ambulance Service — redevelopment of Murray Bridge, Port Adelaide and Playford ambulance stations and replacement of various computer systems	-8 955	-2 653	-1 324	-1 410

(a) Held under, and to be acquitted against, the Administered Items for the Department of Treasury and Finance.

(b) Includes a contribution of \$1.700 million in 2005-06 from Flinders University.

Environment and Conservation and the River Murray

Additional resources are provided to the Department for Environment and Heritage to reduce koala densities on Kangaroo Island to sustainable levels and, as a consequence, improve the health of the ecosystem. This initiative will implement a sustainable long-term sterilisation and relocation strategy for the management of koala populations on Kangaroo Island.

Support has been provided in 2005-06 for a number of projects along the River Murray in South Australia that will provide a range of benefits including environmental water savings, improved biodiversity, rehabilitation of degraded wetlands and research into the wiser use of water.

Additional resources have also been provided for sand management activities and for the Natural Resources Management (NRM) Boards. Following the passage of the *NRM Act* through Parliament in 2004, the relationship between the regional NRM boards and government agencies was strengthened. Consequently, additional governance, human resource management, financial management, and information systems are necessary for the boards to meet public sector accountability requirements.

Additional expenditure will also be allocated to River Murray salt interception schemes to reduce salt loads from natural groundwater inflow, mallee clearing and irrigation development from reaching the floodplain and the River Murray.

A number of projects to restore wetlands and encourage water savings, wastewater re-use and innovative research to benefit the River Murray will also be funded.

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

Table 2.21: Environment and Conservation and the River Murray — savings and expenditure initiatives (\$000)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Operating initiatives	-5 621	-2 954	-2 866	-3 631
Investing initiatives	-118	-109	—	—
Savings initiatives	1 700	1 743	1 786	1 830
Impact on net lending	-4 039	-1 320	-1 080	-1 801
Impact on net operating balance	-3 921	-1 211	-1 080	-1 801
Department for Environment and Heritage				
Operating initiatives				
Koala management — Kangaroo Island	-1 000	-1 000	-1 000	-1 000
Sand management — Patawalonga and West Beach boat havens	-1 489	-1 533	-1 571	-1 611
Software licensing — revised arrangements	125	125	125	—
Savings initiatives				
Administrative measures — reduction in operating costs	900	923	946	969
Department of Water, Land and Biodiversity Conservation				
Operating initiatives				
Murray-Darling Basin Commission — increased State contribution	-100	—	—	—
South Australian River Murray Projects — additional support	-1 800	—	—	—
Natural Resources Management Boards — additional support for regional boards	-1 000	-300	200	-300
River Murray Salt Interception Scheme — operating support	-300	-690	-700	-720
Software licensing — revised arrangements	49	49	49	—

Table 2.21: Environment and Conservation and the River Murray — savings and expenditure initiatives (\$'000) continued

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Savings initiatives				
Administrative measures — reduction in operating costs	600	615	630	646
Environment Protection Authority				
Operating initiatives				
Site Contamination legislation — operating support	-137	364	—	—
Software licensing — revised arrangements	31	31	31	—
Investing initiatives				
Site Contamination legislation — accomodation works associated with the implementation of the legislation	-118	-109	—	—
Savings initiatives				
Administrative measures — reduction in operating costs	200	205	210	215

Families and Communities

The priority area for the Families and Communities budget in 2005-06 is disability services. In 2005-06, additional support is provided for:

- the Moving On program — this program enables school leavers with severe intellectual disabilities to attend meaningful and interesting activities during the day to continue skill development and pursue interests whilst providing families and carers with a break from the demands of caring;
- respite services for older carers — this is a new, jointly funded, program with the Commonwealth Government that provides respite for older parents who are caring for their sons and daughters with disabilities. Parents over 70 years of age will be eligible for four weeks respite care per annum. Parents aged between 65 to 69 years will be eligible for two weeks respite care only if they require hospitalisation; and
- long term supported accommodation — this program will provide long term provision of in home support services for people with disabilities including psychiatric disability.

Substantial resources were provided in the 2004-05 Budget and forward years for child protection initiatives. Amendments to legislation are planned in 2005-06 to support the reforms announced in Keeping Them Safe, the Government's response to the Layton Report.

Additional resources are also provided for:

- the Home and Community Care program — increased State support to match higher Commonwealth contributions. The Home and Community Care program delivers services to assist frail older people and their carers to live independently in their own homes and improve their quality of life;

- Alternative Care — additional support for children with complex needs and young people under the Guardianship of the Minister. This program will be delivered through existing non-government service providers;
- Car theft reduction program in the southern suburbs — a range of accredited automotive and mechanical training modules together with youth work services to young people who have been involved in car related theft or who would benefit from this program; and
- the Women's Safety Strategy — implementation of an interactive community program to reduce violence against women.

Additional resources have been provided for energy concessions. These are:

- a one-off Energy Concession Bonus in 2004-05 of \$150 paid to each electricity customer eligible for the Energy Concession; and
- the ongoing extension from 1 July 2005 of the Energy Concession to single Centrelink Allowance recipients without dependants and students in receipt of Austudy or Abstudy allowances, with the additional one-off Energy Concession Bonus of \$150 also paid to this group.

In addition to the measures included in the budget, the 2004-05 MYBR provided approximately \$2.7 million per annum to address unfunded increases in Children's Payments and Emergency Financial Assistance, indexation of non government organisation grant payments and the costs of establishing the new department.

Additional one-off support of \$25.0 million has also been provided in 2004-05 for disability services programs, with \$17.1 million for Minda and Orana to assist with further deinstitutionalisation programs and establish an aged care facility, \$1.6 million for the purchase of 25 buses for day care option providers, and a range of grants to non-government organisations to provide additional support and fund innovative projects that will assist the disabled and their families within the community.

The Housing Plan for South Australia was announced in February 2005 and \$30.0 million has been allocated in 2004-05 to the South Australian Housing Trust for affordable housing and urban renewal initiatives.

The savings measures within the portfolio are confined to the central administrative areas.

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

Table 2.22: Families and Communities — savings and expenditure initiatives (\$000)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Operating initiatives	-24 109	-30 245	-38 448	-47 682
Investing initiatives	—	—	—	—
Savings initiatives	300	308	315	323
Impact on net lending	-23 809	-29 937	-38 133	-47 359
Impact on net operating balance	-23 809	-29 937	-38 133	-47 359

Table 2.22: Families and Communities — savings and expenditure initiatives (\$000) continued

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Department for Families and Communities				
Operating initiatives				
Accommodation support services — provision of in home support services for people with disabilities including psychiatric disability	-2 500	-5 000	-5 250	-5 500
Alternative care — services for children with complex needs	-2 342	-2 401	-2 461	-2 522
Car theft reduction — automotive training and employment opportunity scheme for young offenders in the Southern Suburbs	-268	-245	-255	-264
Home and Community Care Program — additional program support ^(a)	-6 474	-13 599	-21 436	-30 042
Intellectual Disability Services Council — settlement of industrial claim	-218	-222	-226	-231
Moving On program — expansion of activity programs for disabled school leavers	-4 126	-5 229	-5 360	-5 494
Software licensing — revised arrangements	169	169	169	—
Women's Safety Strategy — implementation	-87	-89	—	—
Savings initiatives				
Administrative measures — reduction in operating costs	300	308	315	323
Administered Items for the Department for Families and Communities				
Operating initiatives				
Energy Concession — extend coverage to Centrelink, Austudy and Abstudy recipients ^(b)	-3 629	-3 629	-3 629	-3 629
Energy Concession Bonus — for extended coverage ^(c)	-4 634	—	—	—
Memorandum Items - measures up to the 2005-06 Budget				
Operating initiatives				
Respite for older carers — State contribution to expanded program	—	-1 400	-1 500	-1 538

- (a) Increase in expenditure is partly met by increased Commonwealth revenues of \$3.990 million in 2005-06, \$8.381 million in 2006-07, \$13.211 million in 2007-08 and \$18.515 million in 2008-09.
- (b) Extends the standard energy concession to single Centrelink, Austudy and Abstudy recipients. These groups will also be eligible for the energy concession bonus in the measure following. Recognition of expenses for this group occurs in 2005-06 as they have not yet been identified.
- (c) An additional \$34.078 million is provided in 2004-05 for existing energy concession holders.

Further Education, Employment, Science and Technology

Within the TAFE sector, additional resources have been allocated to provide training for skills and occupations that are high in demand. This is achieved by increasing the level of core training hours provided by TAFE institutes. TAFE institutes have also been provided with additional operational support to assist with community services roles during 2005-06.

Resources have been provided to enable the provision of a grant to support the modification and refurbishment of an existing building at the UniSA campus at Mawson Lakes, in order to establish the Mawson Institute for Advanced Manufacturing (MIAM). This Institute is a

joint venture between UniSA and the CSIRO Division of Manufacturing and Infrastructure Technology (CMIT) who will collocate their resources at Mawson Lakes.

Ongoing support has been provided to Bio Innovation SA to allow the continuation and expansion of programs already in place. Bio Innovation SA will continue to drive the growth of South Australia's bioscience industry.

Resources have been provided for the Digital Bridge program (Outback Connect component), in order to support IT training in remote regions of South Australia. The program is designed to improve the competencies and skills of South Australians in the use of information and communications technology, including the Internet.

Education Adelaide has been provided with operational support until the end of 2006, to continue its role of promoting South Australia's education export industry.

The IT Council of South Australia, a collaborative and collective voice for the South Australian ICT industry, has been provided with support to facilitate the transition to a self-funding model.

Ongoing support has been provided to allow the continuation of skills development on the Anangu Pitjantjatjara Yankunytjatjara (APY) lands.

Further details of the expenditure initiatives within the portfolio are presented in the following table.

Table 2.23: Further Education, Employment, Science and Technology — expenditure initiatives (\$000)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Operating initiatives	-7 755	-5 803	-5 281	-5 123
Investing initiatives	—	—	—	—
Savings initiatives	—	—	—	—
Impact on net lending	-7 755	-5 803	-5 281	-5 123
Impact on net operating balance	-7 755	-5 803	-5 281	-5 123

Department of Further Education, Employment, Science and Technology

Operating initiatives				
Education Adelaide — operational support	-570	-570	—	—
IT Council for South Australia — increased support to facilitate transition to a self funding model	-125	-100	-75	—
Mawson Institute for Advanced Manufacturing — grant to modify and refurbish an existing building at UniSA Mawson Lakes Campus	-2 000	-2 000	-2 000	-2 000
OutbackNet — operational support	-160	-160	-160	—
TAFE system — skills development	-2 000	-2 050	-2 101	-2 154
TAFE system — continuation of skills development programs on APY lands	-400	-410	-420	-431
TAFE system — transitional operational support	-2 000	—	—	—

Table 2.23: Further Education, Employment, Science and Technology — expenditure initiatives (\$000) continued

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Bio Innovation SA				
Operating initiatives				
Operations — additional support	-500	-513	-525	-538
Memorandum Items - measures up to the 2005-06 Budget				
Operating initiatives				
Bio Innovation SA — increase in base budget	-1 000	-1 025	-1 051	-1 077

Administrative and Information Services

The Government has provided additional support of \$2.5 million in 2004-05 for sporting and recreational community facilities. This includes an additional \$1.75 million in grants paid to local and community based organisations to assist in the development and improvement of recreation and sporting facilities in the community, \$500 000 for Adelaide Aquatic Centre infrastructure and \$250 000 for shelter areas at ETSA Park.

Additional resources are provided to implement a licensing regime, aimed at controlling access to ammonium nitrate within the State.

The appointment of an additional permanent Magistrate of the Industrial Relations Court will assist in dealing with a continually increasing workload and reduce reliance on temporary magistrate appointments.

Increased support has been provided to Forensic Sciences to assist in addressing workloads in targeted areas and to improve services to the Justice system within the State.

Additional resources are also provided to improve the detection of asbestos in government properties, and to support procurement reform and the transition to the proposed new procurement activities.

The National Elite Training Centres will receive increased operational support to retain existing national sporting programs in Adelaide, as well as attracting new national programs.

Further support will be provided to ensure the state radio communication system meets the requirements of users, beyond the current arrangements.

The administrative savings measures are focussed on the rationalisation of administrative activities. Fleet SA savings are the result of the Government retaining fleet vehicles for a period of three years, rather than the current two years.

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

Table 2.24: Administrative and Information Services — savings and expenditure initiatives (\$000)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Operating initiatives	-5 068	-4 969	-5 333	-5 670
Investing initiatives	-1 761	-122	-695	—
Savings initiatives	3 151	4 047	5 848	5 784
Impact on net lending	-3 678	-1 044	-180	114
Impact on net operating balance ^(a)	-2 041	-1 107	143	-135
Department for Administrative and Information Services				
Operating initiatives				
Ammonium nitrate — implementation of new licensing regime	-1 330	-1 194	-1 220	-1 247
Asbestos identification — inspection program	-600	-50	-50	-50
Elite training centres — increased operational support	-308	-315	-323	-331
Forensic Science — support for increased activity	-813	-728	-743	-758
Glenside Data Centre — accommodation	-250	-450	-50	—
ICT service arrangements — transition of future information and communication technology service arrangements	-400	-290	-1 000	-1 025
Industrial Magistrate — appointment of a permanent Magistrate of the Industrial Relations Court	-303	-311	-318	-326
Network security — network systems disaster recovery strategy	-985	—	—	—
Olympic, Commonwealth, Paralympic Games Appeal Committee — contribution ^(b)	125	125	125	125
Software licensing — asset management and compliance	-500	-352	-350	-358
Software licensing — revised arrangements	296	296	296	—
State radio communications system — increase in contractual payments for improved systems architecture	—	-1 700	-1 700	-1 700
Investing initiatives				
Ammonium nitrate — implementation of new licensing regime	-181	—	—	—
Forensic Science — additional equipment acquisition	-490	—	—	—
PABX system — replacement of and upgrade to existing infrastructure	-1 090	-122	-695	—
Savings initiatives				
Administrative measures — reduction in operating costs	2 250	2 306	2 364	2 423
Fleet SA — fleet cost savings from reducing vehicle turnover ^(c)	901	1 741	3 484	3 361

**Table 2.24: Administrative and Information Services — savings and expenditure initiatives (\$000)
continued**

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Memorandum Items - measures up to the 2005-06 Budget				
Operating initiatives				
South Australian Ice Sports Federation — operational support	-130	-133	-137	-140
Outer Harbor — deepening of the shipping channel	-15 000	—	—	—
Workers compensation functions — additional support	-272	-278	-283	-289
Service SA — expansion strategy	-450	—	—	—
Industrial Relations Court — additional judge	-29	—	—	—
(a)	Impact on net operating balance does not equal Operating initiatives less Savings as a result of lower depreciation expenses not shown as savings and reduced vehicle purchases and lower vehicle sale proceeds arising from the Fleet SA savings measure which do not affect net operating balance.			
(b)	Support of \$600,000 now provided in 2004-05. Refer table 2.30.			
(c)	Includes savings from a reduction in the level of vehicle purchases, partially offset by lower vehicle sale proceeds and increased maintenance costs.			

Education and Children's Services

The Government is currently in the process of negotiating with teachers and lecturers whose enterprise bargaining agreement expired in March 2005. The claim by the union would require substantial and unsustainable additional expenditure in both the Education and Children's Services and Further Education, Employment, Science and Technology portfolios. The Government's position on these matters is being discussed with the union. Its position is not reflected in Table 2.25 to ensure the negotiation process is not compromised.

The budget provides additional resources to meet the varied needs of children and students, particularly in relation to improving literacy and numeracy, increasing motivation and engagement with schooling and providing appropriate facilities and service delivery options. Specific initiatives include:

- additional support from 2004-05 to meet the needs of disabled students, Aboriginal students and students with English language difficulties;
- an expansion of the Premier's Reading Challenge to encourage more students from reception to year 9 to read 12 books a year;
- the continuation of the "Learning Together" program to support measures which will strengthen relationships with families that may become disengaged with schooling;
- one-off expenditure to develop options for the collocation of service providers from the portfolios of Education, Families and Communities and Health to meet the needs of children up to eight years;
- one-off expenditure to explore schooling and child care options, which will include the identification of the State's future education infrastructure needs; and
- additional support for investment in and maintenance of school assets and infrastructure.

The budget also provides additional State support to the Access Assistant program, following the withdrawal of Commonwealth funds. This will ensure the continuation of one-on-one assistance to disabled students with complex health needs.

Additional one-off support of \$1.32 million has also been provided in 2004-05 for the replacement of country buses.

Further details of the expenditure initiatives within the portfolio are presented in the following table.

Table 2.25: Education and Children's Services — expenditure initiatives (\$000)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Operating initiatives	-9 949	-7 663	-8 696	-8 892
Investing initiatives	—	—	-768	-788
Savings initiatives	—	—	—	—
Impact on net lending	-9 949	-7 663	-9 464	-9 680
Impact on net operating balance^(a)	-10 059	-7 773	-8 806	-9 002
Department of Education and Children's Services				
Operating initiatives				
Additional needs students — increased resources to support high needs students	-5 358	-5 469	-5 583	-5 698
Capital program — additional program support	—	—	-863	-889
Education infrastructure — identification and development of future options	-1 500	—	—	—
Learning Together program — extension of the existing program	-1 000	-1 025	-1 051	-1 077
South Australian Certificate of Education review — additional resources	-500	—	—	—
Service collocation — identification of options for the collocation of services for children up to eight years	-450	—	—	—
The Premier's Reading Challenge — expansion of the existing program	-291	-298	-306	-313
Investing initiatives				
Capital program — additional program support	—	—	-768	-788
Administered Items for the Department of Education and Children's Services				
Operating initiatives				
Access Assistant program — provision of State support following the withdrawal of Commonwealth funding ^(b)	-850	-871	-893	-915

(a) Impact on net operating balance does not equal Operating initiatives less Savings as a result of depreciation expenses of \$110 000 in each year arising from the 2004-05 initiative to replace some country school buses. The depreciation increase is not shown in the school bus measure as it does not affect net lending.

(b) This expenditure more than replaces a reduction in Commonwealth contributions of \$700 000 in 2005-06, \$717 000 in 2006-07, \$735 000 in 2007-08 and \$754 000 in 2008-09.

Tourism

Additional support has been provided to the South Australian Tourism Commission (SATC) for its international and domestic marketing campaigns. Resources have also been made available for a new South Australian Visitor and Travel Centre to be located at the new

Adelaide Airport. This will provide an information and booking outlet at this prime location.

The Australian Tourism Exchange 2006, a premier tourism trade show that brings together Australian tourism operators and international wholesale buyers, will be held in Adelaide. SATC has been provided with additional support to provide suitable function and exhibition space for the show.

Additional resources have also been provided to relocate the floats and equipment used for the Christmas pageant.

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

Table 2.26: Tourism — savings and expenditure initiatives (\$000)

	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Operating initiatives	-2 950	-338	-347	-355
Investing initiatives	—	—	—	—
Savings initiatives	450	461	473	485
Impact on net lending	-2 500	123	126	130
Impact on net operating balance	-2 500	123	126	130
South Australian Tourism Commission				
Operating initiatives				
Australian Tourism Exchange — support for the 2006 event	-500	—	—	—
Christmas Pageant — new facilities	-200	-82	-84	-86
Domestic and international marketing — campaign to promote South Australia as a holiday destination	-2 000	—	—	—
SA Visitor and Travel Centre — establish an information and booking outlet at the new Adelaide Airport	-250	-256	-263	-269
Savings initiatives				
Administrative measures — reduction in operating costs	450	461	473	485

Table 2.27: Operating expenses by portfolio^(a)

Portfolio	2004-05 Budget^(b)	2004-05 Estimated result	2005-06 Budget	2005-06 % change on 2004-05 Budget
	\$m	\$m	\$m	
The Legislature	-19	-19	-19	2.0
Premier and Cabinet	-154	-164	-162	5.2
Trade and Economic Development	-104	-118	-77	-25.8
Treasury and Finance	-69	-71	-70	2.0
Justice	-905	-952	-1 021	12.8
Primary Industries and Resources	-193	-206	-217	12.4
Transport, Energy and Infrastructure	-692	-693	-732	5.7
Health	-2 521	-2 697	-2 710	7.5
Environment and Conservation and the River Murray	-271	-290	-291	7.4
Families and Communities	-914	-1 075	-1 109	21.4
Further Education, Employment, Science and Technology	-416	-428	-429	3.1
Administrative and Information Services	-609	-668	-641	5.1
Education and Children's Services	-1 719	-1 883	-1 874	9.0
Tourism	-47	-53	-52	9.4
Auditor-General	-10	-10	-10	3.8
Total Portfolio operating expenses	-8 644	-9 328	-9 414	8.9

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

(b) The 2004-05 Budget differs from that published in the 2004-05 Budget Statement, in total and in some cases at the portfolio level, due to the inclusion of Zero Waste and functional shifts between portfolios.

Table 2.28: Investing payments (\$ million)

	2004-05 Budget	2004-05 Estimated result	2005-06 Budget
The Legislature	—	-1	—
Premier and Cabinet	-3	-4	-8
Trade and Economic Development	—	—	—
Treasury and Finance	-5	-7	-10
Justice	-60	-57	-61
Primary Industries and Resources	-10	-9	-9
Transport, Energy and Infrastructure	-224	-238	-233
Health	-130	-141	-136
Environment and Conservation and the River Murray	-27	-15	-13
Families and Communities	-18	-7	-18
Further Education, Employment, Science and Technology	-8	-7	-16
Administrative and Information Services	-143	-145	-135
Education and Children's Services	-58	-60	-48
Tourism	—	—	—
Auditor-General	—	—	—
Contingencies and Other	1	4	-6
Provision for capital slippage	60	12	60
Total general government sector^(a)	-625	-677	-634
Public non-financial corporations	-327	-300	-406
Other	2	2	—
Total investing^(a)	-950	-975	-1040

(a) Table may not add due to rounding. Comparison across years may be misleading due to lumpy nature of capital projects.

Table 2.29: Budget initiatives (\$ million)^(a)

Portfolio	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Premier and Cabinet	-2.2	-2.2	-1.3	-1.4
Trade and Economic Development	-8.3	-6.2	-2.0	-2.0
Treasury and Finance	0.2	0.2	0.2	0.2
Justice	-25.6	-19.2	-18.7	-19.1
Primary Industries and Resources	-9.0	-1.1	1.0	0.9
Transport, Energy and Infrastructure	-45.7	-77.9	-79.7	-73.4
Health	-46.7	-50.5	-50.3	-53.3
Environment and Conservation and the River Murray	-4.0	-1.3	-1.1	-1.8
Families and Communities	-23.8	-29.9	-38.1	-47.4
Further Education, Employment, Science and Technology	-7.8	-5.8	-5.3	-5.1
Administrative and Information Services	-3.7	-1.0	-0.2	0.1
Education and Children's Services	-9.9	-7.7	-9.5	-9.7
Tourism	-2.5	0.1	0.1	0.1
Total initiatives (net of savings)	-189.1	-202.5	-204.7	-211.9

(a) Table may not add due to rounding.

Table 2.30: Expenditure decisions since the 2004-05 MYBR impacting in 2004-05 (\$000)

	2004-05 Estimated Result
Department of the Premier and Cabinet	
Operating initiatives	
Carnegie Mellon University — feasibility study	-800
Arts SA	
Operating initiatives	
Adelaide Symphony Orchestra — operational support	-2 100
Adelaide Entertainment Centre	
Operating initiatives	
Facilities refurbishment — upgrade of kitchen and toilet infrastructure	-750
State Governor's Establishment	
Operating initiatives	
Government House — security upgrade	-730
Aboriginal Affairs and Reconciliation	
Operating initiatives	
Aboriginal land rights administration — replacement of Commonwealth funding	-247
Aboriginal heritage administration — administration of act	-882
Department of Trade and Economic Development	
Operating initiatives	
Adelaide Cup and Magic Millions Carnival — support for events	-513
Mitsubishi loan agreement — variation	-35 000
Department of Treasury and Finance	
Operating initiatives	
<i>Gaming Machines (Miscellaneous) Amendment Act 2004 — increased Gamblers Rehabilitation Fund contribution</i>	-483
Revenue SA — additional resources for administration of Land Tax relief	-300
Administered Items for the Department of Treasury and Finance	
Operating initiatives	
Donation — Disaster Relief	-500
"AK Falie" and "One and All" — additional support	-200

Table 2.30: Expenditure decisions since the 2004-05 MYBR impacting in 2004-05 (\$'000) continued

	2004-05 Estimated Result
South Australia Police	
Operating initiatives	
Combating organised crime — increase investigation, prosecution and licensing capacity	-340
Police — additional support for cost pressures	-120
<i>Criminal Asset Confiscation Act 2004</i> — increased enforcement	-237
Police aircraft — revision to operating support requirements following delay in the acquisition	78
Investing initiatives	
Police aircraft — delay acquisition until 2005-06	2 900
Telecommunications Interception System — upgrade	-326
Administered Items for South Australia Police	
Operating initiatives	
State rescue helicopter service — revised contractual arrangements	380
Attorney-General's Department	
Operating initiatives	
Justice portfolio — partial reversal of 2003-04 savings measure	-696
Kapunda Road Royal Commission — resources to support operations	-485
Removal of statutory time limitations — investigation and prosecution of sex related offences	-461
Combating organised crime — increase investigation, prosecution and licensing capacity	-70
Administered Items for the Attorney-General's Department	
Operating initiatives	
Criminal cases — provision for additional expenses	-500
Correctional Services	
Operating initiatives	
Corrections officers — settlement of industrial claim	-405
Prisoner movement — additional expenses	-537
Emergency Services Administrative Unit	
Operating initiatives	
Workers compensation — recognition of obligations	-872

Chapter 2: Expenditure

Table 2.30: Expenditure decisions since the 2004-05 MYBR impacting in 2004-05 (\$'000) continued

	2004-05 Estimated Result
Department of Primary Industries and Resources	
Operating initiatives	
Fisheries — reducing the number of commercial net licences	-6 000
Lower Eyre Peninsula — Agriculture, Natural Resources and Biodiversity Re-establishment Program ^(a)	-100
Administered Items for the Department of Primary Industries and Resources	
Operating initiatives	
Cattle Industry Fund — control of Bovine Johne's disease in South Australia	-302
Planning SA	
Operating initiatives	
North Terrace Redevelopment — Stage 2	-180
Planning and Development Fund — purchase and development of open space	-5 000
Department for Transport, Energy and Infrastructure	
Operating initiatives	
Adelaide metropolitan bus services — revised contractual arrangements ^(b)	1 601
Andamooka water supply — new supply pipeline ^(c)	-300
Tall ships — hull insurance	-20
Walkerville office — deferral of the disposal of car park land	-4 758
Investing initiatives	
City West Connector	-1 000
Road safety — drug-driving package implementation	-50
Department of Health	
Operating initiatives	
Consolidated financial reporting — resources to improve financial management within the Department of Health ^(d)	-76
Metropolitan hospitals — increased operational support to address demand pressures	-22 341
Mental health — community based recovery support packages and a primary health care strategy	-25 000
Nursing — additional resources for agency nurses	-2 954
Oakden mental health beds — reversal of existing savings measure	-900
Patient transport — increased operational support to address demand pressures	-700
Tregenza Aged Care Services — increased resources	-1 000
Visiting Medical Specialists — enterprise bargaining outcomes	-1 834

Table 2.30: Expenditure decisions since the 2004-05 MYBR impacting in 2004-05 (\$'000) continued

	2004-05 Estimated Result
Investing initiatives	
Repatriation General Hospital — rescheduled construction of mental health facility	5 740
Flinders Medical Centre — rescheduled construction of the Margaret Tobin mental health centre ^(e)	6 587
SA Ambulance Service — redevelopment of Murray Bridge, Port Adelaide and Playford ambulance stations and replacement of various computer systems	-845
Department for Environment and Heritage	
Operating initiatives	
Sand management — Patawalonga and West Beach boat havens	-1 280
South East wetlands site	-900
Department of Water, Land and Biodiversity Conservation	
Operating initiatives	
Natural Resources Management Act 2004 — implement stage 2	-600
Murray Mouth boating access	-171
Department for Families and Communities	
Operating initiatives	
Disability services — support for deinstitutionalisation programs, aged care facility, bus acquisitions and other community projects	-25 000
Equipment for adults with disabilities — reduce waiting lists	-5 400
Respite for older carers — State contribution to expanded program	-1 600
Housing Plan for South Australia — establish an Affordable Housing Fund and accelerate urban regeneration projects	-30 000
Administered Items for the Department for Families and Communities	
Operating initiatives	
Energy Concession Bonus — for existing energy concession holders	-34 078
Department for Administrative and Information Services	
Operating initiatives	
Olympic, Commonwealth, Paralympic Games Appeal Committee — contribution	-600
Sporting and Recreational facilities — additional support for community facilities	-2 500
South Australian Ice Sports Federation — operational support	-100
Service SA — expansion strategy	-790
Software licensing — asset management and compliance	-89

Chapter 2: Expenditure

Table 2.30: Expenditure decisions since the 2004-05 MYBR impacting in 2004-05 (\$'000) continued

	2004-05 Estimated Result
Software licensing — revised arrangements ^(f)	-9 823
Workers compensation functions — additional support	-91
Investing Initiatives	
Education Centre refurbishment — additional works and expenditure	-1 200
Administered Items for the Department for Administrative and Information Services	
Operating initiatives	
Riverbank Precinct — additional works	-150
Department of Education and Children's Services	
Operating initiatives	
Additional needs students — increased resources to support high needs students	-5 250
Country school buses — replacement of some existing buses	-1 320
The Premier's Reading Challenge — expansion of the existing program	-243
South Australian Tourism Commission	
Operating initiatives	
Increasing air service development in South Australia	-1 500
Tourism Exchange — preparation for staging the event in 2006 ^(g)	-250
Other	
Operating initiatives	
Lower Eyre Peninsula fund — recovery and restoration for victims of the Lower Eyre Peninsula bushfire	-6 000
Total	-232 563

- (a) Contributions to this program will be received from the Commonwealth of \$1.640 million in 2004-05 and \$1.040 million in 2006-07.
- (b) This is over and above amount provided for in the 2004-05 Mid-Year Budget Review of \$6.825 million in 2005-06, \$7.100 million in 2006-07, \$7.397 million in 2007-08 and \$7.694 million in 2008-09.
- (c) Project managed by the Department of Primary Industries and Resources after 2004-05.
- (d) Held under, and to be acquitted against, the Administered Items for the Department of Treasury and Finance.
- (e) A contribution of \$1.700 million from Flinders University is also provided in 2005-06.
- (f) Recovered from agencies over three years. Recovery amounts are reflected in Tables 2.14 to 2.26 under operating initiatives.
- (g) Total cost \$1.5 million. Support of \$1.250 million previously held in contingency provisions.

CHAPTER 3: REVENUE

Overview

The Budget delivers substantial taxation relief and incorporates a schedule for the abolition of five taxes identified in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) as subject to review. The exception is conveyance duty on non-residential realty property transactions.

Tax relief measures amount to \$666 million over the forward estimates period commencing in 2005-06 (including the abolition of debits tax from 1 July 2005).

By 2010-11 when all IGA-related tax reforms have been implemented, the cumulative cost of tax measures introduced from 2004-05 will have delivered relief of \$1.5 billion.

A land tax reduction package was announced in February 2005 which provided broad-based relief to all land tax payers through a revised rate and threshold structure and introduced specific land tax exemptions. Further relief is provided in the Budget by lifting the tax-free threshold from \$100 000 to \$110 000, exempting supported residential facilities and introducing an option for the payment of land tax bills through a quarterly instalment arrangement.

Mortgage duty on loans taken out to purchase a residential property for owner occupation and on refinancing arrangements will be abolished from 1 July 2005. The phased abolition of mortgage duty on other mortgages, together with the phased abolition of rental duty, will commence from 1 July 2007 with full abolition by 1 July 2009. In addition, a range of minor stamp duties will be abolished from 1 July 2006.

Tax relief in this Budget follows cuts in payroll tax, first homebuyer conveyance and mortgage duty relief, abolition of lease and cheque duty which were implemented in the 2004-05 Budget.

Operating revenues for the general government sector are not expected to grow in real terms over the next two years to 2006-07 and to experience very limited growth in the latter part of the forward estimates period. This is the result of tax cuts, the cessation of competition payments by the Commonwealth and less buoyant growth expected in property market and other economic activity related revenues than has been experienced in the previous three years.

Taxation measures

Taxation measures are summarised in Table 3.1.

Table 3.1: Taxation measures (\$ million)

Taxation measures	2004-05 Estimate	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Debits tax					
From 1 July 2005 ^(a)					
<i>Debits tax abolished</i>		-55.8	-61.5	-62.1	-62.7
Land tax					
From 2005-06 land tax year					
<i>Broad-based rate relief and threshold increases</i> ^(b)	-20.2	-52.7	-54.8	-56.4	-58.9
<i>Exemptions for caravan parks and residential parks, supported residential facilities, home business activities conducted from a principal place of residence and revised exemption criteria for primary producers in defined rural areas</i>	—	-5.3	-5.3	-5.3	-5.3
<i>Introduction of a quarterly land tax instalment payment option</i> ^(c)	—	—	—	—	—
Mortgage duty					
From 1 July 2005					
<i>Abolition of mortgage duty on refinancing arrangements, residential loans relating to the purchase of properties for owner occupation and mortgage discharges</i>	—	-23.6	-27.2	-28.5	-30.1
From 1 July 2007					
<i>Phased abolition of remaining mortgage duty Full abolition by 1 July 2009</i>	—	—	—	-16.1	-35.5
Rental duty					
From 1 July 2007					
<i>Phased abolition of rental duty Full abolition by 1 July 2009</i>	—	—	—	-5.6	-12.3
Other minor stamp duties					
From 1 July 2006					
<i>Abolition of stamp duty on deeds, registration of trustee changes, and other conveyancing transactions which currently attract a fixed \$10 fee</i>	—	—	-0.3	-0.4	-0.4
Total revenue forgone	-20.2	-137.4	-149.1	-174.4	-205.2
Impact of new revenue measures (excluding debits tax) ^(a)	-20.2	-81.6	-87.6	-112.3	-142.5

- (a) The abolition of debits tax has been reflected in the forward estimates since the 2002-03 Budget. Accordingly, the revenue loss from the abolition of debits tax does not have a new or additional impact on existing forward estimates. The revenue loss is lower in 2005-06 reflecting the collection of residual amounts of debits tax carried over from the 2004-05 year.
- (b) The cost of the land tax reduction package has increased since its announcement in February 2005 due to higher site value growth in the 2004 calendar year, an increase in the tax-free threshold from \$100 000 to \$110 000 and the exemption for supported residential facilities.
- (c) While there is no direct impact on taxation revenue resulting from the introduction of the quarterly land tax instalment payment option, there are broader budgetary impacts. RevenueSA will incur additional administration costs of \$0.3 million per annum commencing in 2005-06 and there will be an ongoing interest cost of \$2 million per annum commencing in 2005-06.

Note: Tables may not add due to rounding.

Debits tax

Consistent with announcements made in the 2004-05 Budget, debits tax will be abolished from 1 July 2005 at a cost of \$55.8 million in 2005-06 and \$61.5 million in 2006-07.

Land tax reduction package

The Government announced a land tax reduction package in February 2005 which included an increase in the tax-free threshold from \$50 000 to \$100 000, adjustments to the land tax bracket and rate structure to provide broad-based relief, and the introduction of specific land tax exemptions. Further relief is provided in the Budget by lifting the tax-free threshold to \$110 000, exempting supported residential facilities from land tax and introducing an option to pay land tax bills on a quarterly basis. All of these measures take effect from the 2005-06 land tax assessment year.

The land tax reduction package also included land tax rebates in respect of 2004-05 land tax assessments.

Broad-based land tax relief

The current tax structure which applied in 2004-05 and the proposed land tax structure to apply from 2005-06 are as follows:

Table 3.2: 2004-05 land tax structure

Total Taxable Site Value	Tax applicable (%) ^(a)
\$0 to \$50 000	—
\$50 001 to \$300 000	\$0 + 0.35
\$300 001 to \$1 000 000	\$875 + 1.65
Over \$1 000 000	\$12,425 + 3.70

(a) Tax rates apply to the excess above the lower limit of the taxable site value range.

Table 3.3: Land tax structure to apply from the 2005-06 land tax assessment year

Total Taxable Site Value	Tax applicable (%) ^(a)
\$0 to \$110 000 ^(b)	—
\$110 001 to \$350 000	\$0 + 0.30
\$350 001 to \$550 000	\$720 + 0.70
\$550 001 to \$750 000	\$2 120 + 1.65
\$750 001 to \$1 000 000	\$5 420 + 2.40
Over \$1 000 000	\$11 420 + 3.70

(a) Tax rates apply to the excess above the lower limit of the taxable site value range.

(b) The proposed tax-free threshold has been lifted from \$100 000 to \$110 000 since the February 2005 announcement of the land tax reduction package.

The maximum benefit from the new rate structure is \$2 880 for land ownerships valued between \$550 000 and \$750 000.

Land tax rebates were provided to 2004-05 land taxpayers at a cost of \$20.2 million. Rebates were calculated as 50 per cent of the savings under the land tax scales proposed in February 2005, applied to 2004-05 ownerships.

The restructured land tax scale has an estimated revenue cost of almost \$53 million in 2005-06 and \$223 million over the four years from 2005-06 to 2008-09.

Specific land tax exemptions

In addition to the broad-based relief to be provided through the restructured land tax scale, specific amendments will be introduced to provide additional relief to particular categories of land ownership, at an estimated annual cost of \$5 million or \$21 million over the four years from 2005-06 to 2008-09.

Property owners conducting a business from their principal place of residence, including operators of bed and breakfast accommodation, will be able to claim full or partial land tax exemptions depending on the proportion of the house area used for the business activity.

Effective from the 2005-06 assessment year, a full exemption will be available if the home business activity occupies less than 25 per cent of all buildings on the land that have a predominantly residential character and a part exemption will apply to home business activities that occupy between 25 per cent and 75 per cent of that area based on a sliding scale that moves in 5 per cent increments. No relief will be provided where the home business activity occupies more than 75 per cent of the house area.

Land used for residential parks (where retired persons lease land under residential site agreements for the purpose of locating owner occupied transportable homes on that land) will now be exempt from land tax, as will caravan parks.

Land used for supported residential facilities, licensed under the *Supported Residential Facilities Act 1992*, will also be exempt from land tax.

The criteria for determining eligibility for a primary production exemption for owners of land located in "defined rural areas" (close to Adelaide and Mount Gambier) will also be amended to broaden eligibility.

Quarterly instalment payment option

A quarterly instalment payment option for land tax will be introduced from the 2005-06 assessment year. This replaces the instalment payment option over four consecutive months that was introduced in the 2004-05 assessment year.

The quarterly instalment payment option will be available to all land taxpayers with no interest charge. No discounts will apply if taxpayers elect to pay their tax in one single payment. Land tax bills will be sent out at the same time as in previous years.

Introduction of a quarterly instalment payment option is estimated to cost \$0.3 million per annum for additional administration costs for RevenueSA. In addition, there will be a cost in terms of interest forgone of an estimated \$2 million per annum commencing in 2005-06.

Abolition of IGA taxes

Further progress on the abolition of IGA taxes will occur over the forward estimates period with the abolition of mortgage duty on refinancing transactions and residential loans for owner-occupation from 1 July 2005 and the phased abolition of remaining mortgage duty, together with rental duty, by 1 July 2009. A range of minor stamp duties will also be abolished from 1 July 2006.

In addition, South Australia has advised the Commonwealth that it will abolish stamp duty on the transfer of non-quoted marketable securities and on the conveyance of non-realty property. Abolition will occur over a two year period commencing on 1 July 2009 (when stamp duty rates will be halved) and completed on 1 July 2010 (with full abolition).

In total, the IGA taxes to be abolished over the next six years, including debits tax, generated revenue estimated at \$199 million in 2004-05.

Further discussion on the abolition of IGA taxes is contained in Chapter 4.

The following sections give more detail on the IGA taxes proposed for abolition during the forward estimates period.

Mortgage duty - refinancing arrangements and owner occupied residential loans

From 1 July 2005, mortgage duty will be abolished on new loans taken out to finance the purchase of a residential property for owner occupation, refinancing arrangements and mortgage discharges.

The cost of this measure is expected to be \$23.6 million in 2005-06 increasing to \$27.2 million in 2006-07.

Examples of the benefits to homebuyers from the abolition of mortgage duty on residential loans for owner occupation are provided in Table 3.4.

Table 3.4: Mortgage duty savings on owner occupied residential loans

Value of mortgage	Mortgage duty saving (\$)
50 000	164
100 000	339
150 000	514
200 000	689
250 000	864
300 000	1 039
400 000	1 389
500 000	1 739

Mortgage duty – phased abolition

Following the abolition of mortgage duty on refinancing arrangements, owner occupied home loans and mortgage discharges from 1 July 2005, there will be a phased abolition of remaining mortgage duty over a three year period commencing 1 July 2007 and ending on 1 July 2009.

Relative to current arrangements, rates will be reduced by one-third from 1 July 2007, by a further one-third from 1 July 2008 and abolished in full from 1 July 2009.

The cost of phasing out mortgage duties remaining after the measures to be taken on 1 July 2005 is expected to be \$16.1 million in 2007-08 and \$35.5 million in 2008-09.

Table 3.5 summarises the mortgage duty rates that will apply during the phase out period.

Table 3.5: Mortgage duty rates to apply over the forward estimates period ^(a)

Current rates	From 1 July 2007	From 1 July 2008	From 1 July 2009
\$0 - \$400	Nil	Nil	Nil
\$401 - \$6 000	\$10	\$10	\$10
Over \$6 000	\$10 + 45c/\$100*	\$10 + 30c/\$100*	\$10 + 15c/\$100*

(a) Applicable to loans other than owner occupied residential loans and refinancing which will be exempt from 1 July 2005.

* Applies to each \$100 or part thereof in excess of \$6 000.

Rental duty

Rental duty will be abolished by 1 July 2009. Relative to current arrangements, rental duty rates will be reduced by one-third from 1 July 2007, by a further one-third from 1 July 2008 and abolished in full from 1 July 2009. Rental duty rates during the phase out period are provided in Table 3.6.

Currently, rental duty is applied at a rate of 0.75 per cent on rental income for equipment finance arrangements for terms greater than nine months (this includes commercial hire purchase arrangements). For all other types of rental arrangements, a duty rate of 1.8 per cent is applied to rental income in excess of \$6 000 per month or \$72 000 per annum.

It is estimated that the cost of phasing out rental duty will be \$5.6 million in 2007-08 and \$12.3 million in 2008-09.

Table 3.6: Rental duty dates to apply over forward estimates period

Current rates	From 1 July 2007	From 1 July 2008	From 1 July 2009
Equipment finance ^(a)			
Rate applied to rental income	0.75%	0.50%	0.25%
All other rental arrangements			
Rate applied to rental income > \$6 000 per month	1.80%	1.20%	0.60%

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

Other minor stamp duties

Effective from 1 July 2006, a range of minor stamp duties will be abolished on deeds, documents registering changes to trustees (eg appointments/retirements) and a number of very specific transactions where a fixed \$10 stamp duty fee currently applies.

It is estimated that abolition of these minor stamp duties will cost \$0.3 million in 2006-07 and \$1.1 million over the forward estimates period.

Emergency services levy

There will be no increase in 2005-06 in the effective Emergency Services Levy (ESL) rates paid by property owners. For fixed property, these rates are summarised in the final column of Table 3.7. For mobile property, effective rates are provided in the second last column of Table 3.7.

The only factor causing ESL bills to rise in 2005-06 is underlying capital value growth impacting on fixed property. The increase in the ESL bill for a median value residential property in metropolitan Adelaide is estimated at \$2. ESL bills for mobile property will not increase.

An expenditure level of \$177.8 million is required in 2005-06 for emergency services, of which \$171.8 million will be funded from the 2005-06 levy arrangements, \$3.5 million from cash balances in the Fund and \$2.5 million from interest earnings and other minor revenues in the Fund.

Of the \$171.8 million to be funded from the levy arrangements, private owners will contribute \$92.5 million (net of pensioner concessions); of this amount \$64.9 million relates to fixed property (land and buildings) and \$27.6 million to mobile property.

The remaining \$79.3 million is covered by remissions, pensioner concessions and the Government's ESL liability on its own property; all of these costs are met from general revenue sources (Consolidated Account).

Table 3.7: Emergency services levy rates for 2005-06

	Prescribed rate ^(a) cents per \$ (applied to capital values discounted by land use and area factors)	Remission rate	Post-remission rate	Effective levy rate paid in Regional Area 4 ^(b) \$50 plus cents per \$ of non-discounted capital value
Fixed property				
Residential	0.1160	0.0900	0.0260	0.0104
Commercial	0.1160	0.0155	0.1005	0.1005
Industrial	0.1160	0.0000	0.1160 ^(c)	0.1749
Rural and vacant land	0.1160	0.0900	0.0260 ^(d)	0.0078
Special community use	0.1160	0.0735	0.0425	0.0043
Other	0.1160	0.0900	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) The prescribed rate, which is the rate that would apply in the absence of remissions, will be 0.1160 cents in the dollar.

(b) Incorporates the effect of land use weightings applied to capital values. Effective levy rates for each land use category differ depending on the regional location of the property. For ease of exposition, effective levy rates have been calculated only for Regional Area 4.

Regional 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

(c) Since the remission rate cannot be less than zero, to offset the reduction in the prescribed rate and post remission rate for this land use category, the land use factor for industrial land will increase from 1.42 to 1.508.

(d) 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 0.1065 cents in the dollar and the post-remission rate is 0.0095 cents in the dollar.

Agency revenue measures

Table 3.8 summarises proposed agency revenue measures.

Table 3.8: Agency revenue measures (\$ million)

Agency revenue measures	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Department of Transport, Energy and Infrastructure				
Port charges for ferries servicing Kangaroo Island.	0.1	0.4	0.4	0.4
Total agency revenue measures	0.1	0.4	0.4	0.4

Agency revenue measures represent specific adjustments to agency administered fees and charges, the introduction of new fees and charges and new cost recovery strategies. These

measures are in addition to the annual adjustment to standard regulated fees and charges discussed later in this chapter.

Only one specific agency revenue measure has been included in this Budget.

Port charges which apply to the operators of ferries to Kangaroo Island will be increased effective from 1 April 2006. The additional revenue raised will be paid to the Kangaroo Island Council as financial assistance to improve and maintain roads on Kangaroo Island that are subject to high levels of tourist traffic.

Fees and charges

Table 3.9 sets out the increase in fees and charges in 2005-06 for major government services.

Table 3.9: 2005-06 increase in selected agency fees and charges

Fees and charges	2004-05 \$	2005-06 \$	Increase %
Fees and charges increased by the annual adjustment factor:			
Public transport			
Single trip tickets – all times and zones	3.40	3.50	2.9
Multi trip tickets – all times and zones	22.20	22.90	3.2
Motor vehicle charges			
Registration fee – motor cars			
Four cylinder or less	82.00	85.00	3.7
Five or six cylinder	167.00	172.00	3.0
Seven or more cylinders	244.00	251.00	2.9
Registration fee – light commercial vehicles			
Mass between 1001kg and 1500kg	182.00	187.00	2.7
Mass greater than 1500kg	310.00	319.00	2.9
Drivers' licence renewals			
Five years	120.00	120.00	—
Ten years	240.00	240.00	—
Speeding fines			
Exceeding the speed limit by:			
Less than 15km/h	144.00	163.00	13.2
More than 15km/h but less than 30km/h	228.00	259.00	13.6
More than 30km/h ^(a)	343.00	350.00	2.0
Increase in other fees and charges			
Water – residential			
Annual water supply charge	141.00	145.00	2.8
Water rates per kilolitre supplied:			
up to and including 125 kilolitres	0.44	0.46	4.5
in excess of 125 kilolitres	1.03	1.06	2.9
Motor vehicle charges			
Compulsory Third Party premium			
Passenger vehicles (metropolitan postcodes)			
Standard premium	385.00	375.00	-2.6
Input tax credit entitled premium	420.00	409.00	-2.6

(a) The *Road Traffic Act 1961* has a maximum expiation fee of \$350.

The annual indexation of fees and charges was set at 2.9 per cent reflecting the average increase in the cost of providing the relevant services. However, fees and charges are typically adjusted by the indexation factor and then rounded to an administratively convenient amount. This results in some fees and charges increasing by lesser or greater percentages than the indexation factor.

In order to assist in meeting safety targets agreed as part of the National Road Safety Strategy and Action Plan, speeding fines (for exceeding the relevant speed limit by up to 30 km per hour) and fines for disobeying traffic lights are to be increased by 10 per cent in addition to the annual indexation factor in 2005-06.

Compulsory Third Party premiums are determined by the Third Party Premiums Committee. The Committee recommended an average reduction of 2.7 per cent for 2005-06 on the basis of improved claims cost trends and strong investment performance in 2004-05. The standard premium for a passenger vehicle (Class 1) with a metropolitan postcode will decrease by 2.6 per cent in 2005-06.

Water charges will increase on average by 3.0 per cent for the 2005-06 year. The average increase for water (and sewerage) charges in 2006-07 will be 2.5 per cent.

General government sector revenue

The overall outlook for general government sector revenues is summarised in Table 3.10.

Growth in taxation revenues slowed in 2004-05 but not by as much as expected at the time of the 2004-05 Budget.

Total general government revenues are expected to exceed budget in 2004-05 by \$461 million (or 5 per cent).

Stronger than expected taxation revenue (\$136 million) and current grants (\$144 million) account for over half of the expected increase in revenues relative to the Budget. Classification changes mainly due to the inclusion of schools revenue in the coverage of the general government sector account for a further \$111 million of the increase against budget.

Stronger property tax revenues account for most of the increased level of taxation revenues in 2004-05 when compared to budget expectations. Although the property market has softened in the second half of 2004-05, property values continued to increase during the first half of 2004-05 and activity levels, while declining relative to 2003-04, exceeded budget expectations.

In aggregate, operating revenues are projected to remain flat in real terms over the forward estimate period.

Table 3.10: General government sector revenues (\$ million)

	2004-05 Budget	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Taxation revenue	2 780.1	2 916.2	2 862.2	2 984.7	3 057.5	3 144.8
Current grants	5 050.7	5 194.8	5 427.1	5 552.8	5 768.5	5 931.6
Capital grants	177.2	184.5	182.2	206.3	212.2	169.1
Sales of goods and services	1 101.0	1 233.0	1 227.2	1 263.2	1 286.5	1 309.6
Interest income	160.9	147.0	154.0	157.0	159.0	166.0
Other	727.1	782.7	867.8	804.3	807.4	827.5
Total	9 997.0	10 458.2	10 720.5	10 968.3	11 291.1	11 548.5
% change on previous year						
Nominal terms growth %		5.1	2.5	2.3	2.9	2.3
Real terms growth %		2.5	- 0.2	- 0.2	0.4	- 0.2

Note: Totals may not add due to rounding.

More detailed discussion on the forward projections for each of the components of general government revenue follows.

Taxation

The forward outlook for taxation revenue is provided in Table 3.11.

Taxation revenues are expected to exceed original budget estimates by \$136 million (or 5 per cent) in 2004-05 largely due to higher than expected property tax revenues.

Property market activity weakened during 2004-05, but not to the extent anticipated in budget estimates. Although conveyance and mortgage duty receipts are expected to be lower than in 2003-04, revenues from these taxes are expected to exceed budget in 2004-05 as property values continued to grow in the first half of 2004-05 and the decline in activity levels was smaller than anticipated. Reflecting the strength in the South Australian labour market, payroll tax receipts are also expected to exceed budget estimates. These revenue gains are partially offset by lower than expected revenues from gambling and insurance taxes and the payment of land tax rebates in 2004-05.

Total taxation revenues are expected to decline in absolute and real terms in 2005-06 before resuming modest real terms growth across the forward estimates period. Lower property tax revenues account for the negative growth in 2005-06 reflecting an expected continuation of softer property market conditions, the impact of the land tax reduction package announced in February 2005, the proposed abolition of mortgage duty on refinancing transactions and residential loans for owner occupation and the abolition of debits tax from 1 July 2005 (consistent with the ABS classification, debits tax is classified as a property tax).

Residential property prices are expected to stabilise in 2005-06 following a substantial period of strong growth. Residential property turnover, however, is expected to continue to fall in 2005-06 before modest increases in subsequent years.

Lack of real term growth in taxation revenue in 2007-08 reflects the part year impact of the smoking ban on gambling revenues, which takes full operational effect during that year, and further progress with IGA tax reform.

Table 3.11: Taxation (\$ million)

	2004-05 Budget	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Employer payroll tax	720.4	740.6	776.9	816.4	857.9	901.6
Taxes on property	979.0	1 104.6	989.9	1 024.6	1 048.5	1 070.0
Taxes on gambling	405.1	400.9	413.6	438.9	422.7	420.0
Taxes on insurance	287.2	281.8	282.5	290.9	299.5	308.5
Motor vehicle taxes	383.6	383.0	393.9	408.3	423.2	438.9
Other taxes ^(a)	4.8	5.4	5.4	5.6	5.7	5.8
Total taxation	2 780.1	2 916.2	2 862.2	2 984.7	3 057.5	3 144.8
Policy adjusted ^(b)	2 719.8	2 803.9	2 854.7	2 985.0	3 078.4	3 190.2
<hr/>						
% change on previous year						
Employer payroll tax	3.7	4.9	5.1	5.1	5.1	5.1
Taxes on property	3.1	- 10.4	3.5	2.3	2.0	
Taxes on gambling	5.8	3.2	6.1	- 3.7	- 0.6	
Taxes on insurance	6.2	0.2	3.0	3.0	3.0	
Motor vehicle taxes	2.9	2.9	3.7	3.6	3.7	
Other taxes	28.9	1.4	2.8	2.4	2.4	
Total taxation	3.9	- 1.9	4.3	2.4	2.9	
Nominal growth %	1.4	- 4.5	1.7	- 0.1	0.3	
Policy adjusted underlying revenue growth ^(b)	5.8	1.8	4.6	3.1	3.6	
Nominal growth %	3.2	- 0.9	2.0	0.6	1.1	
Real terms growth %						

(a) Comprises levies on agricultural products.

(b) Time series has been adjusted to be consistent with 2005-06 policy settings.

Note: Totals may not add due to rounding.

Payroll tax

Payroll tax receipts in 2004-05 are likely to be \$20 million (or 3 per cent) higher than was estimated at the time of the 2004-05 Budget reflecting stronger than expected growth in taxable payrolls.

Notwithstanding this, payroll tax receipts are expected to grow by only 3.7 per cent in 2004-05, reflecting the reduction in the payroll tax rate from 5.67 per cent to 5.5 per cent from 1 July 2004.

Taxable payrolls are projected to grow by 4.9 per cent in 2005-06 and by 5.1 per cent per annum over the forward estimates period.

Property taxes

The outlook for individual property taxes is provided in Table 3.12.

Table 3.12: Property taxes (\$ million)

	2004-05 Budget	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Stamp duties						
Conveyance duty	439.9	545.3	484.0	511.5	543.6	574.4
Other stamp duties ^(a)	88.3	113.1	78.6	79.6	62.1	40.2
Land tax						
Private taxpayers	168.7	150.9	160.6	167.7	173.4	181.5
Public sector entities	98.6	110.4	131.4	133.1	134.7	136.3
Debits tax	60.3	60.3	5.1	0.0	0.0	0.0
Emergency services levy on fixed property	66.0	67.2	71.4	72.6	73.8	75.3
Other ^(b)	57.2	57.4	58.8	60.1	61.0	62.2
Total	979.0	1 104.6	989.9	1 024.6	1 048.5	1 070.0
Policy adjusted ^(c)		994.2	982.4	1 024.9	1 069.4	1 115.4

% change on previous year

Stamp duties						
Conveyance duty	- 5.7	- 11.3	5.7	6.3	5.7	
Other stamp duties	- 4.8	- 30.5	1.2	- 22.0	- 35.2	
Land tax						
Private taxpayers	28.4	6.4	4.4	3.4	4.7	
Public sector entities	37.6	19.0	1.3	1.2	1.2	
Debits tax	0.0	na	na	na	na	
Emergency services levy on fixed property	9.4	6.2	1.8	1.7	2.0	
Other	4.8	2.5	2.1	1.5	2.1	
Total property taxes						
Nominal growth %	3.1	- 10.4	3.5	2.3	2.0	
Real terms growth %	0.6	- 12.8	1.0	- 0.2	- 0.4	
Policy adjusted underlying revenue growth ^(c)						
Nominal growth %	5.9	- 1.2	4.3	4.3	4.3	
Real terms growth %	3.3	- 3.8	1.8	1.8	1.8	

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

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

(c) Time series has been adjusted to be consistent with 2005-06 policy settings.

Note: Totals may not add due to rounding.

Property taxes are expected to exceed budget in 2004-05 by \$126 million (13 per cent), notwithstanding a weakening in property market conditions during the second half of the year. Stamp duty on property transfers (conveyances) accounts for most of the improvement above budget, supported by improvements in mortgage duty. Land tax receipts, on the other hand, will fall below budget reflecting the impact of the land tax rebate for 2004-05, announced in February 2005.

Revenue from conveyance and mortgage duty is nevertheless expected to be lower in 2004-05 compared to 2003-04. Property values continued to increase during the first half of 2004-05 and activity levels, although lower than in 2003-04, are expected to exceed budget time assumptions for 2004-05. The enhancements to the first homebuyer stamp duty concession, which took effect from May 2004, also contribute to the fall in conveyance duty revenue between 2003-04 and 2004-05.

In 2005-06, property tax revenue is estimated to fall by almost 13 per cent in real terms. It is assumed that property market activity will continue to decline and that there will be only marginal growth in residential property values. Tax policy measures also reduce taxation revenues in 2005-06 including the abolition of debits tax, stamp duty on residential mortgages for owner-occupiers and mortgage refinancing from 1 July 2005.

Forward projections assume residential house prices stabilise in 2005-06 and 2006-07 and match general inflation growth thereafter. The level of house prices now as compared with income levels, the recent increase in interest rates and a softer economic outlook all point towards a halt in real property value growth. No provision has been made for residential property price falls although price falls have been recorded in some of the eastern States.

Growth in non-residential property prices is assumed to slow to around 5 per cent in 2005-06 and thereafter to move in line with general inflation.

Property turnover is expected to continue to decline in 2005-06 before resuming modest growth from 2006-07. Dutiable property transfers are estimated to have fallen by 9 per cent in 2004-05. Provision has been made for a further 11 per cent fall in 2005-06.

The impact of these value and turnover assumptions is that conveyance duty revenues are expected to decline in 2005-06 by 11.3 per cent before resuming annual growth of between 5.7 per cent and 6.3 per cent per annum across the forward estimates.

Other property-related stamp duties are also projected to fall in 2005-06, largely reflecting the impact of softer property market conditions and the impact of mortgage duty exemptions for residential loans for owner-occupiers and for refinancing from 1 July 2005.

Any uplift in property market values flows through to land tax and ESL on a lagged basis. Consequently, land tax revenues have recorded another year of strong growth in 2004-05. An *ex gratia* land tax rebate applies to 2004-05 land taxpayers equal to 50 per cent of the savings under the land tax scales proposed in February 2005, applied to 2004-05 ownerships.

Land tax assessments for 2005-06 will be based on valuations that are reflective of sales experience in calendar year 2004. The Valuer-General's determination of land values forms the basis of 2005-06 land tax assessments. Indicatively, site values for land tax assessment purposes are estimated to have increased by 20 per cent for residential properties and 12 per cent for non-residential properties.

In response to the impact of strong site value growth on land tax assessments, a land tax reduction package was announced on 7 February 2005 (refer to Taxation Measures section for further details). Since the announcement, enhancements have been made to the reduction package including an increase in the tax-free threshold from \$100 000 to \$110 000 and the introduction of an option to pay land tax in quarterly instalments effective from the 2005-06 land tax assessment year. An exemption for supported residential facilities will also apply in addition to the specific exemptions announced in February. Over the forward

estimates period the land tax reduction package is estimated to cost \$244 million in revenue forgone. In addition, rebate costs in 2004-05 amounted to \$20 million.

In the absence of the rebate in 2004-05, private land tax receipts for 2005-06 would be lower than for 2004-05. Given that the rebate reduces the 2004-05 starting point, private land tax receipts will increase 6.4 per cent in 2005-06.

The significant growth in land tax receipts for government-controlled Public Non-Financial Corporations (PNFCs) and Public Financial Corporations (PFCs) in 2005-06 largely reflects the impact of annual site valuations for these entities. The South Australian Housing Trust (SAHT) is the largest single land-holder and its tax liability reflects the strong growth experienced in residential site values. Land tax receipts from the SAHT, Land Management Corporation and West Beach Trust are largely offset by grants and subsidy payments to these entities and therefore have no net budget impact.

The abolition of debits tax from 1 July 2005 reflects undertakings made under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) and confirmed at the Ministerial Council for Commonwealth-State Financial Relations meeting held in March 2004.

Growth in the fixed property component of the Emergency Services Levy in 2005-06 reflects the impact of property value growth on the variable (capital value based) component of the levy. Thereafter, more modest growth is projected reflecting the assumption that property values will grow in line with general inflation.

The “other property” tax category includes the Save the River Murray Levy, guarantee fees and water catchment levies.

Gambling taxes

The outlook for individual gambling taxes is provided in Table 3.13.

Table 3.13: Gambling taxes (\$ million)

	2004-05 Budget	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Gaming machines	302.4	297.9	307.4	328.2	312.3	308.7
Lotteries Commission	74.6	74.6	76.8	79.5	79.9	80.9
TAB	8.3	8.6	8.9	10.0	10.3	10.5
Casino	17.5	17.5	18.2	18.8	17.8	17.4
Other ^(a)	2.3	2.3	2.4	2.4	2.5	2.5
Total	405.1	400.9	413.6	438.9	422.7	420.0
% change on previous year						
Gaming machines		6.6	3.2	6.8	- 4.8	- 1.2
Lotteries Commission		0.9	2.9	3.5	0.5	1.3
TAB		30.8	3.5	12.4	3.0	1.9
Casino		2.5	4.0	3.3	- 5.3	- 2.2
Other ^(b)		27.8	2.0	2.2	2.2	2.2
Total gambling taxes						
Nominal growth %		5.8	3.2	6.1	- 3.7	- 0.6
Real terms growth %		3.2	0.4	3.5	- 6.0	- 3.1

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

(b) Growth in 2004-05 reflects the new fee structure applying to trade promotion lotteries effective from 1 July 2004.

Note: Totals may not add due to rounding.

Total taxes on gambling are expected to fall short of budget expectations by \$4 million (1 per cent) in 2004-05 due to lower than expected gambling expenditure on gaming machines.

Estimates at the time of the 2004-05 Budget assumed growth in net gambling revenue (NGR) from gaming machines of 6.0 per cent in 2004-05. NGR growth in 2004-05 is now expected to be around 5 per cent. This lower than expected growth appears to be at least partially influenced by a reduction in patronage following the introduction on 6 December 2004 of the first stage of smoking bans in hospitality venues (across both bars and gaming rooms) and possibly from unseasonably mild weather conditions. Because of the progressive tax scale, gaming machine tax revenues are nevertheless projected to increase by 6.6 per cent in 2004-05.

In 2005-06, gaming machine NGR is forecast to grow by 3.0 per cent reflecting the lower growth experienced in the latter months of 2004-05, an expected softening in consumer spending and the impact of harm minimisation measures such as changes to industry codes of practice and progress to build community awareness of problem gambling.

Smoking bans are to be phased in with the proportion of machines located in “smoke-free” areas progressively increasing to 100 per cent by 31 October 2007. Expenditure on gaming machines is expected to decline substantially when gaming machine areas become entirely “smoke-free”. Accordingly, the forward estimates allow for a negative part year revenue impact from the ban in 2007-08. In a full year, the smoking ban is expected to result in a 15 per cent reduction in gaming machine NGR.

Casino taxes are also expected to fall in 2007-08 and 2008-09 when the smoking ban applies to most areas of the casino.

Lotteries Commission tax comprises a 41 per cent tax on net gambling revenue together with distributions (net of income tax equivalents).

Distributions from the Lotteries Commission are expected to increase in the 2005-06 year reflecting stronger sales forecasts, driven mainly by the introduction of new products and variations to existing game structures. This growth in sales is expected to continue in 2006-07 but will moderate in 2007-08 and 2008-09. The growth in distributions from 2007-08 will also be reduced by depreciation associated with the new On-Line Lotteries System.

A 6.0 per cent tax on net wagering revenue applies to the TAB. In addition, the TAB Duty Agreement provides the State with an additional fixed amount of \$2 million in 2004-05 and 2005-06. This fixed amount increases to \$3 million per annum from 2006-07 to 2015-16. These arrangements account for the strong growth in estimated tax revenues from the TAB in 2004-05 and 2006-07.

Insurance taxes

Revenue from taxes on insurance is expected to fall short of budget by \$5 million (2 per cent) in 2004-05 as premium levels have stabilised following successive years of market adjustment resulting in strong premium growth.

In 2005-06, tax revenue from insurance is expected to exhibit no growth. Industry reports suggest premium growth for certain classes of commercial risk cover will decline in the 2005 calendar year. In addition, CTP premiums will be reduced on average by 2.7 per cent in 2005-06 as recommended by the Third Party Premiums Committee.

Motor vehicle taxes

Motor vehicle taxes include registration fees, stamp duty on initial registrations and transfers and the ESL on mobile property.

In 2004-05, motor vehicle tax receipts are expected to be in line with budget estimates.

The forward outlook assumes a small decline in new motor vehicle sales in 2005-06 from the high levels in 2004-05 returning to modest growth from 2006-07. Motor vehicle tax revenue is projected to grow at annual rates of around 3.7 per cent from 2006-07.

South Australia's relative tax effort

Each year the Commonwealth Grants Commission (CGC) releases an assessment of relative tax effort for all States and Territories as part of its annual relativity update. Based on the data published by the CGC for the 2003-04 financial year, South Australia's relative tax effort has increased from 12.6 per cent above the all States average in 2002-03 to 18.2 per cent above average in 2003-04. However, this assessment does not take into consideration a genuine incomparability between South Australia and other jurisdictions (namely land tax paid by South Australian public sector entities) nor does it include emergency service charges such as the ESL which are classified by the CGC as user charges rather than taxes. It is also yet to reflect the impact of tax measures announced in the 2004-05 and 2005-06 Budgets including the payroll tax cut in 2004-05, the land tax reduction package announced in February 2005 and the phased abolition of mortgage and rental duty announced in this Budget.

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 (SAHT). The large size of the SAHT's property holdings has meant that it accounts for more than one-third of total land tax receipts for the State. There is no net benefit to the budget from these tax payments since additional funding is provided to the SAHT to meet its land tax liability.

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.

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

After excluding land tax payments made by public sector entities and including emergency services revenue as a tax rather than a user charge, South Australia's relative tax effort falls from 18.2 per cent to 14.8 per cent above average in 2003-04. South Australia had the highest tax effort ratio in 2003-04 on both an adjusted and unadjusted basis.

Details of tax effort assessments are provided in Table 3.14.

Table 3.14: Tax effort ratios by jurisdiction

	2002-03		2003-04	
	CGC ^(a)	Adjusted ^(b)	CGC ^{(a)(c)}	Adjusted ^{(b)(c)}
New South Wales	100.3	99.7	99.4	98.9
Victoria	107.3	107.8	105.4	105.7
Queensland	86.0	87.5	86.9	88.4
Western Australia	99.5	99.2	103.7	103.4
South Australia	112.6	109.7	118.2	114.8
Tasmania	96.3	100.4	95.8	100.0
Australian Capital Territory	103.2	101.4	108.6	107.3
Northern Territory	92.8	92.0	90.6	89.8

(a) Tax severity ratios consistent with GST-based relativities determined by the CGC.

(b) Adjusted to remove land tax paid by South Australian public sector entities and to add the CGC's 'user charges' assessment for emergency services.

(c) Does not take into account tax relief measures announced in the 2004-05 Budget and the 2005-06 Budget.

Tax effort measured by the CGC reflects the use made of available tax bases not their size. South Australia has a small tax base relative to other States. As a result, in terms of tax revenue per capita, South Australia is a relatively low tax jurisdiction (fourth lowest in 2004-05 based on adjusted total taxation collections). Details are provided in Table 3.15.

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

	2003-04 Adjusted ^{(a)(c)}	2004-05 Adjusted ^{(b)(c)}
Australian Capital Territory	2 332	2 271
New South Wales	2 237	2 252
Victoria	2 050	2 071
Western Australia	2 096	1 945
South Australia	1 781	1 824
Queensland	1 737	1 690
Northern Territory	1 326	1 463
Tasmania	1 314	1 409
All States and Territories	2 016	2 008

(a) Based on published outcomes for all States and Territories.

(b) Based on taxation revenue estimates published in Mid Year Review documents for all States and Territories except Victoria, South Australia, Tasmania and the two Territories where 2005-06 Budget papers have been used. Population estimates published as part of the 2005-06 Commonwealth Budget have been used.

(c) Taxation revenues for South Australia have been adjusted to remove land tax paid by South Australian public sector entities.

Current grants

The forward outlook for current grants is provided in Table 3.16.

Table 3.16: Current grants (\$ million)

	2004-05 Budget	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
COMMONWEALTH GRANTS						
General purpose grants						
GST revenue grants	3 242.9	3 329.1	3 460.5	3 604.9	3 778.9	3 931.3
Competition grants	46.9	50.5	50.3	0.0	0.0	0.0
Total	3 289.8	3 379.6	3 510.8	3 604.9	3 778.9	3 931.3
Specific purpose current grants						
Direct grants	1 215.4	1 252.6	1 325.1	1 344.5	1 373.8	1 371.0
On-passed grants	450.9	488.1	518.2	529.4	540.9	551.6
Total	1 666.3	1 740.7	1 843.3	1 873.9	1 914.7	1 922.6
OTHER GRANTS						
Current grants from private sector	94.6	74.5	73.1	74.0	74.9	77.7
Total	94.6	74.5	73.1	74.0	74.9	77.7
Total Grants	5 050.7	5 194.8	5 427.1	5 552.8	5 768.5	5 931.6

% change on previous year

Commonwealth grants

Nominal growth %	6.2	4.6	2.3	3.9	2.8
Real terms growth %	3.6	1.8	- 0.2	1.4	0.3

Note: Totals may not add due to rounding.

Current grants mainly comprise grants from the Commonwealth Government but also include contributions received from the private sector in the form of sponsorship and other grants.

Commonwealth grants are either general purpose grants (GST revenue grants or competition grants) or specific purpose grants (for direct expenditure on State programs or for passing on to other sectors).

GST revenue grants

The introduction of the GST on 1 July 2000 significantly altered Commonwealth-State financial arrangements. The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) is the agreement that prescribed the methodology for the distribution of GST receipts and other associated State taxation reforms.

The IGA required the abolition and review of a number of State taxes and has resulted in GST revenue grants representing a larger proportion of general government sector revenues. GST grant distributions between the States and Territories are determined annually using relativity factors calculated by the Commonwealth Grants Commission (CGC) using fiscal equalisation principles (refer to Chapter 4 for a more detailed discussion of the IGA and horizontal fiscal equalisation principles).

The Commonwealth Government, through the IGA, also committed to an arrangement whereby the States and Territories would be guaranteed a minimum level of funding (referred to as the Guaranteed Minimum Amount or GMA) sufficient to ensure that they would not be worse off under the move to GST funding. The Commonwealth agreed that any shortfall between its share of GST revenues and a State's GMA would be met by transitional assistance grants.

During the 2003-04 financial year South Australia's share of GST revenues exceeded its GMA for the first time, removing the need for transitional assistance grants. South Australia is not expected to require transitional assistance across the forward estimates period.

GST revenue grants in 2004-05 are expected to exceed original budget estimates by \$86 million. At the time of the 2004-05 Budget, it was assumed that the GST pool would grow by 4.5 per cent. Revised Commonwealth estimates now show that GST collections are expected to increase by 7.5 per cent in 2004-05.

Commonwealth estimates suggest slower GST revenue growth over the forward estimates period than had been expected in 2004-05. Growth in the GST pool in 2005-06 is forecast to be 4.9 per cent, decreasing to 4.7 per cent in 2006-07, and increasing to a little over 5 per cent in each of 2007-08 and 2008-09. However, GST revenue grants for South Australia will grow more slowly than the total GST pool, because our share of the pool is projected to decline. Each State's share of the GST pool reflects its population share adjusted by a relativity factor determined by the CGC in accordance with fiscal equalisation principles.

Factors contributing to South Australia's reduced share include:

- a declining population share;
- a lower relativity in 2005-06; and

- provision for potential losses in future relativity updates including effects associated with the abolition of IGA taxes.

Competition grants

In 1995, all Australian governments committed to the implementation of National Competition Policy (NCP) reforms. As part of this agreement, the Commonwealth undertook to provide funding to the States and Territories contingent upon them demonstrating progress in implementing NCP reforms.

In 2004-05, competition grants are expected to exceed budget estimates by \$3.6 million. The revised estimate reflects the Federal Treasurer's decision in December 2004 to accept in full the recommendations of the National Competition Council (NCC) which included the lifting of suspended 2003-04 competition payments partially offset by further penalties relating to the regulation of liquor sales and barley marketing arrangements and other outstanding legislation review items.

As part of the 2004 Commonwealth election campaign, the Commonwealth Government announced that it would cease paying competition grants after the 2005-06 financial year. Commonwealth funding for competition grants is to be redirected to water conservation initiatives. This funding is not included in Table 3.16 as the distribution to each jurisdiction and associated expenditure is not known at this stage.

Refer to Chapter 4 for a more detailed discussion on competition grants.

Specific purpose Commonwealth grants (current)

Specific purpose current grants for expenditure on State Government programs are distinguished from current grants provided to the State for on-passing to other sectors (predominantly non-government schools and local government).

Specific purpose grants for expenditure on State programs include funding for health care, government schools, vocational education and training , transport funding and housing assistance payments. These specific purpose grants are expected to exceed budget in 2004-05 by \$37 million mainly due to education, welfare and health funding.

On passed grants for non-government schools and local government are also expected to exceed budget in 2004-05 by \$37 million.

Specific purpose grants are projected to grow by 3 per cent in real terms in 2005-06 and, thereafter, to fall in real terms across the forward estimates period. The decline is strongest in 2008-09 reflecting a projected reduction in road funding. Growth in 2005-06 is largely due to Commonwealth debt redemption assistance reflecting the finalisation of payments on maturity for relevant debt instruments, increased health care grants and increased road funding.

Other current grants

Other current grants mainly take the form of donations, bequests, industrial research and sponsorship grants. Estimates for 2004-05 will fall below budget mainly due to the

reclassification of \$19 million of revenue relating to the sale of Edinburgh Parks to “Sales of goods and services”.

Over the forward estimates period, other current grants are projected to remain flat. Increases in 2008-09 reflect grant receipts for the health and primary resources sectors.

Capital grants

The forward outlook for capital grants is provided in Table 3.17.

Table 3.17: Capital grants (\$ million)

	2004-05 Budget	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
COMMONWEALTH GRANTS						
Specific purpose capital grants						
Direct grants	165.2	171.5	171.4	195.2	200.9	157.6
On-passed grants	8.2	8.2	8.4	8.6	8.9	9.1
<i>Total</i>	<i>173.5</i>	<i>179.7</i>	<i>179.8</i>	<i>203.9</i>	<i>209.8</i>	<i>166.7</i>
OTHER GRANTS						
Capital grants	3.7	4.7	2.4	2.4	2.4	2.4
Total	177.2	184.5	182.2	206.3	212.2	169.1
% change on previous year						
Commonwealth grants						
Nominal growth %	8.0	0.0	13.4	2.9	- 20.5	
Real terms growth %	5.3	- 2.6	10.6	0.4	- 22.5	

Note: Totals may not add due to rounding.

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

In 2004-05 capital grants are expected to exceed budget expectations due to revisions in the timing of road grants, particularly AusLink.

In 2005-06, capital grants remain flat as the infrastructure component of the new schools agreement with the Commonwealth has not been finalised. The timing of AusLink major investing payments mainly accounts for the growth in capital grants in 2006-07 and 2007-08 and the subsequent reduction in 2008-09.

Schools revenues and expenses

Revenues and expenses of schools are being recognised in budget estimates for the first time in 2004-05. Prior to 2004-05, funding provided to schools was recognised as general government expenditure once a payment was made to a school, not when a school incurred

expenditure. The provision of funding to a school is now treated as an internal transaction with a budget impact recorded when a school incurs expenditure. This change in accounting treatment reflects that government schools are government controlled bodies.

Schools revenues and expenses were not included in the 2004-05 Budget estimates. In relation to revenue estimates, the impact of initial recognition has caused a \$61.5 million increase above budget in the “Sales of goods and services” and a \$52 million increase above budget in “Other revenue”.

Schools revenue items included in “Sales of goods and services” incorporate receipts from the materials and services charge, excursion fees, computer levies and camp fees. Revenues incorporated in “Other revenue” include items such as canteen revenues, fund-raising and the hire of facilities.

Sales of goods and services

Details of this revenue category are provided in Table 3.18.

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

	2004-05 Budget	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Health unit fees	212.4	207.7	212.4	220.0	222.3	228.3
TAFE fees	66.9	68.9	70.5	72.2	73.9	76.2
Regulatory fees	215.2	231.1	224.8	237.3	250.1	260.0
Commonwealth contributions	150.0	172.3	171.8	172.4	174.0	160.0
Drivers' licence fees	27.5	19.6	21.7	25.2	25.7	32.7
Schools revenue	-	61.5	63.0	64.6	66.2	67.9
Metroticket fares	-	57.4	59.4	61.3	63.2	65.1
Other user charges	429.0	414.6	403.7	410.2	411.0	419.4
Total	1 101.0	1 233.0	1 227.2	1 263.2	1 286.5	1 309.6

Note: Totals may not add due to rounding.

Sales of goods and services by the general government sector include Government fees and charges that are adjusted annually based on the average increase in the cost of service provision. As discussed earlier in this chapter, most government fees and charges will increase by 2.9 per cent from 1 July 2005.

Revenues from sales of goods and services are expected to exceed budget by \$132 million in 2004-05 of which \$79 million relates to known classification changes since Budget, including:

- revenues and expenses of schools being recognised in budget estimates for the first time in 2004-05 but not included in the 2004-05 Budget estimates, causing a \$61.5 million increase above budget;
- the reclassification from “Other current grants” to “Sales of goods and services” of \$19.5 million revenue relating to the sale of Edinburgh Parks by the Department of Trade and Economic Development;

- the recognition within the general government sector of \$57.4 million of bus fare revenue and \$1.6 million of other revenues following the incorporation of the Office of Public Transport within the general government sector;
 - offset by:
- the removal of \$37.6 million of bus and depot lease revenue, also resulting from the reclassification of the Office of Public Transport as a general government sector entity; and
- the removal of \$23.8 million of revenue for services previously contracted to Transport Services by InfraCorp but which are now being funded within the general government sector.

The genuine improvement against budget in revenue from sales of goods and services is \$53 million and reflects higher than budgeted revenues from various agencies including the Department of Administrative and Information Services (DAIS) (land transfer and other fees) and higher Commonwealth contributions, partly offset by lower than expected revenues from health unit fees and drivers' licence fees.

Over the forward estimates, revenue from sales of goods and services declines in 2005-06 largely due to lower DAIS land transfer fees reflecting a decrease in property transfer activity levels. In 2008-09, Commonwealth contributions decline due to the cessation in 2007-08 of grants to fund fringe benefits tax costs in health units that lost public benevolent institution status.

Interest income

Interest income is expected to fall short of budget estimates in 2004-05 due to lower cash deposit levels than expected. Increased interest income over the forward estimates period reflects increases in the Treasurer's cash deposits with SAFA.

Other revenue

The forward outlook for other revenue is provided in Table 3.19

Table 3.19: Other revenue (\$ million)

	2004-05 Budget	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Royalties	84.0	95.3	94.0	96.0	97.7	90.8
Fines and penalties	101.3	70.9	95.9	119.1	127.8	136.9
Distributions from PFCs	123.7	123.7	115.2	23.4	21.6	21.6
Distributions from PNFCs	299.3	320.3	380.4	381.3	371.4	379.3
Schools revenue (fundraising)	-	52.1	53.4	54.7	56.1	57.5
Other	118.9	120.4	128.9	129.8	132.8	141.4
Total	727.1	782.7	867.8	804.3	807.4	827.5
Distributions received from PFCs comprise						
SAAMC	73.2	73.2	6.0	6.0	4.0	4.0
HomeStart	6.0	6.0	6.0	6.4	6.5	6.5
SAFA	44.3	44.3	103.0	10.9	10.9	10.9
Funds SA	0.2	0.2	0.2	0.2	0.2	0.2
Total	123.7	123.7	115.2	23.4	21.6	21.6

Note: Totals may not add due to rounding.

Other revenue is expected to exceed budget in 2004-05 by \$56 million, of which \$52 million is a classification effect due to the inclusion of schools revenues. Revenue from fines and penalties is expected to be \$30 million below budget reflecting a shortfall in traffic fine revenue. This is offset by higher revenue from royalties and higher than expected distributions from public non-financial corporations.

Other revenue is projected to fall in 2006-07 mainly due to lower distributions from SAFA. Revenue from fines and penalties is expected to continue to increase over the forward estimate period.

Strong growth in other revenue in 2005-06 mainly reflects increased distributions from public non-financial corporations (PNFCs) and estimated growth in revenue from fines and penalties, partly offset by a decrease in distributions from public financial corporations (PFCs).

The major component of fines and penalties is traffic infringement fines (in particular, speeding fines and red light camera fines). In 2004-05, revenue from traffic fines is expected to fall short of budget by \$30 million reflecting changes in driver behaviour, the impact of industrial action earlier in the year and delays in the installation of new red light/speed cameras. Revenue from traffic fines is expected to increase significantly in 2005-06 reflecting increases in excess of 13 per cent in the level of fines charged for exceeding the speed limit by up to 30km per hour and the installation of an additional 48 red light/speed cameras during

2005-06. Estimates for 2006-07 reflect the full year impact of having these cameras fully operational.

Distributions from PFCs are expected to decline in 2005-06 due to a lower distribution from SAAMC and then remain relatively stable over the forward estimates period.

SAFA's capital and reserves after distributions are estimated to be \$173 million as at 30 June 2005. An earlier review of the level of capital within SAFA indicated that an amount of \$75 million would be sufficient to support SAFA's operations. Consistent with that earlier review, SAFA will pay an additional dividend of \$50 million in 2005-06, bringing the total distribution in 2005-06 to \$103 million. SAFA's level of capital and reserves is now estimated to be \$116 million by 30 June 2009.

Distributions from the South Australian Asset Management Corporation (SAAMC) decline in 2005-06 reflecting the anticipated reduction in investing activities and the near completion of the recovery of old loans.

Distributions from PNFCs are expected to increase substantially in 2005-06 reflecting implementation of the first stage of a new ownership framework for PNFCs. Application of the new ownership framework has increased the dividend pay-out ratios for SA Water and ForestrySA (although the level of distributions from ForestrySA will fall in 2005-06 and 2006-07). Distributions from the Land Management Corporation are consistent with the anticipated extension of the new PNFC ownership framework to its operations with the dividend payout ratio increasing from 60 per cent of after tax profit to 90 per cent, the payment of a special dividend in 2005-06 and higher sales from the Northfield residential development that continues into 2006-07.

Further detail on PNFCs is provided in Chapter 6.

Royalty revenue is expected to exceed budget in 2004-05 reflecting higher copper prices and a return to full production at Olympic Dam. Cooper Basin royalties are also expected to exceed budget in 2004-05 due to stronger crude oil and LPG prices.

Royalty revenues are expected to remain flat over most of the forward estimates period and to decline in 2008-09 as Cooper Basin production levels taper off. Additional mineral royalties from One Steel's Project Magnet are included in 2007-08 and 2008-09 reflecting the commencement of production in the 2007 calendar year. Other mineral production is expected to be maintained at constant levels.

Copper and gold prices are projected to decline while oil prices are assumed to remain stable in Australian dollar terms.

CHAPTER 4: INTERGOVERNMENTAL FINANCES

Overview

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

Recent developments

Treasurers’ Conference

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

The sixth meeting of the Ministerial Council was convened in Canberra on 23 March 2005, where it considered expected revenue payments to the States in 2004-05 and 2005-06, as well as a range of GST administration issues. The outcomes included:

- agreement that 2005-06 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 2005 Update;
- agreement that the CGC be provided with terms of reference to guide it in simplifying its methodology by 2010, building on a review by the Heads of Treasuries, commissioned at last year’s meeting, which examined aspects of the methodology used by the CGC. The review found the CGC’s methodology, while generally robust, could be simplified without compromising the underlying principle of horizontal fiscal equalisation (HFE). The CGC will report on the methodology review in February 2010, but it is also required to make interim reports to the 2006 and 2007 Treasurers’ Conferences on its conclusions on specific simplification options:
 - some simplification options proposed would compromise HFE but these should be out of scope of the CGC’s approach.
- endorsement of the Australian Tax Office’s GST administration budget for 2005-06 and minor revisions to the GST Administration Performance Agreement;
- recognition that the Commonwealth is meeting its commitment under the IGA not to cut aggregate specific purpose payments (SPPs) as part of the national tax reform arrangements; and

- endorsement of Loan Council Allocations nominated by the Commonwealth and each State for 2005-06 (South Australia's Loan Council Allocation is detailed in Appendix A).

The meeting also considered a Heads of Treasuries report reviewing, in accordance with the IGA, the need for retention of a range of business stamp duties. The Commonwealth put forward a proposal setting out a timetable for the abolition of the taxes commencing in 2006-07 and the States undertook to further examine the proposal, including the timing and sequencing of abolition.

Under the IGA, it had been agreed that “the Ministerial Council will by 2005 review the need for retention of stamp duty on:

- non-residential conveyances;
- leases;
- mortgages, debentures, bonds and other loan securities;
- credit arrangements, instalment purchase arrangements and rental arrangements;
- cheques, bills of exchange and promissory notes; and
- unquoted marketable securities”.

On the eve of the Treasurers' Conference, the Commonwealth Treasurer wrote to the States stating that in his view the intent of the IGA was that, if GST revenue proved to be sufficient when the review of State taxes was made, States would abolish these taxes. He set out a timetable for the abolition of the taxes, with all the taxes other than stamp duty on non-residential conveyances being abolished from 1 July 2006, and duty on business conveyances other than real property being abolished from 1 July 2007, with the remaining duty on business conveyances of real property to be abolished from a date to be determined by the Ministerial Council.

At the Treasurers' Conference, the Commonwealth Treasurer stated that failure by the States to abolish the taxes would be considered a breach of the IGA and in that event the Commonwealth would consider its position on a range of issues covered by the IGA.

The impact on South Australia of the Commonwealth's proposal is provided in Table 4.1. It shows both the direct impact on State revenues of abolition and the estimated indirect effect on GST revenues caused by the flow-on effect of the abolition of taxes by all States on CGC assessments.

Table 4.1: Estimated impact on South Australia of Commonwealth's proposal for abolition of IGA taxes (\$ million)

	2006-07	2007-08	2008-09	2009-10	2010-11
State tax revenue	-91	-137	-146	-153	-159
Indirect CGC effects	-32	-54	-54	-59	-62
Total impact	-123	-191	-200	-212	-221

Victoria, Queensland, South Australia, Tasmania and the two Territories subsequently wrote jointly to the Commonwealth setting out an alternative schedule of tax abolition. They also proposed that no further review of State taxes should be initiated.

The impact on South Australia of the States' proposal is provided in Table 4.2.

Table 4.2: Estimated impact on South Australia of States' proposal for abolition of IGA taxes (\$ million)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
State tax revenue	-24	-28	-51	-78	-128	-159
Indirect CGC effects ^(a)	—	-2	-3	-8	-39	-41
Total impact	-24	-29	-54	-86	-167	-200

(a) Reflects later timing of abolition of taxes compared to Commonwealth proposal.

South Australia has always recognised that these taxes had some undesirable characteristics and imposed a significant burden on business in this State. However, the loss of revenue from these taxes inevitably constrains the scope for increased expenditures in areas such as health, education and social programs. The aggressive nature of the Commonwealth's demands has meant the State has had to abolish these taxes across a shorter timeframe with adverse impacts on expenditure growth in high priority areas.

Commonwealth Grants Commission 2005 Update

In March, the CGC released its 2005 Update of per capita relativities for the distribution of Commonwealth GST revenue grants to the States in 2005-06. The relativities are based on the principle of HFE (see below). This principle is well established and has underpinned the distribution of general purpose grants among the States for decades. The IGA incorporates the requirement that GST revenue grants will be allocated among the States in accordance with the principle of HFE.

Overall, the 2005 Update relativities redistributed about \$128 million among the States (see Table 4.3), with grants redistributed to New South Wales, Victoria and the two Territories at the expense of the other four States. This result was largely driven by data updates, particularly to sociodemographic data and the CGC's estimates of wage cost movements and revenue raising capacities.

South Australia's relativity fell marginally to 1.20325 in the 2005 Update, which equates to a decrease in GST revenue grants of \$3.2 million compared to payments received using the previous relativities. Nevertheless, after the CGC's recommended distribution is implemented, South Australia will still receive approximately \$660 million more than if funding were distributed on a simple population share basis without regard to the fiscal needs and capacities of each State.

The fall in grants share for South Australia was primarily the result of less favourable assessments of South Australia's relative wages input costs and of the cost of superannuation, mostly offset by falls in revenue raising capacities, particularly for stamp duty on conveyances.

Table 4.3: Commonwealth Grants Commission 2005 Update results

	2004 Review GST relativity^(a)	2005 Update GST relativity^(a)	Implied effect on grant share^(b) (\$m)
New South Wales	0.86750	0.86846	12.0
Victoria	0.86534	0.87552	106.2
Queensland	1.05504	1.04389	-93.7
Western Australia	1.03054	1.02500	-24.0
South Australia	1.20407	1.20325	-3.2
Tasmania	1.55939	1.55299	-6.8
Australian Capital Territory	1.12930	1.14300	9.2
Northern Territory	4.26538	4.26682	0.3
Total redistributed among States			127.7

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

(b) Estimated impact of change in relativities on the 2004-05 GST pool included in the CGC's 2005 Update report.

Horizontal fiscal equalisation

The IGA includes a specific provision that GST revenue grants will be distributed entirely on a HFE basis. The principle of HFE is based on Australia's commitment to ensuring that each State has the capacity to provide public services at a similar standard and level of efficiency as the other States for a comparable revenue-raising effort.

The CGC, an independent statutory body, annually recommends the shares of general purpose payments (GPPs) that each State should receive, with the CGC's methodology remaining fixed between major assessment reviews. The most recent methodology review occurred in 2004 and the next review is now scheduled for 2010.

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

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

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

The importance of HFE in ensuring each State has an equal capacity to meet expenditure demands from population ageing was recognised by the Productivity Commission in its March 2005 research report on the *Economic Implications of an Ageing Australia*.

New South Wales and Victoria 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 should be abandoned. To this end both States have over the years called for changes to the way GPPs are distributed ranging from partial equalisation to equal per capita and even incidence of tax collections.

In each instance, the alternatives put forward by these States would be a major departure from the equity objective that underpins the present system and inconsistent with the policies used by the same State governments in allocating resources according to need within their borders.

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.
- *National Competition Policy (NCP) payments* are paid 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. NCP payments are distributed on an equal per capita basis, but payment is conditional on compliance with the NCP agreement as assessed by the National Competition Council (NCC). The Commonwealth has announced that NCP payments will be discontinued from 2006-07.
- *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.
- *Contributions* are payments to the States to reimburse them for services considered to be Commonwealth own-purpose outlays provided on the Commonwealth’s behalf. For example, Commonwealth Veterans’ Affairs funding is paid to the South Australian Department of Health, which provides the services to veterans. Apart from the Veterans’ Affairs arrangements, the majority of these payments are relatively minor in nature.

Estimated levels of Commonwealth financial assistance for South Australia are set out in Table 4.4.

Table 4.4: Commonwealth payments to South Australia 2004-05 and 2005-06^(a)

	2004-05	2005-06	
	Estimated result \$ million	Budget \$ million	Change %
General purpose payments			
GST revenue grants ^(b)	3 329.1	3 460.5	3.9
NCP payments ^(c)	50.5	50.3	-0.4
Total general purpose payments	3 379.6	3 510.8	3.9
Specific purpose payments 'to' the State			
Australian Health Care Agreement (AHCA)	667.4	699.8	4.9
Commonwealth–State/Territory Disability Agreement (CSTDA)	63.0	67.8	7.5
Commonwealth–State Housing Agreement (CSHA)	72.0	72.9	1.2
Home and Community Care (HACC) and Supported Accommodation Assistance (SAAP)	84.0	89.8	6.8
Government schools	179.8	174.7	-2.8
Vocational education and training	90.7	90.9	0.2
Roads	87.0	103.7	19.2
Other 'to' payments ^(d)	180.2	197.0	9.3
Total specific purpose payments 'to' the State	1 424.1	1 496.5	5.1
Total payments 'to' the State	4 803.7	5 007.3	4.2
'On-passed' specific purpose payments^(e)	496.3	526.6	6.1
Commonwealth contributions^(f)	172.3	171.8	-0.3

(a) Data is compiled from agency estimates and Commonwealth Budget Paper No. 3 Federal Financial Relations 2005-06.

(b) Includes compensation for GST deferral and residual adjustment payments.

(c) These estimates reflect the imposition of funding penalties due to the Commonwealth Government's view that the State failed to fully satisfy NCP requirements.

(d) Includes a spike in debt redemption assistance to \$29.8 million in 2005-06 (from \$3.7 million in 2004-05) reflecting finalisation payments on maturity for the debts that it covers.

(e) Includes Commonwealth grants for local government and non-government schools.

(f) Commonwealth contributions for Veterans' Affairs are estimated to total \$66 million in both 2004-05 and 2005-06.

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 Financial Assistance Grants (FAGs), 'untied' payments from the Commonwealth that were distributed using CGC relativities.

With the advent of national tax reform, and the introduction of the GST on 1 July 2000, substantial changes were brought about 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 provided 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. In return the States agreed to the abolition or reduction of a number of State taxes, and to take on the additional expenditure responsibilities of the First Home Owners Grant scheme and GST administration costs.

The new financial arrangements were not expected to provide immediate budgetary benefits to the States. As a result, the IGA provided for a guaranteed minimum amount of funds to be paid to ensure that the States would not be worse off under the new arrangements.

All States required transitional assistance from the Commonwealth in the first two years following the introduction of the GST. However, stronger than expected growth in GST revenues, fuelled to a large extent by growth in the dwellings sector, has brought forward the date by which most States can expect to receive a net benefit from the arrangements.

On present estimates no State will require transitional assistance from 2004-05 onwards. However, the resolution of the dispute over the IGA tax issue may mean that New South Wales receives some future transitional assistance.

South Australia will receive an estimated \$3511 million in GPPs in 2005-06, an increase of \$131 million, or 3.9 per cent, from the \$3380 million estimated to be received in 2004-05.

Table 4.5 shows the estimated net impact of the national tax reform package in South Australia until 2010-11, after allowing for: the estimated impact of the States' proposal for abolition of IGA taxes advised to the Commonwealth on 20 April 2005; the impact of reinstating indexation in the GMA calculation of the value of petroleum revenue replacement payments forgone, which the Commonwealth unilaterally removed from the GMA in 2002; and the discontinued NCP payments. The net gain associated with the GST has been applied to increased health, education and other expenditure on community services (see Chapter 1).

Table 4.5: Estimated impact of national tax reform after allowing for States' proposal for abolition of IGA taxes, Revenue Replacement Payments (RRPs) indexation and Commonwealth abolition of NCP payments — South Australia (\$ million)

	GST less GMA ^(a) (1)	Less cost of abolition of IGA taxes as shown in Table 4.2 (2)	GST less GMA – adjusted ^(b) (3)= (1)+(2)	Less adjustment for RRP indexation ^(c) (4)	Less NCP payments abolished (5)	Estimated impact (6)= (3)+(4)+(5)
2004-05	188	—	188	-19	—	169
2005-06	172	-24	148	-24	—	124
2006-07	206	-29	177	-30	-51	96
2007-08	273	-54	219	-36	-53	130
2008-09	335	-86	249	-43	-54	152
2009-10	426	-167	259	-51	-56	152
2010-11	486	-200	286	-58	-57	170

(a) Equals GST revenues less the guaranteed minimum amount (GMA) provided under the IGA to ensure that no State is made worse off by the national tax reform arrangements, calculated before the impact of abolition of the IGA taxes as proposed by the States. The GMA is calculated on the basis of an agreed formula that takes account of the changes to funding arrangements contained in the IGA, and is based on the pool of funds that would be available had the reforms not been implemented.

(b) Adjusted for the cost of abolition of IGA taxes.

(c) Adjustment reinstating indexation in the GMA calculation of the value of petroleum revenue replacement payments forgone, which the Commonwealth unilaterally removed from the GMA in 2002.

National Competition Policy payments

The Competition Principles Agreement (CPA) came into effect in April 1995 following endorsement by the Council of Australian Governments (COAG). Under the CPA, jurisdictions were required to review legislation to ensure that it did not restrict competition, unless it could be demonstrated that:

- the benefits of the restriction to the community as a whole outweighed the costs; and
- the objectives of the restriction could not be achieved through other means (including non-legislative approaches).

As the revenue benefits of national competition policy (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.

South Australia's competition payments up to and including 2002-03 were received in full. In 2003-04, all jurisdictions received penalties, although the nature and quantum varied, with South Australia's penalties totalling \$17.6 million.

In December 2004, the Federal Treasurer accepted in full the recommendations of the National Competition Council (NCC) that penalties totalling \$11.9 million be deducted from South Australia's competition payments for 2004-05. The penalties comprised a \$3.0 million permanent deduction for lack of progress with the regulation of liquor sales reform, a \$3.0 million specific suspension for barley marketing arrangements and a \$5.9 million suspension for a pool of outstanding legislation review items. However, as part of the 2004 assessment, the NCC recommended that \$2.9 million of the suspended 2003-04 competition payments be returned to the State.

Following the establishment of the National Water Initiative, the National Water Commission (NWC) will in 2005 be assessing progress with the implementation of water reforms instead of the NCC.

Furthermore, in 2000 COAG agreed that a review of the NCP arrangements would occur in 2005. The COAG review will seek to:

- assess the effectiveness of the NCP arrangements that have been in place since 1995;
- identify a possible future Commonwealth-State microeconomic reform agenda; and
- identify possible institutional arrangements for the implementation, monitoring and assessment of any future reform program.

The COAG NCP review will draw from, but not be limited by, the recommendations of the Productivity Commission report on the *Review of National Competition Policy Reforms*. The review is to be presented to First Ministers by 30 November 2005.

Nonetheless, the Commonwealth Government has announced that competition payments will be discontinued from 2006-07. The NCC is currently undertaking an assessment of South Australia's progress with NCP reforms and of the penalties that will apply to 2005-06,

the final year of competition payments. In this assessment it is expected that the NCC will in particular focus on progress in respect of the following:

- Barley Marketing Act

On 30 June 2004 the South Australian Government introduced the Barley Exporting Bill 2004 to Parliament. The Bill, however, lapsed at the end of the winter session of the South Australian Parliament. Subsequent to the lapse of the Bill, a proposal to merge ABB Grain Ltd, AusBulk Ltd and United Grower Holdings was considered, with the merger being finalised in September 2004.

The NCC assesses that South Australia has still not met its CPA related obligations in this area.

- Pharmacy Act

COAG national processes for reviewing pharmacy regulation recommended removing restrictions on the number of pharmacies that a pharmacist can own and on friendly societies' ability to operate in the same way as other pharmacies. Compliance with these requirements requires the State to remove these restrictions contained in the Pharmacy Act.

A draft Pharmacy Bill 2005 was released for consultation in February 2005 proposing amendments to definitions of pharmacy services, ownership and operation of pharmacies, limits on the number of pharmacies that may be owned, proprietary and pecuniary interest, exercise of undue influence, registration, codes of conduct and professional standards. Consultation closed on 18 March and a Bill is expected to be tabled in Parliament in the spring session.

- Liquor licensing

Following the 1997 review of the *Liquor Licensing Act 1985*, provisions relating to the proof-of-need test and the requirement that packaged liquor be sold only from premises exclusively devoted to the sale of liquor were retained. In the 2003 NCP assessment, the NCC assessed the exclusive premises requirement as complying with CPA obligations. The South Australian Government is currently giving consideration to whether the proof-of-need test could be replaced with a public-interest test.

- Petrol retailing

South Australia completed a review of the *Petroleum Products Regulation Act 1995* in 2001, finding that the Act created a barrier to entry and protected industry participants without providing a net public benefit.

The Government accepted the findings of the review and reported in 2003 that it was drafting legislation giving effect to the recommendations. It proposed to phase out the current restrictions to provide industry participants with time to adjust their business plans for the entry restriction's removal, which would occur at a time of already rapid change in the industry.

Specific purpose payments

SPPs are provided under Section 96 of the Constitution for both recurrent and capital expenditure purposes. In 2005-06, South Australia will receive an estimated \$2023 million of funding in this form — an increase of 5.3 per cent from the \$1920 million estimated for 2004-05.

Of the total SPPs to be received by South Australia in 2005-06, \$527 million (or 26 per cent) will be ‘on-passed’, predominantly to non-government schools and local government. This represents an increase of 6.1 per cent from the amount received in 2004-05, primarily reflecting increases in payments to non-government schools.

SPPs ‘to’ the State (for a range of purposes including health, housing and government schools) are forecast to increase to \$1497 million in 2005-06.

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 SPPs into account in its recommendations for allocating general revenue assistance. For these ‘included’ SPPs, South Australia in recent years has received slightly in excess of its population share, resulting in a small reduction in its general revenue grants share.

Australian Health Care Agreement

The largest SPP to the State, paid under the Australian Health Care Agreement (AHCA), provides Commonwealth funding to assist with the provision of public hospital services.

The current five year agreement, which was signed in late 2003, has been widely criticised by the States as being inadequate to meet the rapidly growing demand for health and hospital services, and for introducing expenditure matching and reporting conditions that had not been present in the previous agreement.

The AHCA is estimated to provide \$700 million in funding to South Australia in 2005-06, an increase of 4.9 per cent over the previous year.

Commonwealth-State/Territory Disability Agreement

The objective of the Commonwealth-State/Territory Disability Agreement (CSTDA) is to enhance the quality of life experienced by people with disabilities through assisting them to live as valued and participating members of the community.

The Commonwealth provides only 30 per cent of funding covered by the agreement, specifically for specialist employment assistance, while the States fund the remaining 70 per cent for the provision of accommodation support, community support, community access and respite.

The current CSTDA was renegotiated in 2004, with the Commonwealth requiring, for the first time, a growth funding commitment from State governments in order to receive the Commonwealth share of funding. This is of concern to the State, as the prescription of what it must spend from its own resources removes the flexibility to shift funds between the programs covered by the CSTDA to achieve the best overall service provision.

South Australia is expected to receive \$68 million from the CSTDA in 2005-06, an increase of 7.5 per cent over the previous year.

Commonwealth-State Housing Agreement

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, distributed among the States on a per capita basis, to be matched by a State contribution.

The current five year CSHA, which was signed in mid-2003, includes a continuation of the 1 per cent per annum 'efficiency dividend', the discontinuation of the previous GST compensation component and a new provision that makes 5 per cent of funds contingent on States meeting reporting requirements and achieving a set of 'planned outcomes'. The one positive in the new agreement was the introduction of indexation, which has halted the steady decline in CSHA funds brought about by the application of the 'efficiency dividend' in the previous agreement.

In 2005-06 it is estimated that CSHA funding assistance to South Australia will be \$73 million, a marginal increase (1.2 per cent) from the previous year, but still a reduction of almost \$8 million compared to that received in 2002-03 — the final year of the previous agreement.

Home and Community Care and Supported Accommodation Assistance

Both the Home and Community Care Agreement (HACC) and Supported Accommodation Assistance Program (SAAP) are joint Commonwealth-State programs for the provision of welfare services. The HACC program provides basic maintenance and support services to the aged and people with disabilities to allow them to remain in their own homes, while SAAP provides transitional supported accommodation and related support services to people who are homeless and in crisis.

On the basis of the current HACC agreement, it is estimated that South Australia will receive \$73 million in HACC funding in 2005-06, an increase of 8.0 per cent over the previous year.

The SAAP agreement is due to expire on 30 June 2005. In December 2004 the Commonwealth made an initial offer to the States that provided equivalent levels of funding to the current agreement, but imposed greater controls on the use of the Commonwealth funds. The States and many of the non-government organisations that are funded to deliver SAAP programs have criticised the Commonwealth's offer, and as yet no State has agreed to the new offer.

Under the current SAAP agreement South Australia is estimated to receive \$17 million in 2005-06, a modest rise of only 2.0 per cent over the previous year.

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 Cost (AGSRC) Index based on data maintained by the Ministerial Council on Education, Employment, Training and Youth Affairs.

The new schools agreement offered by the Commonwealth, which covers the quadrennium 2005-2008, retains the AGSRC index, which is estimated to continue to deliver growth in funding levels to government schools of around 6.0 per cent per annum. However, consistent with the recent trend in SPPs, the Commonwealth has proposed new accountability and reporting requirements that are of concern to the States. To date, no State has signed the new agreement.

SPPs for government schools are estimated to fall in 2005-06 by 2.8 per cent, reflecting that the infrastructure component of the new schools agreement is yet to be finalised.

SPPs for non-government schools are estimated to be \$415 million, an increase of 7.2 per cent. 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

In recent years, the development and maintenance of the national vocational education and training (VET) system was funded by both the States and the Commonwealth, with Commonwealth-State funding arrangements set out in the Australian National Training Authority (ANTA) agreement.

The previous ANTA agreement expired on 31 December 2003, and following rejection by the States of the Commonwealth's offer for the period 2004-2006, the previous agreement has now been rolled over twice, firstly to 31 December 2004 and then to 30 June 2005.

In October 2004, the Commonwealth announced that ANTA would be abolished from July 2005 with its responsibilities transferred to the Commonwealth Department for Education, Science and Training. A Commonwealth discussion paper on its proposals for the new training system was released in February. Negotiations are ongoing.

Roads

In recent years, the majority of SPPs for roads were made under the Australian Land Transport Development program, which incorporated specific funding for national highways, roads of national importance and black spots. Minor funding was also provided under the *Interstate Road Transport Act 1985*, and the Roads to Recovery program.

From 1 July 2004, the Commonwealth introduced AusLink as the new framework for funding of transport infrastructure, broadening the scope of the previous agreements to incorporate what the Commonwealth considers Australia's most important road and rail links. Despite the new agreement, South Australia still receives a funding share significantly less than its share of the length of national highways.

South Australia is estimated to receive \$104 million in roads funding in 2005-06, an increase of 19.2 per cent over the funds provided in 2004-05. This reflects the project specific nature of capital funding under the AusLink program.

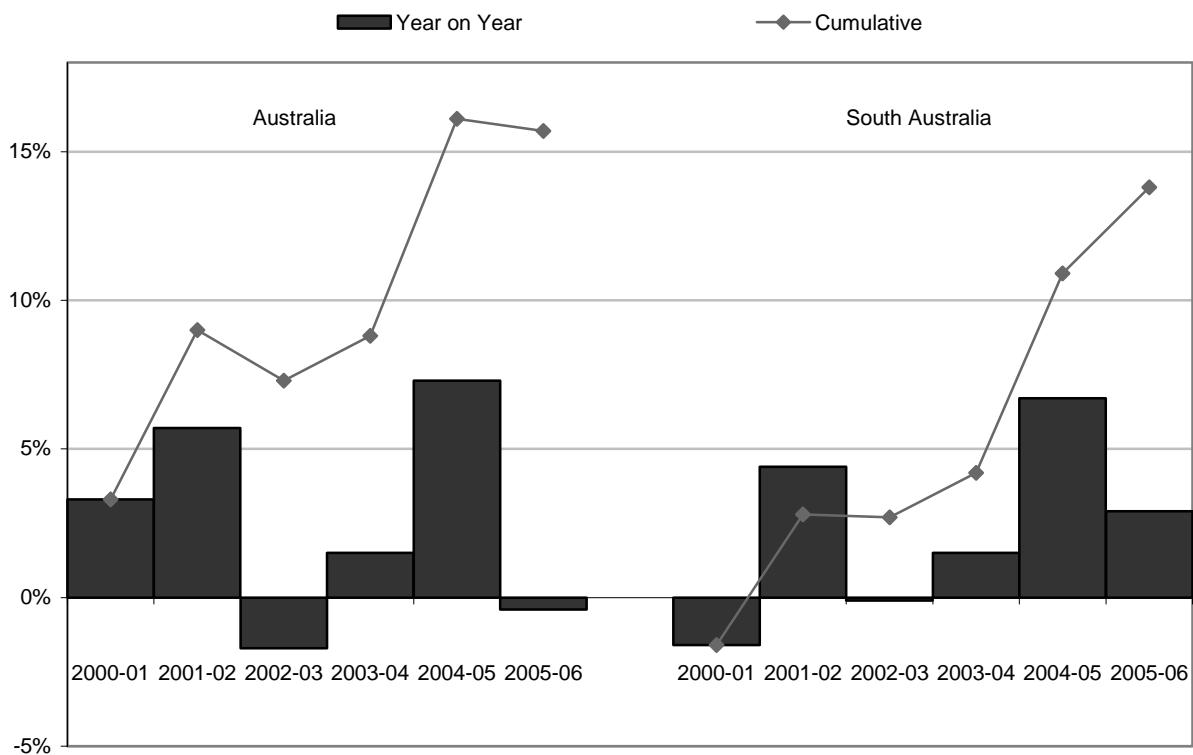
Monitoring of SPP levels

The States monitor the level of SPPs to ensure that the Commonwealth is continuing to honour its commitment under the IGA not to cut aggregate SPPs as part of the national tax reform arrangements.

On the basis of current 2005-06 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 are estimated to fall again in 2005-06. 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 grants and 'one-off' funding for a number of large capital projects, which explains the poor performance against the benchmark in 2000-01. From 2001-02 onwards the Commonwealth has been meeting its commitment to South Australia in real per capita terms.

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



(a) In accordance with the measure used to monitor SPP movements adopted by the Ministerial Council, 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 2005-06.

Local government finances

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

Financial performance and position

The financial performance data shown in Table 4.6 is presented using a simplified ABS Government Finance Statistics framework. With the assistance of the South Australian Local Government Grants Commission, the data has been drawn from the annual financial statements of councils which are prepared in compliance with Australian Accounting Standard (AAS) 27.

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 provide a common core of financial information (similar to Table 4.6) in their budget papers and financial statements. This ensures that information on both operating and capital investment activities is made available on a consistent basis and enables more meaningful comparisons of each council's finances.

Table 4.6: Local government operating statement (\$ million)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Operating revenue ^(a)	856	901	966	1 039	1 099
less Operating expenses ^(b)	929	976	1 021	1 091	1 148
equals Operating deficit	-73	-75	-54	-52	-49
add Capital revenue ^(c)	25	28	63	43	53
equals Net surplus (+)/deficit (-) resulting from operations ^(d)	-48	-46	9	-9	4
add Depreciation	218	228	247	258	268
add Proceeds from sale of assets	42	33	45	46	67
equals Internal sources of funding available for capital investment expenditure	212	215	301	295	339
less Capital investment expenditure ^(e)	227	227	305	313	336
equals Accrual net lending (+)/borrowing (-)	-15	-13	-5	-19	3

- (a) Operating revenue excludes book gains on sale of assets.
- (b) Operating expenses include depreciation but exclude book losses on the sale or revaluation of assets.
- (c) Mainly grants and contributions received for new capital investment expenditure. Excludes the value of assets donated to councils.
- (d) This measure essentially is equivalent to the 'net operating balance' measure used under the ABS Government Finance Statistics framework.
- (e) Covers capital investment expenditure on renewal/replacement of existing assets as well as acquiring new assets or upgrading existing assets. Excludes the value of assets donated to councils.

As shown in Table 4.6, local government as a whole consistently has been returning a relatively small accrual net borrowing result in recent years, although it recorded a net

lending result of \$3 million in 2003-04. The level of annual operating deficits is reducing steadily as many councils seek to raise more revenue for an increasing level of asset renewal/replacement works. The operating deficit of \$49 million in 2003-04 represented 4.5 per cent of operating revenue which compares with a figure of 8.5 per cent in 1999-2000.

Local government taxation revenue (from general and other rates on property) was \$716 million in 2003-04 and is expected to be approximately \$765 million in 2004-05. Together with other own-source funding (for example user charges, investment income), in excess of 85 per cent of local government operating revenue is from its own sources. In real terms, operating revenue for local government increased by 12.4 per cent over the four-year period from 1999-2000 to 2003-04. Total operating expenses increased in real terms by 8.2 per cent over the same period.

Table 4.7 shows an abridged balance sheet for local government as a whole at the end of the financial years 2000-01 through to 2003-04.

Table 4.7: Local government balance sheet (\$ million)

	30 June 2001	30 June 2002	30 June 2003	30 June 2004
Assets				
Cash, investments and loans to community groups	146	172	185	196
Receivables	48	58	62	63
Inventories	27	29	26	28
Land, buildings, infrastructure, plant, equipment and other physical assets	8 002	8 449	8 808	9 479
Other	18	21	23	33
Total Assets	8 241	8 729	9 104	9 799
Liabilities				
Creditors/Payables	80	86	100	76
Borrowings, deposits held, finance leases	365	390	418	436
Employee leave entitlements	70	72	79	83
Other	13	19	20	33
Total Liabilities	528	567	617	628
Net Worth	7 713	8 162	8 487	9 171
Net Debt ^(a)	219	218	233	240
Net Financial Liabilities ^(b)	316	316	347	336

(a) Net debt equals the sum of borrowings, deposits held and finance leases less the sum of cash, investments and loans to community groups.

(b) Net financial liabilities equals total liabilities less financial assets, where financial assets comprise total assets less all physical assets.

Local government net debt at 30 June 2004 was \$240 million which is equivalent to 22 per cent of local government's operating revenue in 2003-04. Net debt per capita was \$157 at 30 June 2004. Local government superannuation liabilities are fully funded.

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 Finance Authority, the LGA Mutual Liability Scheme, the Local Government Superannuation Scheme, and the LGA Workers Compensation Scheme. At 30 June 2004 these institutions were managing assets valued at \$1.35 billion and had a combined net worth of \$66 million. These amounts are not included in Table 4.7.

In February 2005, the LGA announced the appointment of a three member Review Board to conduct an independent inquiry into the financial sustainability of local government in South Australia. The Review Board issued a comprehensive discussion paper in March 2005 and the inquiry is expected to be completed by August 2005.

Financial relationships with Commonwealth and State governments

Commonwealth Government

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

The general purpose payments are made to the State and 'on-passed' to councils on the recommendations of the South Australian Local Government Grants Commission. Arrangements for the payment of these untied financial assistance grants to councils are embodied in the Commonwealth's *Local Government (Financial Assistance) Act 1995*. The financial assistance is provided in two parts — general purpose grants and identified local roads grants. For South Australia, these grants are estimated to be \$113.1 million in 2005-06, consisting of \$85.6 million in general purpose funding and \$27.5 million in untied local road funding. The Act provides for the allocation of grants to councils within the State on the basis of horizontal fiscal equalisation (HFE) principles, subject to a minimum grant provision. This provision requires that each council receive, as a minimum, its per capita share of 30 per cent of the general-purpose pool.

During 1997-98, the South Australian Local Government Grants Commission conducted a comprehensive review of the methods used to distribute financial assistance grants within the State. Changes were phased in over a seven-year period, concluding with the determination of grants for 2004-05. No material changes are expected in the relative share of grants distributed to councils in 2005-06.

Commonwealth specific purpose payments to local government are estimated to be \$40.8 million in 2005-06, which includes \$25.0 million under the Roads to Recovery program and an extra \$9.0 million for local road funding. The extra \$9.0 million is part of an additional \$26.3 million to be provided over three years, as an interim measure, to address South Australia's current inequitable share of identified local road grants being received under the Commonwealth's *Local Government (Financial Assistance) Act*. The decision by the Commonwealth to provide additional local road grants will ensure that, by 2006-07, South Australia's overall share of local road funding will align with its share of local road grants (8.3 per cent) under the Roads to Recovery program.

Following an inquiry into local government finances by a House of Representatives Standing Committee, a Report was tabled in Federal Parliament in November 2003. If implemented, some of the recommendations in the Report could lead to the phasing in of changes to the interstate and intrastate distribution of Commonwealth financial assistance grants between councils. It is understood that the Australian Government will be delivering a formal response to the Report in the near future.

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 stormwater management, flood mitigation, septic tank effluent drainage schemes, waste management and more effective alignment of strategic planning by the State and local government.

In March 2004, a State–Local Government Relations Agreement was established to improve consultation arrangements and communication practices and to build more productive and collaborative working relationships between the State and local government. The Agreement includes a schedule of priorities for joint action by the State and local government which is reviewed on an annual basis.

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. For example, some jurisdictions provide 'grants' to councils for expenditure on maintaining State-owned roads. In South Australia, payments to councils of this nature take the form of a 'fee for service' and are recorded as State expenditure on roads.

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 relatively limited.

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 significant expenditure reductions for councils as occurred, for example, with the transfer of responsibility for funding emergency services. The transfer of emergency services assets to the State relieved councils of future responsibilities relating to the maintenance and replacement of these assets and councils also were relieved of their statutory requirement to contribute to the cost of operating the Metropolitan Fire Service.

Table 4.8 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 4.8: Specific purpose payments from the State to local government (\$000)

Program/purpose	2004-05 Estimated Result	2005-06 Budget
Premier and Cabinet		
Cultural Facilities and Equipment Program	35 ^(a)	30 ^(a)
Elizabeth City Centre Development	—	2 260
Festivals, Events and Commissions Program	10 ^(a)	— ^(b)
Natural Disaster Mitigation Program	50 ^(a)	250 ^(a)
Public Art and Design Program	30 ^(a)	25 ^(a)
Public Art and Design Program – Western Gateway Project	401	—
Public Library Services	15 260	15 633
Treasury and Finance		
Ad hoc assistance for disasters and other adverse events	835	1 160
Lower Eyre Peninsula Bushfire Fund	600	—
Septic Tank Effluent Drainage Scheme	3 050	3 128
Justice		
Regional Crime Prevention Program	600	600
Primary Industries and Resources		
Contribution to administration of Municipality of Roxby Downs	525	— ^(b)
European Wasp Program	70	70
Transport, Energy and Infrastructure		
Metropolitan Open Space System Program	1 400	1 200
North Terrace Upgrade	2 072	3 220
Places for People Program	1 500	1 000
Provincial City Bus Services	1 200	1 300
Regional Open Space Enhancement Scheme	2 300	1 000
Regional Roads Program	700	700
State Bicycle Fund	410	459
State Black Spot Program – Safer Local Roads	1 630	2 240
Subsidy of electricity provision at Coober Pedy	3 010	3 010
TravelSmart SA Program	315	360
Environment and Conservation and the River Murray		
Accelerating Local Sustainability Program	10	—
Catchment Management Subsidy Scheme	3 315	5 440
Coast Protection Board grants (mainly regional councils)	338	— ^(b)
Heritage Cemeteries Fund	35	50
Kerbside Performance Incentives	900	3 600
Local Heritage Reviews	30	30
Metropolitan Council Coast Protection Works	785	— ^(b)
Plastic Bags Reduction Program	128 ^(a)	150 ^(a)
Regional Waste Management Infrastructure grants	215	500
State Heritage Fund grants	50 ^(a)	75 ^(a)
Strategic Waste Management Plans	216	223
Zero Waste Events	20 ^(b)	50 ^(b)
Families and Communities		
Community Capacity Building – Salisbury North Project	70	—
Council rate concessions for pensioners, self-funded retirees etc	38 646	39 920
Family and Community Development Program	747	770
Home and Community Care Program	3 600	3 676
Integrated Youth Strategy – Youth Advisory Committees	221	250
National Youth Week	85	100
Parks Community Centre – Grant to City of Pt Adelaide Enfield	1 840	1 886
Further Education, Employment, Science and Technology		
Adult Community Education Program	62 ^(a)	26 ^(a)
Broadband SA Program	1 198 ^(a)	— ^(b)
Youth Traineeship Program – Local Government Trainees	255	345
Administrative and Information Services		
Community Recreation and Sport Facilities Program	476 ^(a)	— ^(b)
Statewide Recreation and Sport Enhancement Program	260	— ^(b)
Total	89 505	94 736

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

(b) Funding for 2005-06 not yet determined or is dependent on success of applications under a competitive grants process.

CHAPTER 5: MANAGING THE STATE'S ASSETS AND LIABILITIES

Overview

The Government's commitment to strong financial management has resulted in a strengthening of the State's financial position. Recognising this stronger fiscal performance South Australia's credit rating was elevated to triple-A by rating agencies Standard and Poor's and Moody's Investor Services in 2004.

General government net debt remains at a very low level. Superannuation liabilities are the single most significant obligation on the State's balance sheet. On current projections the total of general government net debt and unfunded superannuation liabilities will be \$6908 million by 30 June 2009, up from \$5892 million at 30 June 2004. The net debt of the non-financial public sector is projected to rise slightly from \$2285 million at 30 June 2004 to \$2404 million at 30 June 2009.

The ratio of net financial liabilities to revenue is trending downward over the forward estimates period, moving more in line with other triple-A rated states. This means that the State's capacity to meet its obligations from revenue streams is projected to strengthen.

General government financial position

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

Table 5.1: Key balance sheet indicators - general government sector

As at 30 June	2004 Actual	2005 Estimated result	2006 Estimate	2007 Estimate	2008 Estimate	2009 Estimate
Net debt						
\$m	224	174	127	201	209	196
% of total revenue	2.3	1.7	1.2	1.8	1.9	1.7
Net debt plus unfunded superannuation						
\$m	5 892	6 678	6 696	6 829	6 884	6 908
% of total revenue	59.2	63.9	62.5	62.3	61.0	59.8
Net financial liabilities						
\$m	7 969	8 666	8 629	8 800	8 913	8 989
% of total revenue	80.0	82.9	80.5	80.2	78.9	77.8
Net financial worth						
\$m	3 842	4 293	4 979	5 294	5 546	5 845
% of total revenue	38.6	41.0	47.6	50.6	53.0	55.9
Net worth						
\$m	15 760	16 293	17 065	17 638	18 126	18 594
% of total revenue	158.3	155.8	163.2	168.7	173.3	177.8

General government net debt is expected to fall in 2005 and 2006, rise slightly in 2007 and 2008 before falling in 2009 reflecting the consequent impact of projected net lending deficits on general government cash surpluses. These deficits support the Government's significant investment in infrastructure over the forward estimates period.

The other major component of the State's financial liabilities is the unfunded superannuation liability that is expected to rise from an estimated \$6504 million at 30 June 2005 to \$6712 million by 30 June 2009.

Together, net debt and unfunded superannuation liabilities of the general government sector are expected to rise steadily but not significantly over the forward estimates period.

A broader measure of the financial position is net financial liabilities. In addition to net debt and unfunded superannuation liabilities, this measure includes other non equity financial assets and financial liabilities, the largest component being provisions for employee entitlements. Provision for employee entitlements, including long service leave, is the second largest component of net financial liabilities after unfunded superannuation. These other net liabilities are projected to grow broadly in line with inflation.

Net worth and net financial worth are expected to increase across the forward estimates period. Net financial worth is a broader measure than net financial liabilities. This is because it also incorporates equity interests in public non-financial corporations (PNFCs) and public financial corporations (PFCs).

Table 5.2 reconciles movements in net worth attributable to operating transactions and other economic flows.

Table 5.2: Reconciliation of general government net worth (\$ million)

	2004-05 Estimated result	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Net worth at beginning of year	15 760	16 293	17 065	17 638	18 126
Change in net worth from operating transactions:					
Net operating balance	173	51	78	109	75
Change in net worth from other economic flows:					
Movement in net assets of PFCs	-46	75	97	124	135
Movement in net assets of PNFCs	1 178	548	374	228	226
Revaluation of unfunded superannuation liability	-771	—	—	—	—
SA Water return of equity	—	74	—	—	—
Inclusion of DECS Schools net worth for first time	26	—	—	—	—
Reclassification of Office of Public Transport from PNFC Sector	6	—	—	—	—
Other revaluation adjustments	-32	25	25	28	32
<i>Subtotal</i>					
Total other economic flows	361	722	496	379	393
Net worth at year end	16 293	17 065	17 638	18 126	18 594

SA Water Corporation is expected to make a return of capital of \$74 million in 2005-06. This return of capital is consistent with the implementation of a revised ownership framework for public non financial corporations (PNFCs). Further details of the revised ownership framework can be found in Chapter 6.

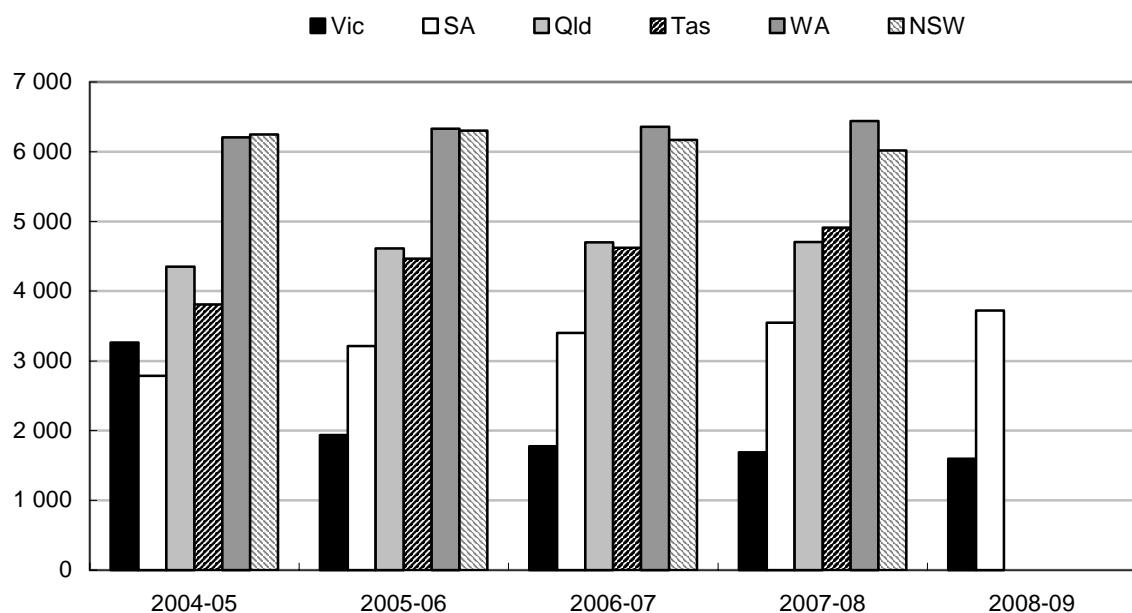
The net assets of both public non financial corporations and public financial corporations are forecast to increase across the forward estimates. The major contributor to the increase is the South Australian Housing Trust, reflecting upward revisions to the Trust's property holdings.

Interstate comparisons

Figure 5.1 presents an interstate comparison of general government net financial worth on a per capita basis. The net financial worth figures for each state are influenced by accumulated expenditure patterns over many years. In addition, there are some differences in accounting assumptions across states that can affect the estimated size of assets and liabilities (for example, the discount rate used to measure superannuation liabilities). Therefore comparisons of net financial worth between states and over time need to be made with care.

A higher level of net financial worth typically provides states with more flexibility in their financial management. South Australia's net financial worth is lower than most other states due primarily to its relatively high level of liabilities and the value of its equity investment in public non-financial corporations being lower than in some other jurisdictions. On a per capita basis, South Australia's general government net financial worth is expected to be lower than all states, with the exception of Victoria, across the forward estimates period.

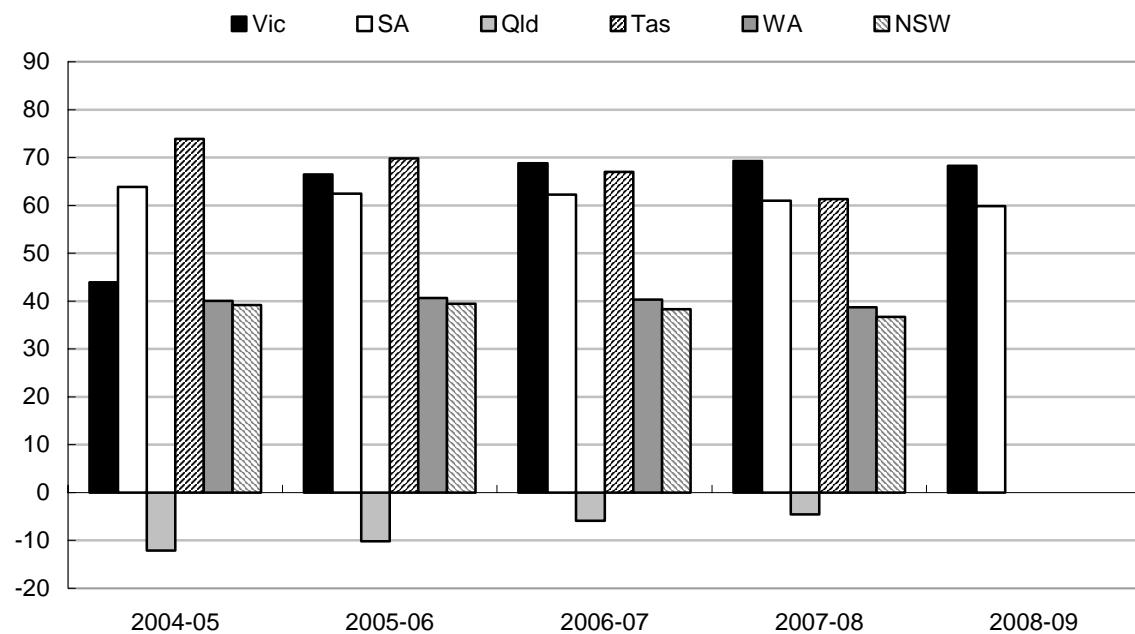
Figure 5.1: General government net financial worth per capita^{(a)(b)} (\$)



(a) Data for Victoria are based on information contained in its 2005-06 Budget Statements. Other states' data have been sourced from 2004-05 Mid-Year Budget Review papers.

(b) 2008-09 data for Queensland, Tasmania, Western Australia and New South Wales were unavailable at the time of publication.

Figure 5.2: General government net debt and unfunded superannuation liabilities to revenue (%)^{(a)(b)}



(a) Data for Victoria are based on information contained in Victoria's 2005-06 Budget Statements. Other states' data have been sourced from 2004-05 Mid-Year Budget Review papers.

(b) 2008-09 data for Queensland, Tasmania, Western Australia and New South Wales were unavailable at the time of publication.

Figure 5.2 shows that the net debt and unfunded superannuation liabilities of the South Australian general government sector as a percentage of revenue is higher in 2005-06 and across the forward estimates than all states with the exception of Victoria and Tasmania.

As noted earlier, it is important to recognise however, that jurisdictions use different actuarial assumptions to value their unfunded superannuation liabilities. For example, South Australia (along with Victoria) has adopted the Commonwealth Government bond rate as the discount rate to value its unfunded superannuation liability. In contrast, some other states use higher discount rates to value their superannuation liabilities. All other things being equal, a higher discount rate reduces estimated superannuation liabilities.

Balance sheet indicators

Table 5.3 provides a time series of net debt, unfunded superannuation, net financial worth, net worth and net financial liabilities for the general government sector. It can be seen that over the ten years from 1999 through to 2009 both net financial worth and net worth are steadily increasing. Whilst net financial liabilities fell during the period 1999 to 2004, primarily reflecting asset sales, they are projected to increase over the period 2005 to 2009 primarily reflecting the growth in the unfunded superannuation liability. However over the ten year period, the net financial liabilities to revenue ratio has fallen. This demonstrates that the State's capacity to meet obligations from revenue streams is strengthening.

Table 5.3: General government balance sheet indicators – timeseries

As at 30 June	Net debt	Unfunded superannuation ^(a)	Net debt plus unfunded superannuation	Net financial worth	Net worth	Net financial liabilities	% of revenue ^(b)
	\$m	\$m	\$m	\$m	\$m	\$m	
1999	4 780	3 909	8 689	1 892	10 622	9 769	133.9
2000	1 920	3 543	5 463	2 986	12 447	6 928	90.6
2001	1 246	3 249	4 495	4 091	14 788	6 067	74.8
2002	1 303	3 998	5 301	3 559	14 706	6 895	80.8
2003	666	4 445	5 111	3 500	15 288	6 980	74.7
2004	224	5 668	5 892	3 842	15 760	7 969	80.0
2005	174	6 504	6 678	4 293	16 293	8 666	82.9
2006	127	6 569	6 696	4 979	17 065	8 629	80.5
2007	201	6 628	6 829	5 294	17 638	8 800	80.2
2008	209	6 675	6 884	5 546	18 126	8 913	78.9
2009	196	6 712	6 908	5 845	18 594	8 989	77.8

(a) There is a structural break in the methodology used to calculate superannuation liabilities between June 2003 and June 2004. This accounting change involved a significant increase in superannuation liabilities and is explained in further detail later in this chapter.

(b) "%" column refers to 'net financial liabilities' as a percentage of revenue.

Sources 1999 financial data from the ABS GFS publication.
 2000 to 2003 financial data from SA's Outcome reports.
 2004 onwards data from UPF data detailed in this paper.

Variations to estimated unfunded superannuation liabilities

Table 5.3 shows that the unfunded superannuation liability is steadily increasing across the forward estimates period.

The movement in the value of unfunded superannuation liabilities each year is affected by four main factors; the discount rate used to determine the present value of the future benefit payments; the earnings achieved on assets set aside to meet future benefit payments; the growth in the liability due to benefit payments being one period closer to settlement; and the amount of new cash provided for investment for future settlement of benefit payments.

Since June 1999 these factors have resulted in variations to the unfunded liability as follows:

- 1999-2000 – the unfunded superannuation liability fell, primarily as a result of high earnings achieved on superannuation assets invested.
- 2000-01 – the liability fell primarily as a result of the adoption of an increased discount rate (7.5 per cent) for valuation purposes.
- 2001-02 and 2002-03 – the liability rose, mainly as a result of low earnings on superannuation assets.
- 2003-04 – the liability rose primarily as a result of the adoption of the government bond rate (6.0 per cent) for valuation purposes, in line with international accounting standards.
- 2004-05 – the liability is expected to rise again as a consequence of a fall in the government bond rate to 5.3 per cent.

Each year across the forward estimates, the annual increase in the present value of the defined benefit obligation as a result of benefits being one year closer to settlement is greater than the cash payments provided to the scheme for investment. Therefore, there are net annual increases in the unfunded liability. The annual past service superannuation payments are set in accordance with the Government's target to fully fund all superannuation liabilities by 2034. The pattern of payments is such that the unfunded superannuation liability continues to rise until 2011 and then declines to reach zero in 2034.

Table 5.4 summarises the change in the unfunded superannuation liability since the 2004-05 Budget.

Table 5.4: Unfunded superannuation liability (\$ million)

As at 30 June	2005	2006	2007	2008	2009
Estimate as at 2004-05 Budget	5 837.3	5 911.4	5 977.9	6 036.1	6 085.2
Impact of final earnings for 2003-04 ^(a)	- 91.4	- 94.6	- 98.8	- 101.3	- 104.8
Impact of expected higher returns on superannuation assets in 2004-05 as at Mid-Year Budget Review compared with 2004-05 Budget assumptions ^(b)	- 101.0	- 102.7	- 104.3	- 105.7	- 107.1
Impact of revised discount rate assumption used to value superannuation liabilities compared with the discount rate assumed in the 2004-05 Budget ^(c)	816.0	808.5	799.2	788.2	775.4
Other movements	- 0.8	- 1.6	- 1.5	- 3.5	- 4.5
Estimate as at 2004-05 Mid-Year Budget Review	6 460.1	6 521.0	6 572.5	6 613.8	6 644.2
Impact of expected higher returns on superannuation assets in 2004-05 compared with 2004-05 Mid-Year Budget Review assumptions ^(d)	- 73.2	- 43.0	- 44.3	- 45.9	- 47.6
Impact of revised discount rate assumption used to value superannuation liabilities compared with the discount rate assumed in the 2004-05 Mid-Year Budget Review ^(e)	128.2	127.8	127.1	126.0	124.7
Other movements	- 11.0	- 36.4	- 27.8	- 18.6	- 9.4
Estimate as at 2005-06 Budget	6 504.1	6 569.4	6 627.5	6 675.3	6 711.9

- (a) The final earnings rate on superannuation assets in 2003-04 was 17.3 per cent compared with 14.8 per cent assumed in the 2004-05 Budget.
- (b) The assumed earnings rate for 2004-05 at the time of the Mid-Year Budget Review was 10.0 per cent compared within the long-term assumption of 7.0 per cent.
- (c) The revised discount rate at the time of the Mid-Year Budget Review was 5.4 per cent compared with 6.0 per cent assumed in the 2004-05 Budget.
- (d) The 2004-05 earnings rate on superannuation assets is assumed to be 11.1 per cent compared with 10.0 per cent assumed in the 2004-05 Mid-Year Budget Review.
- (e) The revised discount rate for the 2005-06 Budget is 5.3 per cent compared with 5.4 per cent at the time of the 2004-05 Mid-Year Budget Review.

The projected unfunded superannuation liability has increased slightly since the 2004-05 Mid-Year Budget Review. This is due to the impact of a revised discount assumption used to value superannuation liabilities offset in part by slightly stronger returns achieved by Funds SA so far in 2004-05 and the impact of various revised underlying parameters used to calculate superannuation liabilities.

The estimate of the unfunded superannuation liability as at 30 June 2005 assumes that Funds SA will achieve an earnings rate of 11.1 per cent in 2004-05. This earnings rate is substantially above the long-term assumed earnings rate of 7.0 per cent. The projection of the earnings rate for 2004-05 has been derived by taking the estimated earnings rate to early May 2005 and assuming that earnings for the remaining period to 30 June 2005 will be at an average annual rate of 7.0 per cent.

The government bond rate used to discount superannuation liabilities was adopted for the first time in the 2003-04 Mid-Year Budget Review, consistent with the new accounting standard for employee benefits. A discount rate of 5.3 per cent has been adopted for the 2005-06 Budget, compared with 5.4 per cent at the time of the 2004-05 Mid-Year Budget Review.

Other movements since the 2004-05 Mid-Year Budget Review reflect minor refinements to various underlying parameters used to calculate the unfunded superannuation liability.

Table 5.5 shows estimated cash contributions to the State's unfunded superannuation liability. Cash contributions are budgeted to increase across the forward estimates consistent with the Government's commitment to fully fund the superannuation liability by 2034.

Table 5.5: Estimates of past service superannuation liability cash payments (\$ million)

2004-05	2005-06	2006-07	2007-08	2008-09
242	241	251	261	271

Physical assets

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

The total value of physical assets for the general-government sector was \$11 917 million as at 30 June 2004. This is expected to grow to \$12 748 million over the five years to 30 June 2009.

Depreciation on physical assets totals \$456 million in 2005-06 and rises to \$492 million in 2008-09. Depreciation expense recognises the rate of consumption of physical assets. The acquisition of physical assets over the forward estimates period exceeds depreciation by around \$580 million.

Table 5.6 shows the projected levels of physical assets for the general government sector over the forward estimates period. The asset levels rise because of the acquisition of assets and the upward revaluation of assets reflecting general inflation less depreciation.

Table 5.6: Physical assets – general government sector (\$ million)

As at 30 June	2004	2005	2006	2007	2008	2009
	Actual	Estimated result	Estimate	Estimate	Estimate	Estimate
Inventories	38	38	39	39	39	39
Land	1 598	1 567	1 529	1 518	1 505	1 483
Buildings and improvements	4 052	4 041	4 077	4 102	4 071	3 965
Water, sewerage & drainage assets	79	87	85	83	79	76
Road networks	4 209	4 224	4 299	4 425	4 515	4 564
Rail & bus networks	53	83	93	127	150	154
Other infrastructure assets	1 068	1 137	1 139	1 224	1 392	1 636
Heritage assets	735	736	736	737	738	739
Self-generating & regenerating assets	2	2	2	2	2	2
Other	83	85	88	88	89	90
Total physical assets	11 917	12 000	12 086	12 345	12 580	12 748
Depreciation expense	435	440	456	469	478	492

Non-financial public sector financial position

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

The net debt of the non-financial public sector is projected to rise slightly to 2008 before falling marginally in 2009.

Table 5.7 summarises key balance sheet indicators for the non-financial public sector.

Table 5.7: Key balance sheet indicators – non-financial public sector

As at 30 June	2004	2005	2006	2007	2008	2009
	Actual	Estimated result	Budget	Estimate	Estimate	Estimate
Net debt						
\$m	2 285	2 217	2 284	2 398	2 434	2 404
% of revenue	21.3	19.8	20.2	20.8	20.5	19.7
Net debt plus unfunded superannuation						
\$m	7 953	8 721	8 854	9 026	9 109	9 116
% of revenue	74.3	78.0	78.3	78.2	76.6	74.9
Net financial liabilities						
\$m	10 167	10 879	11 036	11 245	11 392	11 468
% of revenue	95.0	97.4	95.7	97.5	95.9	94.2
Net financial worth						
\$m	-9 550	-10 293	-10 352	-10 451	-10 463	-10 394
% of revenue	- 89.2	- 92.1	- 91.6	- 90.6	- 88.0	- 85.4
Net worth						
\$m	15 760	16 293	17 065	17 638	18 126	18 594
% of revenue	147.2	145.8	150.9	152.9	152.5	152.8

Table 5.8 shows balance sheet indicators for the non financial public sector since 30 June 1999 and as projected out to 30 June 2009. The net worth of the sector increases across the period.

Table 5.8: Non-financial sector balance sheet indicators – timeseries

As at 30 June	Net debt	Unfunded Superannuation ^(a)	Net Debt plus Unfunded Superannuation	Net financial worth	Net worth	Net financial liabilities	% of revenue ^(b)
	\$m	\$m	\$m	\$m	\$m	\$m	
1999	7 658	3 909	11 567	-12 258	10 622	13 152	138.8
2000	4 355	3 543	7 898	-8 986	12 445	9 952	108.1
2001	3 223	3 249	6 472	-7 109	14 816	8 185	90.4
2002	3 317	3 998	7 315	-7 902	14 721	8 999	96.1
2003	2 696	4 445	7 141	-8 811	15 288	9 120	89.7
2004	2 285	5 668	7 953	-9 550	15 760	10 167	95.0
2005	2 217	6 504	8 721	-10 293	16 293	10 879	97.4
2006	2 284	6 569	8 854	-10 352	17 065	11 036	97.6
2007	2 398	6 628	9 026	-10 451	17 638	11 245	97.5
2008	2 434	6 675	9 109	-10 463	18 126	11 392	95.9
2009	2 404	6 712	9 116	-10 394	18 594	11 468	94.2

(a) There is a structural break in the methodology used to calculate superannuation liabilities between 2002-03 and 2003-04. This accounting change involved a significant increase in superannuation liabilities and is explained in further detail earlier in this chapter.

(b) "%" column refers to 'Net financial liabilities' as a percentage of revenue.

Sources 1999 Financial data from the ABS GFS publication.
2000 and 2003 Financial data from SA's Outcome reports.
2004 onwards data from UPF data detailed in this paper.

Physical assets

Table 5.9 shows the projected levels of physical assets for the non-financial public sector over the forward estimates period.

The total value of physical assets for the non-financial public sector is projected to rise from \$25 309 million at 30 June 2004 to \$28 988 million at 30 June 2009.

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

Table 5.9: Physical assets – non-financial public sector (\$ million)

As at 30 June	2004	2005	2006	2007	2008	2009
	Actual	Estimated	Estimate	Estimate	Estimate	Estimate
Inventories	136	148	156	148	149	142
Land	4 241	4 878	5 090	5 210	5 271	5 325
Buildings and improvements	7 154	7 548	7 903	8 062	8 072	8 004
Water, sewerage & drainage assets	6 095	6 219	6 400	6 534	6 670	6 800
Road networks	4 212	4 224	4 299	4 425	4 515	4 564
Rail & bus networks	260	278	283	298	298	282
Other infrastructure assets	1 812	1 905	1 884	1 984	2 159	2 394
Heritage assets	740	741	742	743	744	745
Self-generating & regenerating assets	635	637	652	665	678	691
Other	24	9	9	9	9	9
Total physical assets	25 309	26 586	27 417	28 077	28 564	28 958
Depreciation expense	651	661	681	702	714	732

Management of assets and liabilities

Physical assets

Each government agency develops and implements its own asset management plan to maintain and deploy assets in the delivery of government programs.

Debt management

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

The State's funding requirements are achieved by SAFA through the issue of securities in the financial markets, including long-term Select Lines fixed interest securities issued in Australia, long-term offshore issues, and through SAFA's short-term funding facilities. SAFA's financing requirement over 2004-05 is around \$300 million (\$1 billion in 2003-04), principally representing the refinancing of maturing borrowings.

As at 30 April 2005, SAFA had loans to the Treasurer totalling around \$3.2 billion 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 corporations.

Managing superannuation liabilities and assets

Liabilities

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

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

The Triple S Scheme is an accumulation scheme to which the employer contributes at a rate of 10 per cent if members contribute at least 4.5 per cent of salary. For non-contributory members or members who contribute less than 4.5 per cent of salary, the employer contribution rate is the Guarantee Charge rate of 9.0 per cent from 1 July 2002 under Commonwealth legislation.

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

Superannuation liabilities represent the present value of estimated future benefit payments. The State Superannuation Scheme liabilities are calculated assuming general real salary increases of 1.5 per cent per annum and pension increases adjusted by the Consumer Price Index (CPI) assumed to be 2.5 per cent per annum. Commencing with the 2003-04 Mid-Year Budget Review, the liabilities have been calculated using a discount rate set with reference to the Commonwealth Government bond rate. The current discount rate is 5.3 per cent but will be adjusted in future years as interest rates move. An earnings rate of 11.1 per cent for 2004-05 has been assumed based on estimated investment earnings by Funds SA to early May 2005 and using the assumption of 7 per cent per annum long term return for the remainder of the year. Beyond 2004-05 an earnings rate of 7 per cent per annum has been assumed.

Table 5.10 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 2005.

Table 5.10: Public sector superannuation liabilities as at 30 June 2005 (estimated)

	Accrued liability \$m	Assets \$m	Net liability \$m
Schemes administered by SA Government ^(a)	13 923	7 423	6 500
Schemes not administered by SA Government ^(b)	273	269	4
Total schemes	14 196	7 692	6 504

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

Table 5.11: State Superannuation Scheme as at 30 June 2005 (estimated) (\$ million)

Liabilities	
Pension Scheme	
Pensioners	4 180
Contributors	3 324
	7 504
Lump Sum Scheme	1 334
Gross liability	8 838
Less Assets	
SA Superannuation Fund (ie members contributions)	1 649
Employer fund (ie contributions by agencies including past service contributions by the Government)	1 693
	3 342
Unfunded liability	5 496

Cash Alignment Policy

During 2003-04, a cash alignment policy was introduced to more closely align agency cash balances with working capital requirements. The policy reduces cash levels shown on the Government's balance sheet while reducing gross debt liabilities at the same time. The Government's net asset position is therefore unaffected by the policy.

The policy endorses an approved working cash balance for each agency of the lesser of 1/26th of agencies' annual budgeted operating expenditure, or \$20 million, with the Treasurer to approve specific variations from this level.

The policy was applied, for the first time, to cash balances held by agencies as at 30 June 2004. \$331.8 million of surplus cash has been transferred from agency deposit accounts to the Surplus Cash Working Account during 2004-05. It is expected that these funds will be transferred to the Consolidated Account in June 2005, which in turn will reduce the Treasurer's borrowings from SAFA.

It is estimated that a further \$68.7 million of surplus cash will be transferred from agencies in 2005-06.

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 for incidents occurring from 1 July 1994. 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; and
- pay service providers for advice and services as required in connection with the insurance and risk management program.

SAICORP also administers a supplementary fund from which claim payments are met in respect of incidents that occurred prior to 1 July 1994, claim payments in respect of uninsurable risks and any other payments met under the insurance program that fall outside of the insurance cover provided under the dedicated fund. This supplementary fund is funded from drawdowns from the Consolidated Account.

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

Premium revenue earned by SAICORP from client agencies for 2004-05 is estimated to be in the order of \$32.0 million (\$34.4 million for 2003-04).

SAICORP has a policy of accumulating reserves over time to meet the cost of retained risks. At 30 June 2004, SAICORP's dedicated fund had:

- total assets of \$182.8 million;
- outstanding claim liabilities of \$112.1 million;
- total liabilities of \$119.6 million; and
- net assets (free reserves) of \$63.1 million.

Medical malpractice claims accounted for \$74.1 million of the outstanding claim liabilities, and public and products liability claims accounted for a further \$18.9 million.

At 30 June 2004, the supplementary fund administered by SAICORP had:

- total assets of \$12.0 million;
- outstanding claim liabilities of \$57.0 million;
- total liabilities of \$57.3 million; and
- net assets of minus \$45.3 million.

Medical malpractice claims accounted for \$45.6 million of the outstanding claim liabilities.

CHAPTER 6: GOVERNMENT BUSINESSES

Overview

Government businesses are expected to perform soundly in 2005-06 although some businesses' operating results will reflect the emerging downturn in the building and construction industries. Overall, the public non-financial corporations sector is forecast to record a strong net operating surplus, with major businesses such as SA Water, ForestrySA, the Land Management Corporation (LMC) and the SA Lotteries Commission all projecting sound profits.

Government businesses are classified according to the Australian Bureau of Statistics' (ABS) standards. Government businesses classified as either public non-financial corporations (PNFCs) or public financial corporations (PFCs) are covered in this chapter (see Appendix D for agency classification). The business activities of agencies classified as part of the general government sector are not reported in this chapter but are included in the relevant Portfolio Statements (see Budget Paper 4).

More detailed information on some PNFCs that have major social policy functions is reported in the relevant Portfolio Statements. Forward estimates for the PNFC sector are presented in Appendix A.

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

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

To support the goal of improving PNFC financial performance, the Government approved a new ownership framework for PNFCs during 2004-05, with the first stage implementation of the framework to SA Water and ForestrySA to be effective from 1 July 2005. The major changes in the new Policy Guidelines in determining the relationship between Government and PNFCs include:

- CSO payments will be output-based under long-term agreements, and subject to periodic review;

- Dividend payments will be based on actual business performance rather than budget forward estimates, and may therefore become more variable; and
- PNFC capital structure will be based on the same general factors that influence the debt and equity position of publicly listed corporations — primarily business risk and capital intensity. To date, PNFC capital structures are primarily the result of historical factors.

The new framework redistributes risk in a manner comparable with shareholder risk in publicly listed companies. CSO, dividend and tax equivalent payments will be reflected in the performance statement for each PNFC. The new PNFC ownership framework identified some target ranges for the gearing ratios of both SA Water and ForestrySA. In both cases these target gearing ratios are above current levels. An immediate adjustment to these ratios could have been achieved by a return of equity, perhaps financed by borrowings by the PNFCs. This has not been done. Instead a dividend policy has been set which has regard to both expected future capital expenditures and the desirability of increasing gearing ratios towards the target range. This has resulted in forecast higher dividends from SA Water and ForestrySA over the forward estimates.

A return of equity from SA Water of \$74.3 million is estimated in 2005-06. However, this arises from a timing variation in CSOs under the new policy from payment in arrears to concurrent year payment. This results in a “double” payment in the first year of operation of the new policy. The 2004-05 CSO payment made in 2005-06 is returned in full by way of the return of equity.

The extension of the framework to other PNFCs will be implemented in 2005-06, subject to Government approval.¹ Table 6.1 reflects an increase in the LMC dividend payout ratio in line with the extension of the PNFC Ownership Framework. The governance and balance sheet components of the framework will be implemented in LMC by 1 July 2006.

Table 6.1 sets out the operating performance of the PNFC sector. The net operating balance is calculated after dividends and income tax equivalents. Negative net operating balances are expected for the PNFC sector across the forward estimates. Positive net operating balances are expected for some PNFCs (including SA Water and ForestrySA), however these are offset by negative net operating balances for other entities (including the South Australian Housing Trust, Adelaide Festival Centre Trust and Adelaide Convention Centre). The negative net operating balances reflect the fact that these entities are expected to make a trading loss.

¹ The PNFC Ownership Framework Guidelines are available online at the Department of Premier and Cabinet website at <http://www.premcab.sa.gov.au/pdf/competition/commserv96.pdf>.

Public non-financial corporations: operating performance

Table 6.1: Public non-financial corporation sector budget aggregates (\$ million)^(a)

	2004-05	2005-06	2006-07	2007-08	2008-09
Net operating balance before dividends and income tax equivalents	410.4	405.8	411.9	408.5	417.9
less					
Dividends	272.8	324.3	324.5	317.0	322.7
Income tax equivalents	105.0	115.7	119.0	117.0	120.1
<i>equals</i>					
Net operating balance	32.7	-34.2	-31.6	-25.6	-24.9
less					
Net acquisition of non-financial assets					
Gross fixed capital formation ^(b)	233.7	304.7	247.6	243.0	214.8
less Depreciation	220.2	225.0	232.8	236.7	240.5
plus Change in inventories	—	—	—	—	—
<i>equals</i> Total net acquisition of non-financial assets	13.5	79.7	14.8	6.3	-25.7
<i>equals</i>					
Net lending / borrowing	19.1	-114.0	-46.4	-31.8	0.7

(a) Totals may not add due to rounding.

(b) Gross fixed capital formation comprises purchases of non-financial assets less sales of non-financial assets.

Operating performance

During 2004-05 the PNFC sector contributed a total of \$377.8 million in dividend and tax equivalent payments. The main contributors were SA Water (\$245.4 million), SA Lotteries (\$85.2 million) and ForestrySA (\$33.6 million).

The revenue sources of a number of major government businesses are tied to the level of activity in the building and construction industry, in particular residential housing. The continuation of the strong market during 2004-05 has resulted in above-budget revenue for these agencies, including SA Water (associated with land development and contributed assets), Land Management Corporation (land sales) and ForestrySA (timber sales), which will translate into strong budget contributions (dividends and tax equivalent receipts) for 2004-05.

The budgeted 2005-06 net operating balance of \$405.8 million before income tax and dividends represents a \$4.6 million reduction on the estimated 2004-05 result of \$410.4 million. This reduction is primarily due to an increased negative net operating balance in the South Australian Housing Trust in 2005-06. This reflects an estimated decrease in net revenue from inventory asset disposals in 2005-06 of \$13 million and the impact of the once-off transfer of \$30 million for the Housing Plan for South Australia, for which revenue was accrued in 2004-05 and expenditure will be incurred in 2005-06 and across the forward estimates.

The forward estimates reflect generally strong performance in 2005-06, followed by slower profit growth in future years. The emerging downturn in the building and construction industry, which is reflected in the projected operating results, is a significant cause of the flat performance over the next few years.

Under GFS reporting conventions, the net operating balance for PNFCs is calculated after dividends and income tax equivalents. An increased level of contributions arising from the implementation of the new PNFC ownership framework in SA Water and ForestrySA therefore results in a reduced net operating balance from 2005-06. Note that this outcome represents an improvement in revenues to the general government sector.

SA Water

SA Water is expecting contributions for 2004-05 to be on budget, despite the introduction of water conservation measures in 2003 and a slight downturn in building activity.

SA Water's profit before tax is expected to increase from \$275 million in 2004-05 to \$305 million in 2005-06, rising to \$323 million in 2008-09. Contributions to Government are expected to increase by 21 per cent from 2004-05 to 2005-06.

SA Water is proposing a major expansion of its investing program over the forward estimates. This is driven by business growth, the need to upgrade security and the need to address environmental concerns.

SA Lotteries

SA Lotteries expects its distributions to government in 2004-05 will be on budget, with continued strong sales performance in a range of lotteries products including SA Lotto and Powerball offsetting modest underperformance by Lotto, Oz Lotto, Instant Scratchies and The Pools.

Movements in SA Lotteries' forecast operating results and distributions closely reflect the expected trend in sales revenue, net of prizes paid. Sales revenue is expected to increase from \$350 million in 2004-05 to \$360 million in 2005-06, rising to \$380 million by 2008-09. Total contributions are expected to rise by 4.2 per cent from 2005-06 to 2008-09.

Land Management Corporation

LMC's estimated result for 2004-05 indicates contributions to government will be above budget. Demand for residential and commercial land remained strong during 2004-05.

LMC's expected operating performance over the forward estimates period reflects its project-based revenues and expenses, as well as sales trends driven by cyclical demand in the building sector. LMC's sales revenue is projected to grow by 15 per cent in 2005-06 with a further 6 per cent growth in 2006-07. Sales are forecast by LMC to stabilise around their 2005-06 level in the latter years of the budget period.

Major projects contributing to revenue include the Northfield Residential development from 2005-06, and commercial property activities.

Consistent with the proposed extension of the PNFC Ownership Framework to LMC, the dividend payout ratio has been increased from 60 per cent of after tax profit to 90 per cent, from 2005-06.

ForestrySA

ForestrySA's estimated result for 2004-05 indicates contributions to government will be above budget due to strong demand for building materials, preservation products and export chip.

ForestrySA's forecasts for 2005-06 indicate a softening in sales as building sector demand slows, with an associated 12 per cent fall in contributions relative to the 2004-05 level. Sales are expected to recover to current levels by 2008-09.

Investing expenditure

Investing expenditure for the PNFC sector is budgeted to be \$406.4 million in 2005-06 (excluding \$20.6 million of contributed assets). The main contributing businesses are SA Water (\$179.6 million) and the South Australian Housing Trust (\$152.8 million).

Some significant investing initiatives in 2005-06 are:

- \$124 million for public housing, construction and redevelopment by the SA Housing Trust compared with \$95 million in 2004-05;
- \$31 million for the augmentation of water supplies to the Eyre Peninsula; and
- An increase in the ForestrySA land acquisition program from \$3 million per year to \$6 million per year in order to meet a long term strategic target to increase land holdings by 1500 hectares per year.

Investing expenditure is budgeted to decrease across the forward estimate period, from \$406.4 million in 2005-06 to \$294.3 million in 2008-09.

Subsidies, community service obligation payments, dividend and tax payments

Table 6.2 summarises 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.

Table 6.2: Financial flows between major government businesses and the general government sector (\$ million)^(a)

	Subsidy / CSO			Dividend			Income Tax Equivalent		
	Actual 2003-04	Estimate 2004-05	Budget 2005-06	Actual 2003-04	Estimate 2004-05	Budget 2005-06	Actual 2003-04	Estimate 2004-05	Budget 2005-06
PNFC									
Aboriginal Housing Authority	4.7	3.9	3.7	—	—	—	—	—	—
Adelaide Children's Performing Arts Company	1.0	1.0	1.0	—	—	—	—	—	—
Adelaide Convention Centre	4.9	4.5	4.6	—	—	—	—	—	—
Adelaide Entertainment Centre	0.1	0.8	0.0	—	—	—	—	—	—
Adelaide Festival Centre Trust	8.1	8.4	8.2	—	—	—	—	—	—
Electricity Lease Entities	—	1.1	2.6	—	—	—	—	—	—
ForestrySA	3.9	4.0	5.1	21.8	22.3	20.2	12.3	11.3	10.9
Industrial and Commercial Premises Corporation ^(b)	—	—	—	0.2	—	—	—	—	—
Land Management Corporation ^(c)	23.8	10.0	11.9	51.5	2.2	19.9	11.5	1.6	3.7
Lotteries Commission of South Australia ^(d)	—	—	—	74.1	78.0	76.8	7.5	7.2	7.7
Public Trustee	—	—	—	1.4	0.8	0.9	0.4	0.4	0.4
South Australian Government Employee Residential Properties	—	2.0	2.7	1.2	1.2	1.2	—	0.5	0.5
South Australian Housing Trust	138.0	132.7	152.6	—	—	—	7.8	15.0	15.0
South Australian Motor Sport Board	3.6	3.0	2.3	—	—	—	—	—	—
South Australian Water Corporation	102.4	104.1	139.5	174.1	164.3	201.4	87.6	81.1	90.8
TransAdelaide ^(e)	3.8	2.8	2.8	2.3	4.0	4.1	-0.6	1.2	1.3
West Beach Trust	1.0	2.2	0.9	—	—	—	0.6	1.8	0.4
PNFC Total	295.3	280.5	337.9	326.6	272.7	324.4	127.1	120.0	130.7
PFC									
HomeStart Finance ^(f)	—	—	—	5.0	5.0	5.0	1.3	1.0	1.0
Motor Accident Commission	—	—	—	5.0	—	—	—	—	—
South Australian Asset Management Corporation	—	—	—	58.5	73.2	6.0	—	—	—
South Australia Community Housing Authority	8.1	7.3	7.4	—	—	—	—	—	—
South Australian Government Finance Authority	—	—	—	12.2	37.9	89.0	6.8	6.4	14.0
Funds SA	—	—	—	—	—	—	—	—	—
PFC Total	8.1	7.3	7.4	80.7	116.1	100.0	8.1	7.4	15.0
PNFC and PFC Total	303.4	287.8	345.3	407.3	388.8	424.4	135.2	127.4	145.7

- (a) Table 6.2 includes only those PNFCs and PFCs that are expected to impact on general government net lending. Amounts included in Table 6.2 are presented on an accrual basis. The table does not include Commonwealth Government subsidies paid through the South Australian Government (for example, subsidies to the South Australian Housing Trust) or subsidies paid to the Office of Public Transport, a general government sector agency within the Department of Transport and Urban Planning.
- (b) The Industrial and Commercial Premises Corporation was absorbed into the Land Management Corporation on 1 December 2003.
- (c) Land Management Corporation estimates include special dividends in 2003-04 and 2005-06 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) TransAdelaide recorded a loss from ordinary activities in 2002-03, largely due to write downs in investments. TransAdelaide therefore raised a negative income tax expense, in line with tax effect accounting principles.
- (f) In accordance with the *Housing and Urban Development (Administrative Arrangements) Act, 1995* dividends are paid to the Minister for Human Services and reallocated to other housing priorities.

Governance arrangements

Government businesses are structured in three main ways:

- as statutory authorities. Most government businesses are of this form. A large number of statutory authorities operate within the public sector for a variety of purposes. Relatively few of these operate primarily as government businesses. In response to an Economic Development Board recommendation, the Government has undertaken a comprehensive review of existing statutory authorities and boards, including a number of government businesses in which the number of committees was reduced;
- as Corporations Law companies. This approach is seldom used as it creates difficulties in establishing appropriate accountability arrangements; and
- as administrative units of government departments.

Government businesses are required to operate fairly, efficiently and prudently to maximise benefits flowing to the community from their use of resources. The Government is also continuing its commitment to transparency and accountability in all aspects of the financial, risk management and governance arrangements for government businesses.

The Department of Treasury and Finance monitors and reports to the Treasurer and other responsible Ministers on the financial and non-financial performance, risk management and governance arrangements for the major government businesses. The Treasurer and responsible Ministers have also appointed board members and/or board observers to major government businesses in line with the Government's commitment to improve public sector governance.

Balance sheet structure

Almost all government businesses are public authorities as defined under the *Public Finance and Audit Act, 1987*, which makes them controlled entities for the purposes of the Government's accounts. Even where there is no specific legislative provision, for example WorkCover, the agency's net financial position is included in the general government sector financial statements. As a result, the general government balance sheet recognises the general government sector's exposure to the net liabilities of its PNFC and PFC businesses.

The liabilities of government businesses are generally explicitly guaranteed by the enabling legislation for the entity. The *Public Corporations Act, 1993* provides that all liabilities of a public corporation are guaranteed by the Treasurer. The *Public Finance and Audit Act, 1987* provides for the Treasurer to charge periodic fees in respect of the provision of guarantees or indemnities. In practice, the Treasurer only charges guarantee fees on loan liabilities of government businesses. To date, the Treasurer has not charged guarantee fees on any other government business liabilities (for example employee provisions or accounts payable).

Competitive neutrality policy and principles

South Australia's approach to competitive neutrality is expressed in the *Government Business Enterprises (Competition) Act 1996* and the supporting *Competitive Neutrality Policy Statement* (most recently revised in July 2002). The basic competitive neutrality requirements of tax equivalent payments, debt guarantee fees and private sector equivalent regulation can be achieved through corporatisation, commercialisation or cost-reflective pricing, in declining order of cost of implementation. The mechanism chosen to achieve competitive neutrality depends on the extent to which potential benefits justify the costs of implementation.

The Appendices to the *Competitive Neutrality Policy Statement* list those businesses subject to Competitive Neutrality (CN). The policy statement notes that identifying and listing specific businesses is not intended to exclude other business activities being identified as significant and added to the list as required. Regular assessments are carried out by agencies. Removal of the business from the list would not preclude a complaint being made against the business.

The implementation of CN principles has been largely completed for identified significant business activities (SBAs) within Government. The focus is now on monitoring for ongoing compliance by way of a formal annual review process requiring responsible Ministers to confirm that government businesses continue to operate in accordance with CN principles.

Tax equivalent policy

In accordance with the principles of competitive neutrality, government businesses are required to pay to the Consolidated Account such amounts which represent the value of any direct or indirect taxes that the authority would otherwise have paid to the Commonwealth Government, to any State or Territory Governments or to any local council if it were not exempt from the taxation laws of the Commonwealth, or any State or Territory.

The liability and expense for income tax for government businesses is calculated pursuant to the National Tax Equivalent Regime (NTER) administered by the ATO or on a simplified accounting profit basis.

CHAPTER 7: RISK STATEMENT

Overview

This chapter outlines the major financial risks that could affect the fiscal outlook set out in the 2005-06 Budget and identifies measures the Government has adopted to manage those risks. The risks are summarised in three main sections—risks to revenue, risks to expenditure and contingent liabilities.

The budget estimates are predicated on assumptions and judgements based on information available 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 fluctuations in economic activity, changes to demand for services and fluctuations in financial markets.

The budget estimates can include allowances to help manage potential financial risks; for example, allowances for wage and salary outcomes and capital expenditure contingency provisions. In addition, some sources of risk to the fiscal outlook can, to a certain extent, be managed through established risk management practices such as hedging, provisioning and insurance.

In recent years, growth in revenue has enabled the Government to meet growing expenditure demands in areas like health, education and welfare services. However forecasts indicate that revenue growth over the next three years will be considerably lower reflecting the impact of the phasing out of business related taxes as agreed with the Australian Government. This will require the Government to increase the efficiency of current service provision or reprioritise existing expenditure to accommodate new expenditure demands.

Revenue risks

Taxation and royalties

Variance in taxation revenue growth

State tax revenues are exposed to variations and fluctuations in both the volume and value of economic activity. Broadly based taxes such as payroll tax will be influenced by general economic trends, whereas other more narrowly based taxes will be subject to influences which are specific to particular segments of economic activity (for example, price and activity trends in the property market will have a disproportionate impact on State taxation

revenues because of the importance of property based taxes such as stamp duty and land tax).

Fluctuations in economic activity are typically more volatile in a small regional economy than at the national level. This heightens the risk of State taxation revenues either exceeding or underperforming against budget forecasts, particularly at turning points in the economic cycle. However, the performance of the national economy is also a key driver of South Australian Government revenues. The pool of GST revenue grants allocated to the States and Territories is directly influenced by national trends in consumer spending and housing construction. Furthermore, South Australia's share of GST revenue grants is influenced, in part, by the States' relative economic performance. If South Australia's taxation revenues are constrained relative to other states and territories as a result of relatively weaker State economic performance, the horizontal fiscal equalisation (HFE) process will result in South Australia receiving a relatively higher share of GST revenues. This means that in the medium to longer term South Australian overall revenues (GST revenue grants and own source revenues) are ultimately driven by national rather than State economic performance. The horizontal fiscal equalisation process, however, operates with a lag and therefore fluctuations in State economic activity do have a short term impact on revenues.

Over recent years, both the national and South Australian economies have experienced strong demand growth, which has contained a significant cyclical component. Specific risk factors in this context include:

- the national and international economic environment being either weaker or stronger than anticipated. The South Australian economy has a significant overseas and interstate export orientation. The budget projections assume that growth in South Australia's major overseas trading partners will remain solid and that there will be a moderate slowing in domestic demand growth in the Australian economy;
- variations in climatic conditions which could impact on the volume of South Australian agricultural output and farm incomes which may represent a heightened risk factor at present given the below average 2004-05 crop output and below average rainfall heading into 2005-06; and
- consumer spending and the housing market may be more subdued than anticipated, particularly if there are further interest rate increases.

State taxation revenue is not particularly sensitive to movements in broad-based price measures, for example the Consumer Price Index. Rather, where there are price effects on taxation revenues, they tend to be specific to particular transactions; for example, property values, motor vehicle values and insurance premiums.

Impact: A variance of 1.0 per cent in taxation and royalty revenue equates to about \$30 million per annum.

Conveyance duty

Property market trends, in terms of both property values and activity levels, have been difficult to predict in recent years. The uplift in the property market was stronger and lasted longer than anticipated. Neither industry analysts nor State Governments anticipated the size and duration of the property market boom.

There is similar uncertainty surrounding the extent of the likely softening in property market conditions going forward. While there has been some evidence of a fall off in property transfers and a stabilisation in property values, there is a risk that property prices and/or activity levels could fall more severely than has been anticipated.

This uncertainty makes forecasting of property-based taxes difficult, especially conveyance duty receipts. The timing of large commercial transactions in any one year is also difficult to predict and adds to the risk of forecasting error.

Impact: A 1.0 per cent fall in property values equates to about \$5.0 million and a 1.0 per cent decrease in activity also equates to about \$5.0 million.

Gaming machine revenue

There are a number of risks to gaming machine tax revenue collections.

Over the past five years underlying growth in annual net gambling revenue (NGR) has steadily declined from above 10 per cent to 5 per cent in 2004-05. This trend appears to be at least partially influenced by the reduction in patronage from the introduction (from 6 December 2004) of the initial stage of smoking bans in hospitality venues (both for bars and gaming rooms). Provision has been made in the forward estimates for an estimated 15 per cent fall in gaming machine expenditure in licensed clubs, hotels and the Casino as a result of the full smoking ban in hospitality venues from 31 October 2007.

Long term growth in underlying expenditure is estimated to remain at 5 per cent per annum notwithstanding that there will continue to be ongoing review and refinement of harm minimisation measures including through the mandatory gambling codes of practice.

A more specific risk arises from the removal of 3000 gaming machines from licensed hotels. The initial cut of around 2200 gaming machines is expected to occur on 1 July 2005. A trading system has been introduced to enable gaming machine licensees to sell their gaming machine entitlements to other licensees. The net effect on gaming machine tax revenue is forecast to be minor but this will ultimately depend on the extent to which net gambling expenditure is impacted by a reduction in gaming machine numbers.

Impact: A variance of 1.0 per cent in hotel and club gaming machine expenditure equates to around \$4 million in gambling tax revenue.

Royalties

Mining royalties are possibly the State revenue most exposed to external economic forces; in particular, those that affect the international price of oil, copper, uranium and gold. Copper and oil prices have been stronger than expected in 2004-05 but positive impacts on royalties have been partially offset by a stronger than budgeted Australian dollar.

Variation in royalty revenues raised in the major mining production States are substantially offset over time by the level of Commonwealth general purpose grants received by South Australia through the fiscal equalisation process.

Impact: Excluding fiscal equalisation impacts, a one cent change in the exchange rate has a direct revenue impact of about \$0.9 million on royalty revenue while a 1.0 per cent change in

international prices for copper, uranium, gold, oil and petroleum liquids has a direct revenue impact of \$0.6 million.

Commonwealth-State relations

Changes to general purpose payments (GPPs)

GPPs have in the past, with some exceptions, been maintained in real per capita terms under indexation arrangements applied by the Commonwealth.

South Australia became fully reliant on GST revenue from 2003-04 as the principal source of GPPs. Accordingly, South Australia's GPP revenue is more exposed to variations in national economic activity and potential changes in GST policy settings.

Impact: A 1.0 per cent change in GST revenue growth has a revenue impact for South Australia of around \$30 million per annum.

Changes in Commonwealth National Competition Policy grants

The Commonwealth has announced that National Competition Policy (NCP) payments, in their current form, will cease after the 2005-06 financial year. Funds allocated for NCP payments are to be redirected to further expenditure on water conservation. South Australia's share of the water conservation funds is unclear at this stage.

In relation to 2005-06 NCP grants, the imposition of further National Competition Council (NCC) penalties (see discussion in Chapter 4) could place the current estimates at risk. The NCC is scheduled to release its next assessment in July 2005. Upon release, the assessment is forwarded to the Federal Treasurer and the States for consideration. The States have the opportunity to lodge objections with the Federal Treasurer regarding any penalties proposed by the NCC. There is no specific deadline by which the Federal Treasurer must issue his final determination.

In a change from prior years, following the establishment of the National Water Initiative, the National Water Commission (NWC) will be assessing progress with the implementation of water reforms in 2005 instead of the NCC.

Impact: The budget includes almost \$50.3 million in 2005-06 for NCP grants as compared with a penalty-free entitlement of \$60.3 million.

Changes to horizontal fiscal equalisation (HFE) methodology

Commonwealth GPPs are the vehicle for HFE. The methodology and data underlying the HFE process is determined by the Commonwealth Grants Commission. The Commission takes into account submissions from states and territories. While the Commission is an independent body, states and territories compete strongly in submitting arguments in support of their position.

Methodology reviews are conducted every five years. The March 2005 Treasurers' Conference agreed on terms of reference for the Commission's 2010 methodology review which include guidelines for simplification of its assessments and direct it to report on progress to both the 2006 and 2007 Treasurers' Conferences.

While endorsing the underlying principle of HFE, the terms of reference pose risks to South Australia because simplified assessments may cause departure from an accurate assessment of fiscal needs. As well, the terms of reference allow for the Commission to implement simplified assessments in advance of the 2010 review.

A further risk lies in the CGC's treatment of taxes abolished pursuant to the IGA review of State taxes. If the treatment varies from that modelled in the forward estimates, SA's share of GST revenue grants could be reduced.

Impact: The risk of HFE methodology changes that may impact on the State, either positively or adversely, is significant over the medium term. The focus on simplification of the Commission's assessments, and the possibility of early implementation of changes, pose added short term risks.

Variability in funding levels or Commonwealth policy settings in relation to specific purpose payments (SPPs)

SPPs reflect a variety of terms and conditions. Funding levels are exposed to the risk of variability in:

- the underlying parameters specific to expenditure programs; and
- Commonwealth policy settings favouring some areas of expenditure over others.

In recent negotiations on SPP agreements, it has become more common for the Commonwealth to insist on the imposition of matching expenditure 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.

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* included a commitment by the Commonwealth not to cut aggregate SPPs as part of the national tax reform arrangements. To date the Commonwealth has been meeting its commitment in real per capita terms. However, any future departure from this commitment would impact on the states.

Impact: SPPs account for about 19 per cent of State Government revenues. Variations in their level or the conditions applying are a major risk to the budget.

Failure to abolish taxes identified in the IGA

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) provided for the abolition of certain State taxes and the review of all remaining business stamp duties by 2005.

The 2005 Treasurers' Conference was held on 23 March 2005 with the Commonwealth Treasurer stating that the Commonwealth would regard any failure by the States to abolish the relevant taxes as a serious breach of the IGA. In those circumstances the Commonwealth would regard all elements of the IGA as being open to review. The Commonwealth Treasurer asked the States to respond with a proposed schedule to abolish the remaining business stamp duties, excluding stamp duties on conveyancing of non-residential real property.

As noted in Chapter 4, six states proposed an alternative schedule on 20 April 2005. The Commonwealth has not yet responded to the proposal.

Changes in profitability of government businesses

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

Impact: A 1.0 per cent fall in dividends from current year earnings would have a \$3 million impact on the budget.

Expenditure risks

Change in service needs and funding implications

The level and type of services required by the community will change over time as a result of various factors, including demographic factors. For example, 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 Expenditure Review and Budget Cabinet Committee assists in meeting this challenge by ensuring that budget measures are appropriately directed to high priority areas.

Demographic factors tend to be relatively well anticipated over the period of the forward estimates. Variations in the size and composition of the population do not tend to be large over the period of a few years. Changes in population distribution can give rise to unforeseen service and infrastructure demands but are, to some extent, guided by planning rules.

Portfolio pressures – Hospital activity growth

Hospital activity levels in recent years have increased approximately 1 per cent per year. Continuing to fund activity growth has been a significant budget burden. Following the Generational Health Review the Government is implementing a number of community care, primary health care and hospital avoidance strategies. If, despite these strategies, the Government is unable to curb the growth in hospital activity in the medium term this will be a significant future cost.

Impact: A 1 per cent growth in hospital activity increases expenditure by approximately \$13 million per year.

Portfolio pressures – Health capital investment

The Department of Health has a large capital investment program over the forward estimates period. Historically there has been considerable slippage in delivering projects to their original schedule. The Department has often exceeded the slippage estimates included in the capital investment program.

Impact: If slippage exceeds the amount included in the capital investment program annual net lending outcomes will be impacted.

Portfolio pressures – River Murray initiatives

The forward estimates include significant provisions to meet expenditure commitments for water acquisition for environmental flows, other expenditure on River Murray improvement initiatives, the National Action Plan for Water Quality and Salinity, and other initiatives. However, over the last two years there has been significant slippage in some of these commitments because of delays in reaching agreement between States and the Commonwealth and other implementation issues.

Impact: If slippage occurs annual net operating and net lending outcomes will be impacted.

Higher than expected increase in wages and salaries

The estimated costs arising from the next round of enterprise bargaining have been factored into the 2005-06 Budget and forward estimates. However, enterprise agreements with the two largest employee groups—Wages Parity (Salaried) employees and Public Sector Teachers are currently outstanding. Should the wage and salary outcomes differ from the provisions included in the budget, there would be an impact on the budget.

An enterprise agreement was not reached with the Public Service Association and the Association of Professional Engineers, Scientists and Managers Australia, that together represent the Wages Parity (Salaried) group—this is the Government's largest group representing about 35 per cent of its workforce. An interim award providing a 3.5 per cent increase was handed down by the Full Bench of the Industrial Relations Commission of South Australia in October 2004. The Full Bench of the Industrial Relations Commission has completed its hearings and a decision about salaries is pending.

The Government is currently in the process of negotiations with Public Education Sector Teachers and Lecturers — the Government's second largest employee group representing about 30 per cent of the Government's workforce.

Impact: The budget provides for public sector salary and wage increases in line with economy-wide trends throughout the forward estimates period. If currently scheduled remuneration increases for agreements yet to be finalised are 1.0 per cent per annum (on average) above the existing budget provision, the budget impact would be approximately \$178 million in 2008-09.

In the last round of enterprise bargaining, non-salary elements such as paid maternity leave and revised employment classifications added about 2.5 per cent on average to the cost of each enterprise agreement over their duration. Non-salary outcomes of 0.5 per cent for new

agreements (which are assumed to be of two years in duration) and agreements yet to be finalised would have a budget impact of approximately \$53 million in 2008-09.

Interest rates

Higher than expected interest rates could adversely affect the general government and public non-financial corporations (PNFC) sectors' budget position through increased interest payments on net debt.

Impact: A 1.0 percentage point increase in interest rates would increase net interest expense in the general government sector by approximately \$1 million in 2005-06. A 1.0 percentage point increase in interest rates would affect the PNFC sector's profits by approximately \$22 million. This could indirectly affect dividends received over time by the general government sector from PNFCs.

Increase in consumer price index

Higher inflation may impact on the prices paid by government agencies for goods and services and therefore affect agency expenditure.

Impact: Based on the level of goods and services expenditure contained in the 2005-06 Budget, a CPI increase of 1.0 per cent more than currently anticipated would result in an estimated increase in expenditure of \$30 million in 2005-06.

Fluctuation in foreign exchange rates

Treasurer's Instruction 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.

Impact: Foreign exchange rates could have an impact on the operational costs of portfolios that source supplies and services from overseas. This includes products such as pharmaceuticals within the hospital sector and the operation of overseas offices.

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. Changes to key actuarial assumptions — for example, a lower discount rate, a decrease in expected real returns on investments or an increase in inflation — could result in an increase in the estimated unfunded superannuation liabilities.

Impact: A fall in the national government bond rate between valuation dates will lead to the use of a lower discount rate assumption for valuation purposes, resulting in an increase in the value of the unfunded liability. A 1.0 percentage point reduction in the discount rate would increase unfunded superannuation liabilities by \$1.4 billion. However the impact on the budget balance is the imputed interest on these unfunded liabilities and the interest rate

used to calculate this will also fall by 1.0 per cent. The net effect on the budget would be an improvement of \$5.9 million in the net operating balance.

A 1.0 percentage point lower than expected return on superannuation assets invested by Funds SA would increase estimated unfunded superannuation liabilities by around \$36 million. An increase in unfunded superannuation liabilities of this magnitude would increase nominal superannuation interest expenses, decreasing the net operating balance result by \$2.5 million.

Decrease in domestic and overseas share prices

Funds SA, WorkCover and the 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 the Motor Accident Commission's financial investments.

Impact: In general, a fall in domestic and overseas share prices will directly impact the budget through a decrease in earnings on superannuation assets, the impact of which is discussed above. A decrease in the value of WorkCover's and the Motor Accident Commission's financial investments will not have a direct impact on the budget.

In isolation as at 31 March 2005, a 1.0 per cent movement in international equity markets would impact on the WorkCover scheme funding estimates by approximately \$2.6 million or 0.41 per cent of the scheme's unfunded liability. A 1.0 per cent movement in Australian equity markets would impact on the WorkCover scheme funding estimates by approximately \$2.3 million or 0.36 per cent of the scheme's unfunded liability.

A 1.0 per cent movement in international equity markets would result in a change in the Motor Accident Commission Fund's assets of approximately \$1.4 million or 0.75 per cent of target net assets. A 1.0 per cent movement in Australian equity markets would result in a change in Motor Accident Commission Fund investments of approximately \$2.9 million or 1.6 per cent of target net assets.

Insurance

Risks associated with insurance liabilities are managed by the South Australian Government Captive Insurance Corporation (SAICORP). The operations of SAICORP are described in Chapter 5.

Details of individual insurance claims are not discussed for legal, commercial and privacy reasons.

SAGRIC (the portion of rights and obligations vested to South Australian Asset Management Corporation (SAAMC))

In late 1996 SAGRIC, a State owned company, acted as trustee for the Crown in relation to a joint venture with two international companies to provide services to a Greek Government owned company. The joint venture company is known as Hellenic Cadastre Consult (In Liquidation) (HCC). The State's share of the residual net liabilities in HCC was vested to SAAMC by the dissolution of EDISCO Pty Ltd (the successor of SAGRIC) by proclamation in

June 2004. There could be future litigation relating to claims arising from certain contractual arrangements involving HCC and the Greek Government.

Eyre Peninsula bushfires

On 11 January 2005, a major bushfire occurred on the Lower Eyre Peninsula in the vicinity of Cummins, Tumby Bay, North Shields and Wangary. The fire burnt approximately 83,000 ha of land, with an estimated 135 commercial properties and around 100 small holdings being affected.

In response to this event, the Government provided a range of emergency assistance measures to support the affected communities. An amount of \$6 million was approved by Cabinet for this purpose in 2004-05.

The direct cost of the fires to South Australian State and Local Government bodies in respect of loss of or damage to the bodies' own assets is still being assessed. The largest cost will relate to damage to SA Water's pipeline assets in the area. Reliable estimates of these direct costs, particularly those resulting from pipeline damage, will not be known until late 2005.

Part of the cost of relief measures provided by the State Government and some other costs will be recoverable from the Commonwealth under the Personal Hardship and Distress component of the Commonwealth's Natural Disaster Relief Arrangements (NDRA).

If the costs in respect of loss of or damage to State and Local Government assets, together with other eligible costs, exceed an amount of \$21.8 million, part of the excess costs will also be recoverable from the Commonwealth under the general provisions of the NDRA.

Any claims under the NDRA will be made in 2005-06. Any amounts claimed under the NDRA will be net of recoveries from insurance arrangements.

State Government Insurance Commission (SGIC) residual assets and liabilities

By the *Motor Accident Commission (Transfer of Residual Assets and Liabilities) Proclamation 2003 under Section 30 of the SGIC (Sale) Act 1995*, the assets and liabilities of residual SGIC policies were transferred to SAICORP on 30 June 2003. These were general policies of insurance issued by SGIC that were not previously transferred on the sale of the general insurance business formerly conducted by SGIC. Specific details of these policies are not available and hence no liability has been recognised by SAICORP in relation to them. Liabilities will be brought to account in the supplementary fund if and when the policy owners make valid claims.

In addition to the general policies of insurance, SGIC provided mortgage insurance to a number of other financial institutions (banks and credit unions). The underwriting of mortgage insurance was discontinued in 1995. In April 2003, the management of the run off activity of this insurance was transferred to the South Australian Asset Management Corporation (SAAMC) along with an actuarially estimated funding requirement of \$560 000.

Similarly, SAAMC took over the management of the run off activity of a number of identified workers compensation insurance liability policies written prior to the introduction of WorkCover in 1987. The rights and liabilities under these policies were also transferred to SAAMC in April 2003, as was \$4.2 million in funding to cover the actuarially calculated

claims. The risk attached to the worker's compensation was limited to a number of existing known claims, which were amply provided for.

After settling a number of claims in the last two years the total of the above funds are estimated to be \$3.4 million at the end of 2005 and will appear on SAAMC's statement of financial position as a liability.

Contingent liabilities

Table 7.1 outlines the quantifiable contingent liabilities of the Government as at 30 June 2004, with comparative data for 30 June 2003. The data included in the table has been valued at nominal rates and no adjustments have been made to take into account the probability of the actual liabilities occurring.

Table 7.1: Contingent liabilities of the Government of South Australia to entities external to the public sector as at 30 June (\$ million)

	2003	2004
Guarantees	835	869
Net present value of operating leases ^(a)	240	290
Other	144	133
Total	1 219	1 292

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

Pursuant to the *Local Government Finance Authority Act 1983*, the Government of South Australia guarantees the liabilities of the Local Government Financing Authority (LGFA). The total liabilities of LGFA have been included in the Guarantees section in Table 7.1.

The 'Other' contingent liabilities listed in the table includes contingent liabilities arising from financial assistance to industry, a put option provided by the South Australian Asset Management Corporation and other contingent liabilities (including those associated with joint venture schemes). Joint venture schemes can include those entered into by the Land Management Corporation pertaining to the use of Crown Land for development.

The data differs from that reported in the Government's Consolidated Financial Report produced in accordance with Australian Accounting Standard (AAS) 31 due to the inclusion in this table of the net present value of operating leases and revisions to data.

Quantifiable Contingent Liabilities

The more significant quantifiable contingent liabilities are set out below.

Guarantee of government businesses' liabilities

The liabilities of government businesses are generally explicitly guaranteed by the Treasurer under the enabling legislation for the entity. The *Public Corporations Act, 1993* provides that all liabilities of a public corporation are guaranteed by the Treasurer.

Exposure: As at 30 June 2004, total liabilities of the public financial corporations sector were \$11.2 billion and total liabilities of the public non-financial corporations sector were \$2.8 billion.

Treasurer's guarantee of Local Government Finance Association (LGFA) loans and other liabilities

Pursuant to the *Local Government Finance Authority Act 1983*, liabilities incurred or assumed by the LGFA are guaranteed by the Treasurer. These liabilities include bank loans, loans provided by the South Australian Government Financing Authority and other liabilities.

The LGFA has also issued a financial guarantee on behalf of the Workers Compensation Scheme of the Local Government Association of South Australia in favour of WorkCover. The guarantee is fully secured against depositor funds held, the value of which will not be less than the value of any liability that might be incurred.

Exposure: The total value of loans and liabilities is estimated to be \$420 million.

NRG Energy Inc

In 1996, the then ETSA Corporation entered into arrangements with Osborne Cogeneration Pty Ltd (OCPL) for the generation of electricity at the Osborne Generation Plant. As part of these arrangements, ETSA Corporation entered into a Power Purchase Agreement and a Gas Sale Agreement with OCPL requiring ETSA Corporation, in general terms to purchase prescribed amounts of electricity from OCPL and to sell prescribed amounts of gas to OCPL for the respective terms of those agreements.

Over the life of the Power Purchase Agreement and Gas Sale Agreement (Osborne Arrangements) it was estimated that ETSA Corporation would incur losses representing, in general terms, the difference between:

- the contracted purchase price under the Power Purchase Agreement and forecast pool prices in the electricity market; and
- the contracted sale price under the Gas Sale Agreement and the wholesale price for gas available in the market to ETSA Corporation to comply with its gas supply commitments.

The Osborne Arrangements, and the underlying exposures, were subsequently transferred to Flinders Power Pty Ltd as part of the former Government's sale of electricity assets. 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).

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 FOT under the Osborne Arrangements (Treasurer's Guarantee). In turn NRG Energy Inc indemnified the Treasurer if the Treasurer's Guarantee was called upon by OCPL.

The forecast as at 30 June 2004 is that the net present value of the contingent liability could range from \$150 million to \$200 million.

Exposure: \$150 million - \$200 million.

Financial assistance provided by the Department of Trade and Economic Development

As at 30 June 2004, the Department of Trade and Economic Development had financial obligations under agreements with various bodies. The payment of funds in future years is subject to certain performance criteria being met by those bodies.

Exposure: As at 30 June 2004, total financial obligations were \$72 million.

SAAMC - put option

A property put option was entered into in November 1993 as part of the sale arrangements of the Australis property, now known as SA Water House.

At the time of the sale, Group Asset Management Division (GAMD), which was succeeded by South Australian Asset Management Corporation (SAAMC) entered into a 15 year lease as head lessee with the purchaser in relation to a substantial portion of the building, which was backed in cash flow terms against a pre-existing 15 year lease between GAMD and the then Minister for Public Infrastructure (as sub lessee) over the same portion of the building. In addition, GAMD undertook to purchase the building for \$39.5 million in 2008, at the owner's option, if the value of the building at the time will be lower than the agreed \$39.5 million.

The risk that the value of the building in 2008 will be less than \$39.5 million assuming that the building is tenanted is considered low on the basis of an assessment of the property by FPDSavills on 30 June 2003. A new valuation scheduled for June 2005 is expected to confirm this view.

Exposure: Pursuant to the decision of the present tenant not to renew the lease, significant interest was generated from both the government and private sectors in Adelaide in taking up any released space in the building. It is therefore unlikely that the property will remain vacant after 2008. Although the State will continue to have a \$39.5 million contingent liability relating to the put option, an equal contingent asset will offset it.

Land Agents Act 1994 and Conveyancers Act 1994

The Member for Davenport lodged a Bill seeking to amend the *Land Agents Act 1994* in relation to the provisions establishing the Agents Indemnity Fund. This Bill, with Government amendments, has since passed and the *Land Agents (Indemnity Fund-Growden Default) Amendment Act 2004* was implemented on 1 September 2004. One of the central amendments has expanded the definition of fiduciary default to allow payment of claims against the Agents Indemnity Fund resulting from failed investments with G.C. Growden Pty Ltd that could not previously be claimed.

Exposure: Assessment of claims is continuing with projections estimating that the total exposure of the Agents Indemnity Fund remains at \$17 million for 2004-05. The total exposure is made up of claims against Part A of the Fund (the general fund) and Part B (\$13.5 million quarantined for a particular type of claim against G.C. Growden Pty Ltd). Whilst the total exposure remains at \$17 million, the exposure of Part B will not exceed the \$13.5 million.

South Australian Housing Trust (SAHT)

Under the SAHT's bond guarantee scheme, eligible customers are provided with a bond and in some cases rent in advance to assist in securing accommodation through the private rental market. The SAHT gives the bond guarantee to the landlord who lodges it with the Residential Tenancies Tribunal. In the event of a claim by a landlord, the Residential Tenancies Branch makes the payment to the landlord and seeks reimbursement from the SAHT. The private rental customer becomes liable to the SAHT for the amount disbursed on their behalf.

Exposure: \$12.2 million

The SAHT previously provided opportunities for Trust tenants to purchase their rental home in stages, thereby making it more affordable, under the Progressive Purchase Scheme. As a result of the scheme, the SAHT owns portions of properties as a tenant in common with other persons. In some cases, the SAHT has signed agreements with lending institutions advancing these tenants mortgage money. Upon default, the SAHT can be called to purchase the defaulting tenants interest at current market value. Approximately 83 of the properties included in the scheme are subject to mortgages with a collective loan balance of \$2.9 million. The tenants' share of the value of the properties subject to mortgage is estimated to be \$9.6 million, based on the Valuer-General's overall capital value.

Exposure: \$2.9 million

Guarantee of South Australian Housing Trust performance

The South Australian Government Financing Authority has guaranteed the SAHT's performance under certain letters of credit with the City of Port Adelaide & Enfield Council in relation to public infrastructure works being carried out by the SAHT in the council area.

Exposure: \$2.1 million

Indemnities arising from joint venture land development initiatives

On 10 July 1997, documentation was executed with Delfin Property Group Limited (now Delfin Mawson Lakes Pty Ltd), Lend Lease Corporation Limited (now Lend Lease Development Pty Ltd) and associated entities of those companies to establish a joint venture to develop the Mawson Lakes Economic Development Project at the Levels. This project comprises residential, retail and industrial accommodation to be developed over a ten to twelve year timeframe. Other parties with commitments to the joint venture arrangements include the City of Salisbury, University of South Australia and the Government of South Australia.

The Land Management Corporation (LMC) has a 50 per cent interest in the joint venture. Under the terms of the agreements for the joint venture, LMC will make available to the joint venture land for development. In addition, the State Government has obligations for various infrastructure works associated with the project.

LMC has provided indemnities for bank guarantees and for a letter of guarantee in favour of Local and State Government Authorities in relation to the abovementioned developments.

Exposure: LMC's combined contingent liability in relation to these indemnities is \$3.0 million.

Guarantee given in respect of the Port Waterfront Development Agreement

On 30 November 2004, the Land Management Corporation provided a guarantee to Multiplex Port Adelaide Pty Ltd and UCPA Waterfront Pty Ltd as part of reciprocal arrangements in respect of the Port Waterfront Development Agreement. The guarantee is due to expire in 2015.

Exposure: \$5.0 million

Police – Information relating to a crime

As at 30 June 2004, the value of outstanding rewards for unsolved murders was \$4.3 million. There remains considerable uncertainty as to the amount and timing of rewards that will actually be paid.

Exposure: \$4.3 million

Deed of Guarantee by the Treasurer for South Australian Netball Association's loan in relation to ETSA Park

In 1997, the Government of South Australia entered into formal arrangements with the South Australian Netball Association (SANA) regarding the construction of a netball stadium at Mile End. The arrangements resulted in SANA securing a loan of \$3.5 million from an external banking institution to be applied, along with Government funding, toward the stadium's construction.

As part of the arrangements, the loan to SANA is underwritten by the Government.

Exposure: At 30 June 2005, the outstanding balance of the loan will be \$2.9 million.

Winding up of the National Electricity Market Management Company Ltd (NEMMCO)

NEMMCO is a company limited by guarantee and manages the National Electricity Market (NEM) wholesale trading arrangements with core offices in Sydney and Brisbane. The participating jurisdictions in the NEM (New South Wales, Queensland, Victoria, South Australia and the Australian Capital Territory) are the current shareholders of NEMMCO as set out in the NEMMCO Members Agreement dated 9 May 1996 (the Agreement).

NEMMCO was formed for the purpose of efficiently conducting the NEM in accordance with the National Electricity Code on a self-funding/break even basis, with funding provided through market participant fees.

Exposure: Under the terms of the Agreement, in the event that NEMMCO is wound up and its debts, liabilities and expenses cannot be met from the assets of NEMMCO, South Australia's total contribution towards the liability is capped at \$1.5 million.

Generation Lessor Corporation

Generation Lessor Corporation (GLC) has entered into a number of leasing arrangements over generation assets located within South Australia with unrelated private sector

operators. As part of these arrangements, GLC has provided limited indemnities to these operators.

In the unlikely event that GLC defaults under the Torrens Island Generating Plant leases, Synergen Generating Unit Lease, Northern and Playford Generating Unit Leases, the Leigh Creek Township Lease and the Leigh Creek Railway Sub-Lease, with respect to limited specified undertakings resulting in the termination of any of these leases by the lessees, GLC will be required to refund the net present value (as at the termination date) of so much of the post termination date rent obligations as were prepaid by the relevant lessee. The likelihood of these defaults occurring is considered remote.

Exposure: The rent refund under the above leases as at 1 April 2005 is estimated to be approximately \$573.4 million.

Distribution Lessor Corporation

In the unlikely event that Distribution Lessor Corporation (DLC) defaults under the Distribution Network Lease with respect to limited specified undertakings resulting in the termination of the lease by the lessor, DLC will be required to refund the net present value (as at the termination date) of so much of the post termination date rent obligations as were prepaid by the lessee. The likelihood of these defaults occurring is considered highly remote.

The lessee is also entitled to terminate the Distribution Network Lease, and obtain a partial refund of prepaid rent, where there is the destruction or permanent incapacity of at least 65 per cent of the power lines making up the distribution network as a result of an uninsurable event such as war, terrorism or the release of nuclear ionisation. The likelihood of this occurring is considered highly remote.

Under the terms of the distribution network leases, the lessee can elect to own new assets constructed during the term of the lease which qualify as "qualifying projects" or "geographical extensions" as well as land on which those assets are located.

Qualifying projects are a discrete replacement, modification, alteration, addition or renewal to the network which is outside the ordinary course of maintenance, modification, alteration or renewal and, at the time effected, cost greater than a qualifying threshold of \$2 million indexed in accordance with the lease documentation. Geographical extensions are extensions beyond the outer extremities of the distribution network as at the commencement date of the lease. At the expiry of the lease, qualifying projects will be automatically transferred and vested in DLC or a body nominated by DLC for a price equal to the regulatory value of the qualifying projects as at the lease end date. Geographical extensions receive the same treatment if DLC so elects, but not otherwise.

To date, the lessee has not notified DLC of any geographic extensions to the distribution network. The lessee has notified DLC of three qualifying projects which the lessee has elected to own, and which DLC is required to pay for at the expiry of the Distribution Network Lease on 28 January 2200. It is not possible at this time to quantify the regulatory value of these qualifying projects.

Exposure: The rent refund as at 1 April 2005 is estimated to be approximately \$3.07 billion.

Transmission Lessor Corporation

Transmission Lessor Corporation (TLC) has guaranteed certain payments and other obligations to third parties in relation to a leasing arrangement in respect of the transmission network. As part of these arrangements, TLC has provided limited indemnities to third parties.

In the unlikely event that TLC defaults under the Transmission Network Lease with respect to limited specified undertakings resulting in the termination of the lease by the lessor, TLC will be required to refund the net present value (as at the termination date) of so much of the post termination date rent obligations as were prepaid by the lessee. The likelihood of these defaults occurring is considered highly remote.

Exposure: The rent refund as at 1 April 2005 is estimated to be approximately \$1.07 billion.

Unquantifiable contingent liabilities

The more significant unquantifiable contingent liabilities are discussed below.

Alice Springs to Darwin Railway

The AustralAsia Railway Corporation (the Corporation), the Northern Territory and South Australian Governments and Asia Pacific Transport Pty Ltd have entered into a concession arrangement for the design, construction, operation and maintenance of the Alice Springs to Darwin Railway on a build, own, operate, transfer-back basis.

Both the South Australian and Northern Territory Governments guarantee the obligations of the Corporation. This guarantee is a joint guarantee, but South Australia and the Northern Territory each accept responsibility for breach of an indemnity that is caused by that jurisdiction's act or omission. Where the event giving rise to a Corporation obligation is solely caused by one jurisdiction, that jurisdiction accepts sole responsibility. If both South Australia and Northern Territory caused the event, then each accepts responsibility to the extent to which it caused the event.

For other Corporation obligations, South Australia and the Northern Territory accept liability for events occurring within the geographical area of its jurisdiction. Principally, the Corporation has granted indemnities to ensure that title to the railway corridor is secure for the construction and operation of the railway infrastructure. These indemnities cover risks related to native title claims, undisclosed interests in the corridor, environmental contamination, heritage and sacred sites, and environmental assessment processes.

The project documents provide for the early termination of the concession arrangement by Asia Pacific Transport Pty Ltd. In certain circumstances that would give rise to the payment of an early termination amount. The amount includes all debt and debt break costs for the project, certain agreed break costs for the project, certain agreed break costs for third party contractors and payments to equity. For all these events the cure is within the control of either the Corporation or the Governments.

The prospect of any one of these contingent liabilities arising is considered to be extremely remote.

Asbestos in Government owned properties

The instances of asbestos being discovered in government owned residential and commercial properties are rising. There is currently very little information on the levels of asbestos present in government buildings.

The Government as owner and landlord faces a significant risk with regard to its duty of care to tenants, visitors and contractors engaged to maintain the buildings.

The Government may be held liable for illnesses contracted by tenants, their families or contractors whilst living or working in government buildings.

The discovery of asbestos in government buildings may increase the expenditure requirements relating to asbestos removal and subsequent building repair/replacement.

Demand for compensation and health related services could also increase due to illnesses of tenants, visitors and contractors exposed to asbestos in government buildings.

Industry Assistance Guarantees and Indemnities

Guarantees granted in respect of borrowing arrangements that were effected through the Industry Investment Attraction Fund (IIAF) are provided on the approval of the Treasurer pursuant to the terms of the *Industries Development Act 1941*. That approval provides, inter alia, that no such guarantees should be executed except on the recommendation of the Industries Development Committee.

In addition, the Minister has provided certain guarantees and indemnities for Industry and Trade as part of various Industry Assistance packages.

Provision of indemnities and undertakings by TransAdelaide

TransAdelaide has entered into a financial arrangement in respect of railcar assets with unrelated overseas based investors for which it received a facilitation fee. The arrangement is in the nature of a cross-border lease and is essentially a complex hire-purchase agreement. As part of these arrangements, certain indemnities and undertakings have been agreed to by TransAdelaide with third parties. The risk of these indemnities or undertakings being invoked is considered remote and relates to amounts that might become payable by TransAdelaide to third parties in the event of early termination of the agreement. It is considered unlikely that any liability will arise.

TransAdelaide has a contingent liability in terms of indemnities provided for the warranty of AUSTRICS' products. In January 2005 TransAdelaide sold its intellectual property in AUSTRICS. TransAdelaide has provided indemnities to the purchaser in relation to contracts undertaken prior to the sale. This liability cannot be reliably measured.

Minerals and Energy

Certain matters associated with contaminants such as contaminated land and hazardous materials have been identified and managed in accordance with recognised standards. This includes the environmental liabilities of past mining practices where there is no longer an active licence.

The *Mining Act 1971* (Mining Act) defines extractive minerals as sand, gravel, stone, shell, shale or clay. Non-extractive mining includes the mining of all items not defined as extractive minerals in accordance with the Mining Act. Since 1972, rehabilitation in the extractive industries has been funded from contributions to the Extractive Areas Rehabilitation Fund (EARF) funded from a royalty on production. In effect this meant that the Government was liable for all rehabilitation of extractive mining sites that have operated since 1972.

A review of funding arrangements in the extractive industries to address the issue of any unfunded liability was completed during 2004. As a result of this review, new guidelines for funding rehabilitation in the extractive industries were approved by the Minister for Mineral Resources Development in November 2004 and are now in operation. The level of unfunded liability is difficult to estimate but should be minimised under the new guidelines, which clarify the type of rehabilitation to be funded from the EARF.

In respect of non-extractive mine operations, it is a lease condition that rehabilitation be undertaken by the leaseholder before a lease is surrendered. The Department of Primary Industries and Resources' responsibility is to ensure that a lease is not surrendered before appropriate rehabilitation has occurred. Financial (usually bank) guarantees that are designed to underwrite any failure by a miner to complete necessary rehabilitation are held by the Government and together with compliance activity means the liability risks to Government are minimised.

Department of Education and Children's Services – payment of long service leave

The Department of Education and Children's Services has received advice from the Crown Solicitor that Temporary Relieving Teachers (TRTs), Hourly Paid Instructors (HPIs), Bus Drivers and other casual employees are eligible for long service leave pursuant to section 71(2) of the *Public Sector Management Act 1995*. The effect of this has not been quantified. However, the Department recognises that it does have a liability to provide for long service leave for TRTs, HPIs and other casual employees applicable from 1 January 1978 and bus drivers applicable from 1 January 1994. Payments for long service leave to these employees in 2002-03 totalled \$227 000 and \$237 000 in 2003-04.

Transition from present EDS ITSSED Relationship

The disengagement provisions of the 'Information Technology Services and State Economic Development Agreement' with EDS (Australia) Pty Ltd allocate responsibility for costs arising should the Government transition to a new provider. The transition costs will, in part, be dependent upon the timing and outcomes of the current procurement process.

It is estimated transitional arrangements may be in place for up to 18 months. The Government, through the Department for Administrative and Information Services, is contingently liable for the following costs associated with maintaining existing services:

- Purchase of infrastructure; and
- Software licensing, maintenance and transfer fees.

It is not possible to reliably measure these costs due to:

- the variations in the market value of the assets; and
- the ability to offset costs through the reassigning or transferring the assets to the new service providers.

SA Motor Sport Board

The Board is currently contesting a claim concerning the staging of “The Race of 1 000 Years”. It is not possible to estimate the amounts payable, if any, with respect to this claim.

Staging of LeMans event in Adelaide

The South Australian Tourism Commission is currently contesting a claim concerning the staging of the LeMans event in Adelaide in 2000-01. It is not possible to estimate the amount, if any, of eventual payments that may be required in relation to this claim.

Glenthorne Farm

Glenthorne Farm, at O’Halloran Hill, was purchased by the University of Adelaide from the Commonwealth Scientific and Industrial Research Organisation (CSIRO), with the assistance of a grant from the South Australian Government.

A contract signed by the South Australian Government and the University of Adelaide resulted in the former assuming liability for any possible third party claims resulting from any contamination which may be discovered on the property.

The South Australian and Commonwealth Governments agreed by exchange of letters that, in the event of such a claim, the State Government reserves its right to seek a contribution from the Commonwealth based on the Commonwealth's previous ownership of the land.

CHAPTER 8: SOUTH AUSTRALIAN ECONOMY

Overview

The South Australian economy has continued to perform solidly during the course of the 2004-05 financial year, albeit with signs of slowing growth in some areas as the year progressed and weaker farm crop output relative to the bumper year in 2003-04.

In recent years the South Australian economy has been growing strongly. Growth in domestic demand, particularly consumer spending, private business investment and housing investment, has been very strong. Over most of this period the property market has also shown very strong growth in both prices and turnover. The 56 per cent increase in private business investment in South Australia over the past three years will enhance the medium to longer term productive capacity of the South Australian economy.

Reflecting these trends, there has been a significant improvement in labour market outcomes. In April 2005 South Australian employment reached a record high level in trend terms and the trend South Australian unemployment rate fell to 5.2 per cent, its lowest level since monthly labour force surveys commenced 27 years ago.

During the course of 2004-05 there have been signs that the growth in domestic demand has started to moderate from the above trend rates of growth experienced in recent years. Both in South Australia and nationally, growth in consumer spending has slowed from previously very high levels, and housing construction activity has started to decline. South Australian property market turnover has also declined in 2004-05. The ANZ Bank's job advertisement series has shown signs of modest slowing in demand for labour since late 2004. Overall South Australian economic growth in 2004-05 has also been affected by the impact of adverse weather conditions on farm sector output. Following the 2003-04 record crop, wheat and barley production is expected to decline significantly during 2004-05 to levels which are below the five-year average levels of production.

The outlook for the South Australian economy is for one of moderating, but still solid growth. Expectations are that residential construction activity will be maintained in the first half of 2005, but then decline in 2005-06 as the current backlog of work is completed. Similarly growth in consumer spending has abated both nationally and in South Australia as compared with the very strong levels of growth recorded in the past two years. Business investment is expected to remain at high levels.

Recent economic performance and outlook

South Australian State Final Demand (SFD) recorded solid growth of 4.5 per cent during calendar 2004. Household consumption spending was the largest contributor to demand growth in 2004, growing by 4.2 per cent and contributing 2.5 percentage points to growth in SFD. Consumer spending has been buoyed by relatively cheap credit, lower prices for imported items as a result of a higher Australian dollar and from consumers benefiting from equity in rising property values. Annual growth in retail turnover has, however, slowed

since mid 2004, although new motor vehicle sales have remained very strong. Private business investment, which rose by 5.6 per cent in the year contributed 0.8 of a percentage point to SFD growth and in the December quarter reached a record high level in trend terms.

While slowing significantly from growth rates experienced in 2002 and 2003, housing construction continued to make a positive contribution to SFD, with total dwelling investment rising 8.6 per cent in 2004 and contributing 0.4 of a percentage point to SFD growth. Growth in dwelling investment in 2004 continued to be supported by relatively low interest rates, although recent tightening by the Reserve Bank of Australia may dampen future activity in the sector. There are signs that housing construction has reached a peak, with dwelling investment falling in both the September and December quarters of 2004 and building approvals declining, particularly for detached houses.

Farm output in 2004-05 is expected to be well down on the bumper harvest of 2003-04, with dry and warm conditions and rainfalls arriving late in the growing season affecting both the quality and quantity of harvested grains. The Australian Bureau of Agricultural and Resource Economics (ABARE) estimates that South Australia's winter crop production for 2004-05 will be 30 per cent lower than in 2003-04.

In 2004-05, the Department of Treasury and Finance expects South Australia's Gross State Product (GSP) to increase by 2½ per cent, down from 4.3 per cent in 2003-04. A significant component of this anticipated slowing in GSP growth reflects the impact of a much reduced crop harvest on farm sector output.

Similarly, Commonwealth Treasury estimate that national GDP growth will slow from 4.1 per cent in 2003-04 to an anticipated 2.0 per cent in 2004-05. This slowing in national economic growth reflects a slowing in domestic demand growth along with weak growth in export volumes.

South Australian employment growth is estimated to be 1¾ per cent for 2004-05 — slightly higher than the growth rate recorded in 2003-04. The Adelaide Consumer Price Index (CPI) is estimated to grow by 2½ per cent in 2004-05.

The International Monetary Fund (IMF) estimates that world GDP growth improved to 5.1 per cent in 2004 (from 4.0 per cent in 2003). The advanced economies are estimated to have recorded GDP growth of 3.4 per cent in 2004, but the emerging and developing economies grew by a very strong 7.2 per cent. Major export markets are forecast by the IMF to experience continued strong growth, with world GDP growth forecast to ease only moderately to 4.3 per cent in 2005. GDP is expected to grow by 3.6 per cent in the United States, 0.8 per cent in Japan, 4.0 per cent in the newly industrialised Asian economies, 5.0 per cent in the Middle East, and 2.8 per cent in New Zealand. GDP growth in the United Kingdom is expected to be 2.6 per cent, and 2.1 per cent in the European Union.

The Commonwealth Treasury forecasts that Australian GDP growth will be 3.0 per cent in 2005-06, up from an estimated 2.0 per cent in 2004-05 but below the average growth rate of the Australian economy in the decade to 2003-04, which has been close to 4.0 per cent per annum. Export volumes are forecast to grow more strongly in 2005-06, outweighing the expected impact of a further moderation in domestic demand growth. Growth in household consumption spending (a key driver of GST revenues) is forecast to slow from 4 per cent in 2004-05 to 3¼ per cent in 2005-06.

In 2005-06, South Australia's real GSP growth is expected to remain at 2½ per cent. Weaker domestic demand growth in 2005-06, resulting from slower growth in consumer spending and lower levels of housing construction, is anticipated to be offset by strengthening in export volumes, assuming a return to average seasonal conditions in the rural sector. The lack of rainfall to date has reduced the likelihood of this outcome being achieved in 2005-06. However it would be premature to revise economic forecasts at this stage.

The forecast for South Australian employment growth in 2005-06 is 1¼ per cent, reflective of easing domestic demand. Projections for 2006-07 onwards are for continued employment growth of 1 per cent per annum. The consumer price index (CPI) is expected to remain within the Reserve Bank of Australia's inflation target band (2 to 3 per cent) throughout the forward estimates period.

Table 8.1 shows estimates, forecasts and projections of economic growth for South Australia and nationally. In the forward estimate years 2006-07 to 2008-09 both GSP and SFD growth are projected to be 2¾ per cent per annum. These projections reflect historical trends, including population growth rate differentials between South Australia and the national average.

Table 8.1: Key economic indicators — Australia and South Australia real growth rates (% per annum)

	2003-04 Actual	2004-05 Estimate	2005-06 Forecast	2006-07 Projection	2007-08 Projection	2008-09 Projection
Australia^(a)						
Gross Domestic Product (GDP)	4.1	2	3	3½	3½	3¼
Domestic Final Demand (DFD)	5.7	4¼	3½	n.a.	n.a.	n.a.
Employment	1.8	2¾	1¾	1½	1½	1¼
CPI	2.4	2½	2¾	2½	2½	2½
South Australia^(b)						
Gross State Product (GSP)	4.3	2½	2½	2¾	2¾	2¾
State Final Demand (SFD)	5.6	3¾	2½	2¾	2¾	2¾
Employment	1.4	1¾	1¼	1	1	1
CPI	3.0	2½	2¾	2½	2½	2½

(a) Commonwealth Treasury Budget Paper No 1, 2005-06

(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.

South Australian export performance

Trade, both interstate and overseas, plays an important role in the South Australian economy. It is estimated that over half of South Australia's GSP is exported either overseas or interstate. There are, however, no contemporary data available in relation to trends in South Australia's interstate trade. Export data for South Australia are limited to overseas goods exports and imports.

In volume terms South Australian overseas goods exports grew by 8.7 per cent in the 2004 calendar year, better than the 2003 performance where it fell 12 per cent, and compared with national growth in 2004 of 3.9 per cent. Volatile seasonal conditions have had an impact on wheat and barley exports from South Australia in recent years. Following drought conditions in 2002-03, winter crop production rebounded strongly in 2003-04 but is estimated to have fallen back by 30 per cent in 2004-05 due to below average rainfall.

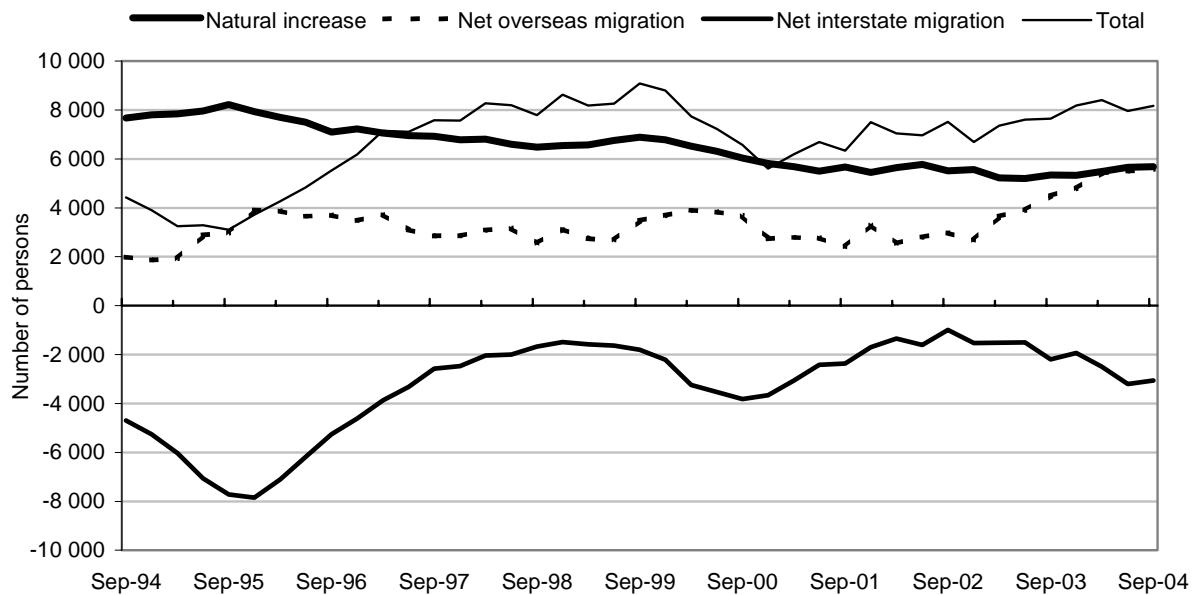
In value terms, overseas goods exports from South Australia increased by 3.4 per cent during the 2004 calendar year. This was lower than the national increase of 9.3 per cent over the same period but did represent a recovery from the 2003 calendar year when there was an 18 per cent fall in the value of South Australian overseas goods exports. A strong Australian dollar over much of 2004 and into 2005 has constrained the international competitiveness of exporters, resulting in weaker than anticipated growth in the value of our exports. Furthermore, the relatively greater strength in export values nationally is reflective of the strong growth in world demand and prices for base metals, which have much less importance in South Australia's export mix. For instance, the Reserve Bank of Australia's commodity price index in Special Drawing Right (SDR) terms shows growth in the two years to December 2004 of 15 per cent for all commodities, and 41 per cent growth in the price of base metals (with prices for the latter firming even further in the first three months of 2005). However, over the same period, the SDR index for rural commodity prices has fallen by 7.7 per cent. Weak prices for our rural commodity exports, therefore, forms a partial explanation for the State's relatively weaker growth in export values.

In the year to December 2004, there was growth in the export values of South Australian metal and metal manufactures (39 per cent), meat and meat preparations (12 per cent), wine (12 per cent), and machinery (6.3 per cent). Declining export values were recorded for petroleum commodities (43 per cent), fish and crustaceans (22 per cent), road vehicles and parts (13 per cent), wool and sheepskins (9.0 per cent) and wheat (0.5 per cent).

A major contributor to the weaker performance in South Australian exports has been the Middle East market, which declined by 21 per cent in calendar 2004. Other major export destinations which experienced a decline were New Zealand (down 19 per cent), Japan (down 15 per cent), Hong Kong (down 8.1 per cent) and China (down 1.2 per cent). Major South Australian markets which experienced growth over this period were the ASEAN countries (up 55 per cent), the United Kingdom (up 16 per cent), and the United States of America (up 9.8 per cent).

Population

South Australia's Estimated Resident Population grew 0.5 per cent (8173 persons) through the year to September 2004. This has been supported by improvements in natural increase and in the level of net overseas migration. The net interstate migration outflow from South Australia, however, deteriorated over the year to September 2004. South Australia's population growth rate remains below the national growth rate (1.2 per cent).

Figure 8.1: Sources of South Australian population growth (moving annual totals)

Source: ABS, Australian Demographic Statistics, Catalogue No. 3101.0

In the year to September 2004, natural increase (births less deaths) remained the largest contributor to population growth in South Australia adding 5672 persons (up 6.3 per cent from the previous year). This was followed by overseas migration which recorded net inflow to the State of 5568 persons (up 24 per cent on the previous year and at the highest level in 14 years). However, these gains were partly offset by a net interstate migration outflow of 3067 persons, which was greater than the outflow of 2188 persons in the previous year, but remains low compared to the levels recorded in the mid 1990s.

Table 8.2 Percentage point contributions to population growth – year to September 2004

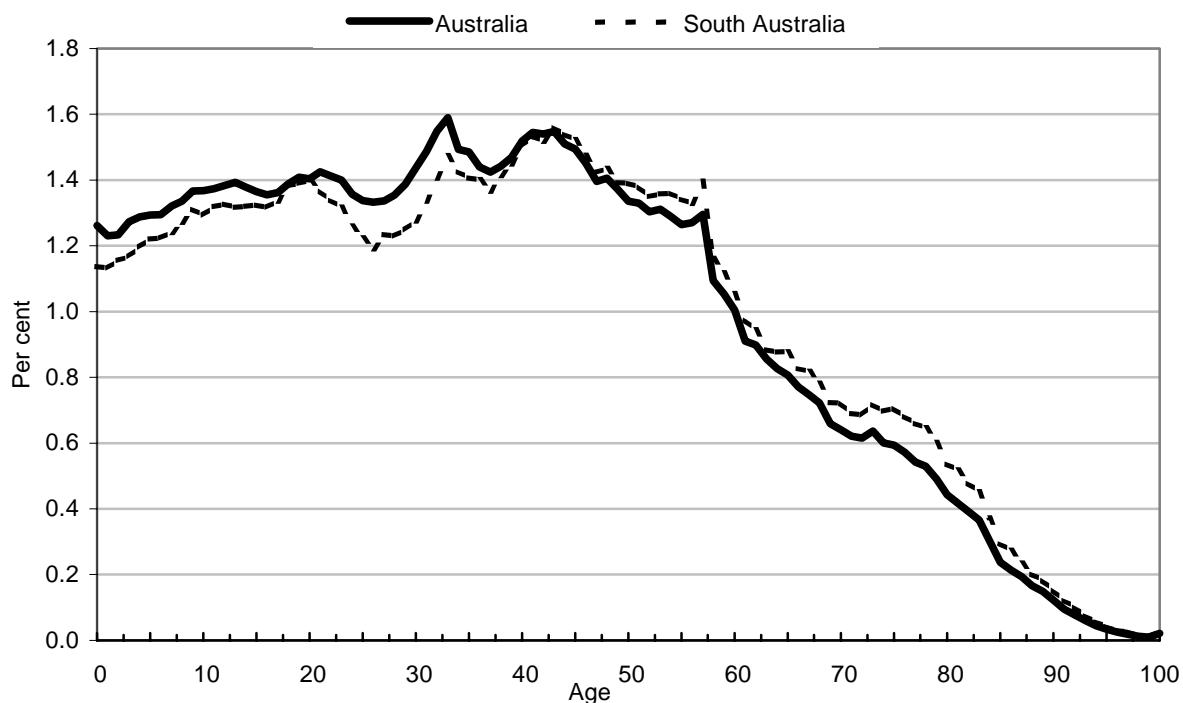
	NSW	VIC	QLD	SA	WA	TAS	AUS
Natural increase	0.60	0.60	0.66	0.37	0.72	0.40	0.61
Total migration	0.15	0.64	1.40	0.16	0.90	0.51	0.57
Overseas migration	0.58	0.69	0.48	0.36	0.83	0.13	0.57
Interstate migration	-0.43	-0.05	0.92	-0.20	0.07	0.37	0.00
Total increase*	0.75	1.24	2.06	0.53	1.61	0.91	1.19

Source: ABS, Australian Demographic Statistics, Catalogue No. 3101.0

Note: *Components of population growth may not add to the total due to rounding effects.

South Australia currently has an older population structure than for Australia as a whole. At June 2004 the median age of South Australia's resident population was 38.5 years. People aged between 15 and 64 years accounted for 66.3 per cent of South Australia's population, below the national figure of 67.3 per cent. South Australia also has a below average share of its population aged 14 and under (18.6 per cent versus 19.8 per cent nationally). By contrast South Australia has an above average share of its population in the retirement age groups of 65 and over — 15.0 per cent compared with 13.0 per cent nationally.

Figure 8.2: Population age structure as at June 2004 (% of estimated resident population)

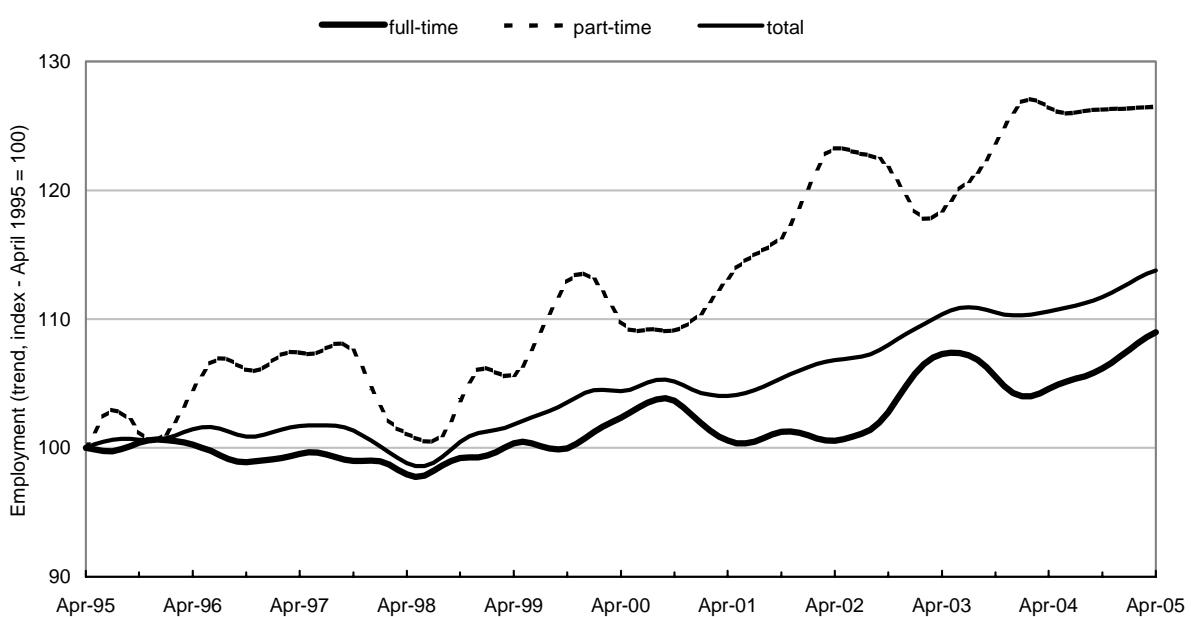


Source: ABS, Population by age and sex, Australian States and Territories, Catalogue No. 3201.0

Labour market trends

South Australian employment grew by 2.9 per cent (or 20 700 jobs) between April 2004 and April 2005 in trend terms. This was almost entirely driven by strong full-time employment growth of 4.2 per cent (or 20 600 jobs).

Figure 8.3: South Australian employment – Trend (index numbers) (April 1995=100)

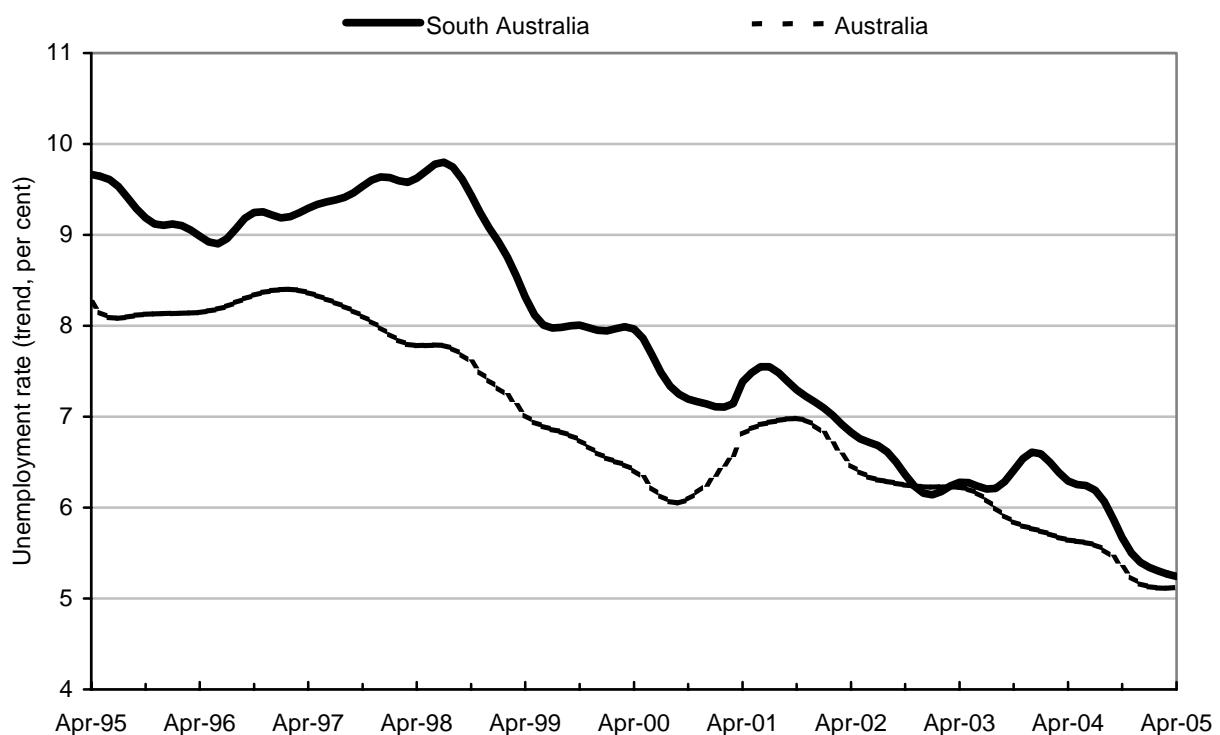


Source: ABS, Labour Force Australia, Catalogue No. 6202.0

The ANZ job advertisement series, a forward-looking indicator of hiring intentions, has fallen by 5.3 per cent in trend terms since its recent peak in November 2004, suggesting some softening in labour demand, albeit at still historically high levels.

South Australia's trend unemployment rate was 5.2 per cent in April 2005, down from 6.3 per cent a year earlier, and only 0.1 of a percentage point above the national unemployment rate. The current trend unemployment rate for South Australia is the lowest since monthly labour force surveys commenced 27 years ago in February 1978.

Figure 8.4: Unemployment Rates for South Australia and Australia – trend per cent



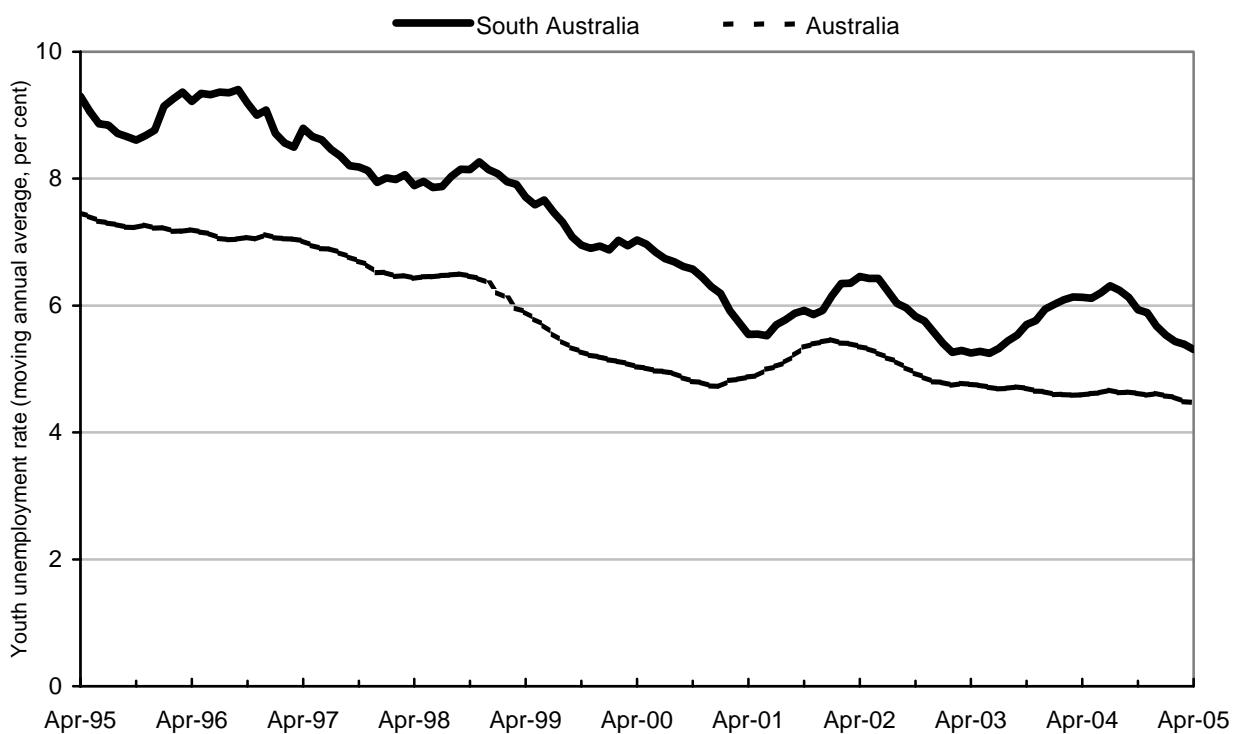
Source: ABS, Labour Force Australia, Catalogue No. 6202.0

South Australia's trend participation rate (the proportion of the State population aged 15 and over which is either employed or actively looking for work) increased from 61.4 per cent in April 2004 to 62.1 per cent in April 2005. The South Australian participation rate was 2.4 percentage points lower than the national average in April 2005, although this differential is approximately the same as the average over the past 5 years.

The strong labour market is making inroads into the number of long-term unemployed in South Australia. In the 12 months to April 2005, an average of 8900 South Australians were estimated to be long-term unemployed (unemployed for 12 months or more), a 23 per cent decline from the previous 12 months. The long-term unemployed represented 20 per cent of total unemployed in the year to April 2005, down from 24 per cent in the previous 12 months.

Similarly, there has been an improvement in South Australia's youth unemployment rate. In the year to April 2004 the youth full-time unemployment rate was 26 per cent, and fell to 25 per cent in the year to April 2005. This measure only focuses on the situation facing young people (ie aged 15-19) who either have a full-time job or are looking for one — approximately a quarter of the youth population. A better measure of youth unemployment is the full-time unemployment to population ratio, which reflects the unemployed youth looking for full-time work as a proportion of all 15 to 19 year olds. For the year to April 2005 this measure averaged 5.3 per cent, down from an average of 6.1 per cent in the previous 12 months.

Figure 8.5: Ratio of full-time unemployment to youth population – moving annual average, per cent

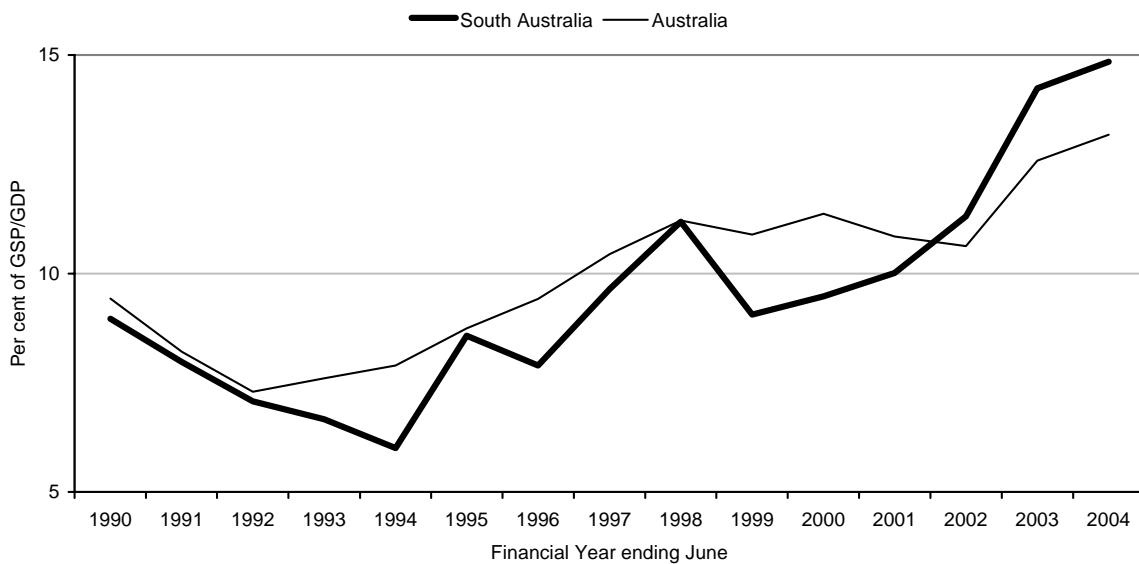


Source: ABS, Labour Force Australia, Catalogue No. 6202.0

Business investment

Private business investment in South Australia reached its highest level on record in trend terms in the December quarter 2004. In real terms business investment increased by 5.6 per cent in 2004 and contributed 0.8 of a percentage point to growth in State Final Demand (SFD). This brings total real growth in business investment over the last 3 years to 56 per cent. Business investment as a share of GSP has exceeded the national average over the past three years.

Figure 8.6: Business investment as a share of GSP/GDP – (real, per cent)



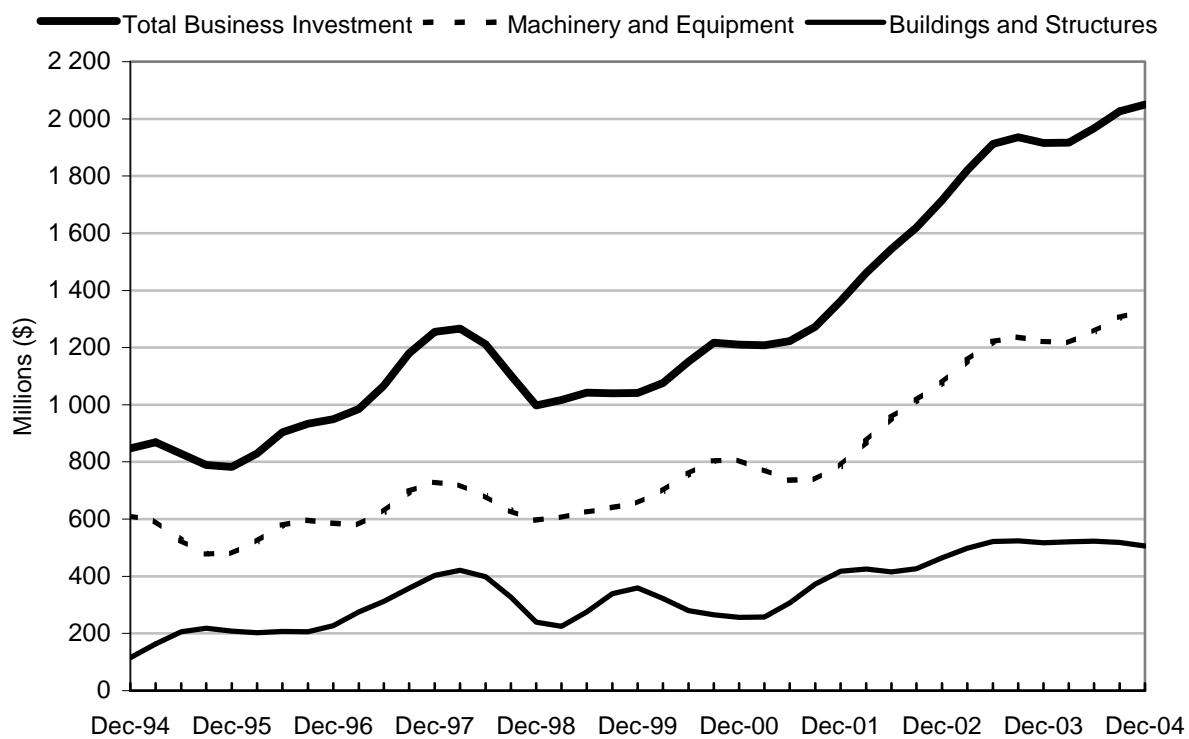
Source: ABS, Australian National Accounts, Catalogue No. 5206.0

ABS, Australian National Accounts: State Accounts, Catalogue No. 5220.0

Note: South Australian data has been adjusted for the sale of electricity assets.

Machinery and equipment investment increased 6.9 per cent in 2004, while investment in non-dwelling construction (ie building and structures) fell 0.5 per cent.

Figure 8.7: Real Business Investment in South Australia – trend (\$million per quarter)



Source: ABS, Australian National Accounts, Catalogue No. 5206.0

Some of the major private sector projects under construction in South Australia during 2004-05 were:

- Mitsubishi's \$600 million new generation sedan project;
- Holden's \$450 million dollar expansion program at Elizabeth;
- 5 wind farm projects worth \$673 million at various locations around the state;
- \$260 million upgrade of the Adelaide Airport;
- Caversham Property Development Pty Ltd's \$143 million (stage 1) Adelaide City Central redevelopment project;
- \$142 million redevelopment of Elizabeth City shopping centre by the Gandel Group;
- \$130 million refurbishment of the Playford Power Station at Port Augusta by NRG Flinders;
- Amcor's \$125 million wine-bottle manufacturing plant expansion;
- Flinders Link Pty Ltd \$120 million office and residential development project; and
- Southern Titanium's \$117 million Zircon Project at Mindarie (Murray Basin).

Forward looking indicators suggest that while growth in capital expenditure in South Australia may slow, the level of investment spending by business appears likely to remain at high levels. The ABS capital expenditure expectations survey shows that capital expenditure plans reported by business for 2005-06 are 1.8 per cent higher in nominal terms than at the same time a year earlier. Machinery and equipment investment plans for 2005-06 are 1.9 per cent lower than 2004-05 but are compensated by higher planned expenditure on non-residential construction (up 15.7 per cent).

In the March quarter 2005 issue of Investment Monitor, Access Economics reported an increase in the value of South Australian projects listed as committed — 1.4 per cent higher than the December quarter 2004 but 26 per cent lower than in March quarter 2004. However, WMC Resources is currently considering a \$5 billion expansion to its Olympic Dam mine, with the construction phase to commence around 2008-09.

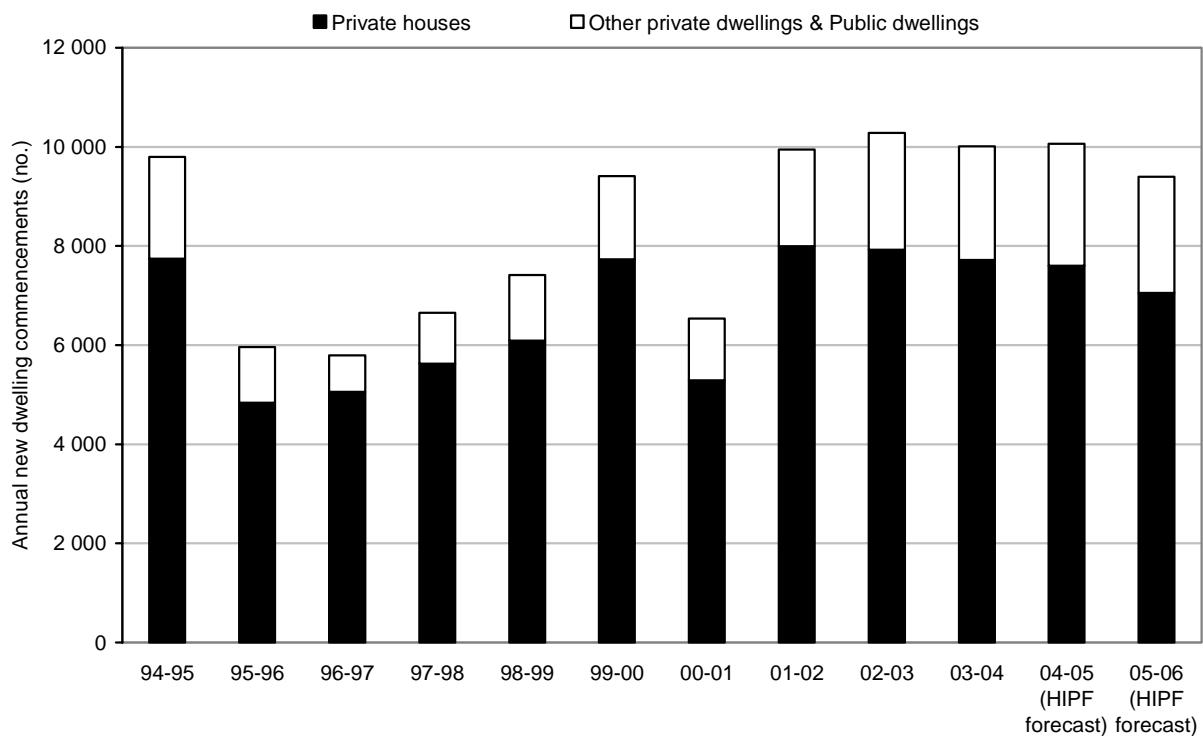
Housing sector

Housing construction activity in South Australia has remained strong, although growth did moderate during 2004 compared with the previous year. Private new dwelling investment (including alterations and additions) grew by 8.6 per cent in real terms during calendar 2004, compared with growth of 14 per cent in 2003.

There have been indications that a moderate downturn in housing is in prospect. Dwelling investment activity fell 5.2 per cent in the last two quarters of 2004. Dwelling approvals in March 2005 were 0.9 per cent lower in trend terms than a year earlier, with private sector house approvals down 6.4 per cent. While housing finance commitments displayed renewed impetus in the latter half of 2004 this was concentrated in established houses (excluding

refinancing) with the number of loans for the purchase or construction of new dwellings down from their recent peaks. Nonetheless, new dwelling commencements are currently being supported by a backlog of work and are expected to remain at strong levels at least in the first half of 2005, but then decline in 2005-06 as the backlog dissipates. South Australian new dwelling commencements are forecast by the Housing Industry Prospects Forum (HIPF) to rise 0.5 per cent to 10 060 in 2004-05 but then fall to 9400 (down 7 per cent) in 2005-06.

Figure 8.8: Annual new dwelling commencements - South Australia



Source: ABS, New Dwelling Commencements, Catalogue no. 8750.0 and Housing Industry Prospects forecasts

The median established house price in Adelaide rose to \$270 000 in the December quarter 2004, 11 per cent higher than a year earlier according to the Real Estate Institute of Australia Real Estate Market Facts publication. This strong growth has been fuelled by relatively low interest rates and strong income growth. The Reserve Bank of Australia's recent increase in official interest rates is anticipated to impact on demand for real estate in the future and dampen growth in house prices.

Costs and prices

Nationally consumer price inflation has remained within the Reserve Bank's target band of 2-3 per cent per annum. Through the year to the March quarter 2005, the national Consumer Price Index (CPI) increased by 2.4 per cent, up moderately from the low point of 2.0 per cent in the previous 12 months. In the same period, the Adelaide CPI increase was 2.2 per cent. Relative to the national average, Adelaide experienced lower price increases for house purchase costs, furniture, vegetables, electricity, and floor and window coverings. Relative to the national average, Adelaide experienced higher price increases (or less significant price declines) for hospital and medical services, automotive fuel, other motoring charges, gas and other household fuels, and snacks and confectionery.

In March 2005 the Reserve Bank announced an interest rate rise of 25 basis points, the first rate rise since December 2003. The official cash rate now stands at 5.50 per cent. In its latest *Statement On Monetary Policy* (May 2005), the Reserve Bank has said that underlying inflation is expected to pick up gradually to a little over 2½ per cent by the end of 2005 and to around 3 per cent by the end of 2006. Pressure on oil and raw material prices, capacity constraints and increasing employment costs are the biggest risks to inflation.

Nationally there has been an acceleration in wages growth over the past 12 months. National growth in total hourly rates of pay through the year to the March quarter 2005 was 3.9 per cent, up from 3.6 per cent over the previous 12 months. Through the year to the March quarter 2005, South Australian total hourly rates of pay grew by 3.5 per cent, down from 4.0 per cent in the previous 12 months. Public sector hourly rates of pay in South Australia rose by 4.8 per cent through the year, higher than the 3.2 per cent growth in private sector hourly rates of pay.

South Australian wages growth of 3.5 per cent through the year to the March quarter 2005 (as measured by the hourly rates of pay index) was higher than the 2.2 per cent increase in Adelaide's Consumer Price Index for the same period, indicating growth in real wages over this period of around 1¼ per cent. Public sector wages in South Australia have grown by around 2½ per cent in real terms through the year.

UNIFORM PRESENTATION FRAMEWORK

Overview

By agreement between the Commonwealth and the states and territories, each jurisdiction presents financial information on a *Uniform Presentation Framework* (UPF) basis presented in their budget papers, mid-year budget update and budget outcome reporting. The Tables in this Appendix present budget information for South Australia on the UPF basis, reflecting the fiscal measures and scope outlined below.

The primary objective of the UPF is to ensure that Commonwealth, state and territory governments provide a common ‘core’ of financial information in their budget papers to enable direct comparisons of each government’s budget and financial results.

The UPF is based on the reporting standards of the Australian Bureau of Statistics (ABS) Government Financial Statistics (GFS) framework. ABS formats and standards are in turn derived from international GFS frameworks such as the International Monetary Fund draft manual of *Government Financial Statistics* and the *United Nations System of National Accounts 1993* (SNA93). The ABS publishes annual government financial information for all Australian government jurisdictions on this basis each year.

The ABS GFS publication (*Australian System of Government Finance Statistics: Concepts, Sources and Methods* Cat. No. 5514.0) requires that provisions for doubtful debts be excluded from the balance sheet. Consistent with the methodology used by the Commonwealth Government, South Australia has not adopted this treatment in the UPF reports because excluding such provisions would overstate the value of assets in the balance sheet (and would therefore be inconsistent with the market valuation principle).

Accrual GFS fiscal measures

The key measures in the GFS accrual framework are: GFS net operating balance, GFS net lending, cash surplus, net debt, net worth, change in net worth, 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).

GFS net lending

GFS net lending (sometimes referred to as fiscal balance) measures a government’s investment-saving balance.

APPENDIX A

Net lending (which is recorded in the operating statement) differs from the net operating balance in the treatment of capital expenditure. Unlike the net operating balance, net lending includes net capital expenditure, but not the use of capital (that is depreciation).

Net lending is the accrual counterpart of the GFS cash surplus. However, the two measures are unlikely to coincide because of the differences arising when transactions are recorded in cash and accrual terms.

Cash surplus

The GFS cash surplus/deficit is a flow measure reported in the cash flow statement.

The cash surplus has four components. The first is net cash received from operating activities (comprising tax revenue plus grants and subsidies received plus revenue from sales of goods and services, less payments for goods and services, interest costs, and grants and subsidies paid). The second component is net cash inflow from sales and purchases of non-financial assets. The third component (in the case of public non financial corporations and public financial corporations) is the level of distributions paid. And the fourth component removes the initial increase in liability accruing at the beginning of finance lease and similar arrangements.

Net debt

Net debt comprises the stock of selected gross financial liabilities less financial assets.

Net debt is reported in the balance sheet and is the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Net worth

Net worth is calculated as total assets (both financial and non-financial) minus total liabilities, 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 is reported in the balance sheet.

Change in net worth

Change in net worth measures the variation in net worth (as described above), and is the most inclusive measure of the change in a government's financial position over a given period.

Net financial worth

Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus liabilities.

Scope

The UPF divides the Australian public sector into three institutional subsectors: the general government (GG) sector, the public non-financial corporations (PNFC) sector; and the public financial corporations (PFC) 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. This sector includes some trading enterprises, such as SA Water, Forestry SA and SA Housing Trust.

Public financial corporations are entities primarily engaged in providing financial intermediation services.

Budget reporting

Under the UPF agreement, all governments are required to present as part of their budget documentation an operating statement, balance sheet and cash flow statement for the general government sector, public non-financial corporations sector and the non-financial public sector. The non-financial public sector is the consolidation of the general government and the public non-financial corporations sectors. In addition, information is also presented on taxes, general government sector expenses by function and Loan Council allocations.

This information is presented in Tables A.1 through to A.15 in this appendix.

Reporting of outcomes

Outcomes are presented in the Final Budget Outcome document. In addition to the tables presented at budget time, outcome reporting also contains the accrual financial statements for the public financial corporations sector.

Future developments in the presentation of Government financial information

The Financial Reporting Council (FRC), under the jurisdiction of subsection 225(1) of the *Australian Securities and Investments Commission Act 2001*, has issued two directives to the Australian Accounting Standards Board (AASB) that will have a major impact on the future presentation of government financial information. These directives are:

- harmonisation of Generally Accepted Accounting Principles (GAAP) with Government Financial Statistics (GFS); and
- adoption of Australian equivalents to International Financial Reporting Standards (AIFRS).

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The following commentary provides a broad outline of the expected changes as a result of these initiatives.

GFS/GAAP Harmonisation

In Australia, public sector reporting entities are required to prepare general purpose financial reports in accordance with GAAP. Under the inter governmental agreement, governments must present budgets and outcomes under the UPF, which is based on the Australian Bureau of Statistics GFS framework. This means, at the consolidated level, all jurisdictions are preparing two sets of reports.

While GFS and GAAP reports have a high degree of similarity, there are a small number of differences that can be categorised as:

- measurement differences;
- presentation differences; and
- terminology differences.

These differences necessitate reconciliation of the two presentations and can cause confusion to users of the information as to which set of financial reports is a more reliable portrayal of financial results.

The objective of GFS/GAAP harmonisation is to achieve a standard for a single set of government budgets and financial reports, which are auditable, comparable between jurisdictions and have outcome statements, which can be matched with relevant budget statements.

To implement this objective, the AASB will issue a separate industry-based accounting standard for financial reporting by governments and their sectors. It is anticipated that an Exposure Draft will be released before the end of 2004-05 for comment.

Adoption of Australian equivalents to International Financial Reporting Standards (AIFRS)

AIFRS will be applicable to government financial reports for financial years beginning on or after 1 January 2005. For reporting entities with a June balance date, the first accounts to be prepared in accordance with the AIFRS will be for the financial year commencing 1 July 2005. In addition, comparative information for the year commencing 1 July 2004 will be provided in the 2005-06 financial report in accordance with AIFRS requirements.

Compared with existing GAAP, AIFRS financial reports will include additional disclosures and will introduce a fourth financial statement, namely the statement of changes in equity in addition to the an income statement, balance sheet, and statement of cash flows.

In accordance with AASB 1047 *Disclosing the Impact of Adopting Australian Equivalents to International Financial Reporting Standards* the 2004-05 financial report will include known or reliable estimated dollar value impacts on the entity's financial performance, position and cash flows as a result of adopting AIFRS.

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It is anticipated that the quantifiable impact on the general government financial report as a result of the adoption of AIFRS will be immaterial.

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UNIFORM PRESENTATION FRAMEWORK TABLES

Table A.1 General government sector operating statement (\$ million)

	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
GFS revenue					
Taxation revenue	2 916	2 862	2 985	3 058	3 145
Current grants	5 195	5 427	5 553	5 769	5 932
Capital grants	184	182	206	212	169
Sales of goods and services	1 233	1 227	1 263	1 287	1 310
Interest income	147	154	157	159	166
Other	783	868	804	807	828
Total revenue	10 458	10 721	10 968	11 291	11 549
<i>less</i>					
GFS expenses					
Gross operating expenses					
Employee expenses	4 589	4 780	4 960	5 134	5 274
Depreciation	440	456	469	478	492
Other operating expenses	2 882	3 014	3 070	3 166	3 286
Nominal superannuation interest expense (a)	307	307	309	309	308
Other interest expenses	242	242	225	213	205
Other property expenses	—	—	—	—	—
Current transfers	1 806	1 853	1 837	1 865	1 892
Capital transfers	19	19	20	18	18
Total expenses	10 285	10 670	10 890	11 182	11 474
<i>equals</i>					
GFS net operating balance					
	173	51	78	109	75
<i>less</i>					
Net acquisition of non-financial assets					
Purchases of non-financial assets	680	636	797	765	704
less Sales of non-financial assets	106	139	109	91	87
less Depreciation	440	456	469	478	492
plus Change in inventories	-19	—	—	—	—
plus Other movements in non-financial assets	—	—	—	—	—
equals Total net acquisition of non-financial assets	114	41	219	197	125
<i>equals</i>					
GFS net lending / borrowing					
	59	10	-141	-88	-50

(a) The 2005-06 Budget introduces a change in the methodology for calculating the nominal superannuation interest expense. An item that formerly appeared as an "other economic flow" (refer to the reconciliation of general government net worth in chapter 5) is now treated as a transaction with a positive impact on the net operating and net lending balances. This item reflects the net impact of the assumed earnings rate on superannuation assets being greater than the government bond rate being used to calculate the superannuation liability, in respect of both new service expense and the interest expense on the liability. For 2005-06, the change in methodology has had a positive impact of \$31.9 million.

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Table A.2 Public non-financial corporations (public trading enterprises) sector operating statement (\$ million)

	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
GFS revenue					
Taxation revenue	—	—	—	—	—
Current grants and subsidies	369	401	400	405	410
Capital grants	32	21	14	26	28
Sales of goods and services	1 328	1 277	1 249	1 279	1 315
Interest income	16	17	17	17	17
Other	94	97	116	91	94
Total revenue	1 840	1 812	1 795	1 817	1 864
<i>less</i>					
GFS expenses					
Gross operating expenses					
Employee expenses	210	216	221	227	232
Depreciation	220	225	233	237	240
Other operating expenses	916	861	824	843	872
Nominal superannuation interest expense	—	—	—	—	—
Other interest expenses	141	152	154	153	153
Other property expenses	327	393	392	379	391
Current transfers	-11	-7	-1	-1	-2
Capital transfers	5	6	5	5	3
Total expenses	1 807	1 846	1 827	1 843	1 889
<i>equals</i>					
GFS net operating balance					
	33	-34	-32	-26	-25
<i>less</i>					
Net acquisition of non-financial assets					
Purchases of non-financial assets	333	427	369	350	322
less Sales of non-financial assets	99	122	121	107	107
less Depreciation	220	225	233	237	240
plus Change in inventories	—	—	—	—	—
plus Other movements in non-financial assets	—	—	—	—	—
equals Total net acquisition of non-financial assets	14	80	15	6	-26
<i>equals</i>					
GFS net lending / borrowing					
	19	-114	-46	-32	1

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Table A.3 Non-financial public sector operating statement (\$ million)

	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
GFS revenue					
Taxation revenue	2 711	2 633	2 751	2 821	2 905
Current grants	5 191	5 425	5 552	5 769	5 932
Capital grants	217	203	220	238	197
Sales of goods and services	2 394	2 348	2 356	2 406	2 463
Interest income	107	114	119	124	133
Other	556	583	538	526	541
Total revenue	11 175	11 306	11 535	11 885	12 172
<i>less</i>					
GFS expenses					
Gross operating expenses					
Employee expenses	4 759	4 955	5 139	5 317	5 461
Depreciation	661	681	702	714	732
Other operating expenses	3 455	3 524	3 539	3 651	3 793
Nominal superannuation interest expense (a)	307	307	309	309	308
Other interest expenses	327	337	324	315	308
Other property expenses	17	20	19	15	20
Current transfers	1 420	1 441	1 433	1 457	1 478
Capital transfers	24	25	25	23	22
Total expenses	10 970	11 290	11 489	11 801	12 122
<i>equals</i>					
GFS net operating balance					
	206	16	46	83	50
<i>less</i>					
Net acquisition of non-financial assets					
Purchases of non-financial assets	1 011	1 063	1 165	1 115	1 026
less Sales of non-financial assets	203	262	230	198	195
less Depreciation	661	681	702	714	732
plus Change in inventories	-19	—	—	—	—
plus Other movements in non-financial assets	—	—	—	—	—
equals Total net acquisition of non-financial assets	128	121	234	203	99
<i>equals</i>					
GFS net lending / borrowing					
	78	-104	-188	-120	-49

(a) The 2005-06 Budget introduces a change in the methodology for calculating the nominal superannuation interest expense. An item that formerly appeared as an "other economic flow" (refer to the reconciliation of general government net worth in chapter 5) is now treated as a transaction with a positive impact on the net operating and net lending balances. This item reflects the net impact of the assumed earnings rate on superannuation assets being greater than the government bond rate being used to calculate the superannuation liability, in respect of both new service expense and the interest expense on the liability. For 2005-06, the change in methodology has had a positive impact of \$31.9 million.

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Table A.4 General government sector balance sheet (\$ million)

	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Assets					
Financial assets					
Cash and deposits	1 981	2 075	2 088	2 128	2 295
Advances paid	1 075	1 021	996	979	946
Investments, loans and placements	159	161	163	165	167
Other non-equity assets	423	435	435	423	415
Equity	12 959	13 608	14 094	14 460	14 834
Total financial assets	16 597	17 300	17 777	18 155	18 658
Non-financial assets					
Land and fixed assets	11 915	11 999	12 256	12 491	12 658
Other non-financial assets	85	88	88	89	90
Total non-financial assets	12 000	12 086	12 345	12 580	12 748
Total assets	28 597	29 387	30 121	30 735	31 406
Liabilities					
Deposits held	385	330	330	336	368
Advances received	719	676	676	647	631
Borrowing	2 285	2 378	2 442	2 499	2 606
Unfunded superannuation liability	6 504	6 569	6 628	6 675	6 712
Other employee entitlements and provisions	1 466	1 497	1 524	1 556	1 588
Other non-equity liabilities	946	871	883	896	908
Total liabilities	12 304	12 321	12 483	12 608	12 813
Net worth	16 293	17 065	17 638	18 126	18 594
Net financial worth (a)	4 293	4 979	5 294	5 546	5 845
Net debt (b)	174	127	201	209	196

(a) Net financial worth equals total financial assets minus total liabilities.

(b) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

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Table A.5 Public non-financial corporations (public trading enterprises) sector balance sheet (\$ million)

	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Assets					
Financial assets					
Cash and deposits	272	218	214	225	266
Advances paid	20	18	1	-3	-7
Investments, loans and placements	12	14	15	16	16
Other non-equity assets	178	108	115	115	106
Equity	24	22	19	16	13
Total financial assets	506	379	363	369	395
Non-financial assets					
Land and fixed assets	14 662	15 410	15 824	16 089	16 320
Other non-financial assets	37	37	37	37	37
Total non-financial assets	14 699	15 446	15 861	16 126	16 357
Total assets	15 205	15 825	16 224	16 495	16 752
Liabilities					
Deposits held	5	5	6	6	7
Advances received	936	908	887	873	844
Borrowing	1 407	1 494	1 534	1 584	1 632
Unfunded superannuation liability	—	—	—	—	—
Other employee entitlements and provisions	71	74	77	80	82
Other non-equity liabilities	390	399	402	406	414
Total liabilities	2 808	2 880	2 905	2 948	2 979
Net worth	12 397	12 945	13 319	13 547	13 773
Net financial worth (a)	-2 302	-2 502	-2 542	-2 580	-2 584
Net debt (b)	2 043	2 158	2 197	2 225	2 207

(a) Net financial worth equals total financial assets minus total liabilities.

(b) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

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Table A.6 Non-financial public sector balance sheet (\$ million)

	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Assets					
Financial assets					
Cash and deposits	2 052	2 147	2 155	2 201	2 376
Advances paid	159	131	110	103	95
Investments, loans and placements	171	175	178	181	184
Other non-equity assets	373	398	400	393	376
Equity	586	685	794	929	1 075
Total financial assets	3 341	3 534	3 638	3 807	4 106
Non-financial assets					
Land and fixed assets	26 577	27 408	28 080	28 580	28 978
Other non-financial assets	9	9	9	9	9
Total non-financial assets	26 586	27 417	28 089	28 589	28 988
Total assets	29 927	30 951	31 727	32 396	33 093
Liabilities					
Deposits held	188	188	189	190	190
Advances received	719	676	676	647	631
Borrowing	3 691	3 872	3 976	4 083	4 238
Unfunded superannuation liability	6 504	6 569	6 628	6 675	6 712
Other employee entitlements and provisions	1 557	1 591	1 621	1 656	1 690
Other non-equity liabilities	974	989	999	1 019	1 039
Total liabilities	13 634	13 886	14 089	14 270	14 500
Net worth	16 293	17 065	17 638	18 126	18 594
Net financial worth (a)	-10 293	-10 352	-10 451	-10 463	-10 394
Net debt (b)	2 217	2 284	2 398	2 434	2 404

(a) Net financial worth equals total financial assets minus total liabilities.

(b) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

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Table A.7 General government sector cash flow statement (\$ million)

	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Cash receipts from operating activities					
Taxes received	2 904	2 840	2 985	3 057	3 145
Receipts from sales of goods and services	1 217	1 228	1 254	1 278	1 303
Grants received	5 342	5 606	5 757	5 978	6 097
Other receipts	1 003	1 094	899	922	949
Total receipts	10 467	10 769	10 894	11 236	11 494
Cash payments for operating activities					
Payment for goods and services	-7 708	-7 976	-8 214	-8 477	-8 754
Grants and subsidies paid	-1 733	-1 912	-1 827	-1 845	-1 852
Interest paid	-244	-243	-226	-214	-206
Other payments	-148	-154	-11	-32	-52
Total payments	-9 834	-10 285	-10 278	-10 567	-10 863
Net cash flows from operating activities	632	484	616	669	630
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	106	139	109	91	87
Purchases of non-financial assets (a)	-677	-634	-794	-763	-701
Net cash flows from investments in non-financial assets	-571	-494	-686	-672	-614
Net cash flows from investments in financial assets for policy purposes (b)	24	130	26	18	31
Net cash flows from investments in financial assets for liquidity purposes	-17	-23	-11	-10	-10
Net cash flows from financing activities					
Advances received (net)	-13	-43	—	-30	-16
Borrowing (net)	-339	92	62	55	107
Deposits received (net)	10	-55	1	6	32
Dividends paid	—	—	—	—	—
Other financing (net)	—	—	—	—	—
Net cash flows from financing activities	-342	-6	63	31	124
Net increase in cash held	-274	90	8	36	162
Net cash from operating activities and investments in non-financial assets					
Distributions paid	62	-11	-70	-4	16
Finance leases and similar arrangements (c)	—	—	—	—	—
Surplus / deficit	62	-11	-70	-4	16

(a) The ABS disaggregates this item into new and seconhand non-financial assets.

(b) Includes equity acquisitions, disposals and privatisations (net).

(c) Finance leases are shown as a negative as they are deducted in compiling the surplus/deficit.

APPENDIX A

Table A.8 Public non-financial corporations (public trading enterprises) sector cash flow statement (\$ million)

	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Cash receipts from operating activities					
Taxes received	—	—	—	—	—
Receipts from sales of goods and services	1 392	1 335	1 307	1 341	1 389
Grants/subsidies received	370	473	399	405	413
Other receipts	65	67	86	61	62
Total receipts	1 827	1 876	1 791	1 807	1 863
Cash payments for operating activities					
Payment for goods and services	-926	-875	-817	-833	-866
Grants and subsidies paid	-15	-14	-13	-11	-8
Interest paid	-148	-152	-155	-155	-155
Other payments	-207	-233	-245	-252	-259
Total payments	-1 296	-1 274	-1 231	-1 251	-1 288
Net cash flows from operating activities	531	601	561	556	575
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	119	122	121	107	107
Purchases of non-financial assets (a)	-300	-406	-355	-324	-294
Net cash flows from investments in non-financial assets	-181	-284	-233	-217	-187
Net cash flows from investments in financial assets for policy purposes (b)	-4	10	15	15	15
Net cash flows from investments in financial assets for liquidity purposes	-2	-2	-1	-1	-1
Net cash flows from financing activities					
Advances received (net)	-25	-102	-21	-14	-28
Borrowing (net)	14	80	42	39	37
Deposits received (net)	—	—	—	—	—
Dividends paid	-313	-358	-366	-367	-370
Other financing (net)	—	—	—	—	—
Net cash flows from financing activities	-324	-380	-345	-342	-361
Net increase in cash held	20	-55	-4	12	41
Net cash from operating activities and investments in non-financial assets					
Distributions paid	350	317	327	340	388
Finance leases and similar arrangements (c)	313	358	366	367	370
Surplus / deficit	-20	—	—	—	—
	17	-40	-39	-28	19

(a) The ABS disaggregates this item into new and seconhand non-financial assets.

(b) Includes equity acquisitions, disposals and privatisations (net).

(c) Finance leases are shown as a negative as they are deducted in compiling the surplus/deficit.

APPENDIX A

Table A.9 Non-financial public sector cash flow statement (\$ million)

	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Cash receipts from operating activities					
Taxes received	2 699	2 611	2 750	2 821	2 905
Receipts from sales of goods and services	2 450	2 395	2 402	2 458	2 528
Grants received	5 339	5 604	5 756	5 979	6 097
Other receipts	686	738	552	554	580
Total receipts	11 174	11 347	11 460	11 811	12 110
Cash payments for operating activities					
Payment for goods and services	-8 481	-8 687	-8 877	-9 151	-9 460
Grants and subsidies paid	-1 375	-1 451	-1 440	-1 451	-1 447
Interest paid	-336	-338	-326	-318	-311
Other payments	-131	-143	-6	-33	-56
Total payments	-10 323	-10 619	-10 650	-10 953	-11 274
Net cash flows from operating activities	851	728	810	858	836
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	223	262	230	198	195
Purchases of non-financial assets (a)	-975	-1 040	-1 149	-1 087	-996
Net cash flows from investments in non-financial assets	-752	-779	-919	-889	-801
Net cash flows from investments in financial assets for policy purposes (b)	-5	38	20	19	18
Net cash flows from investments in financial assets for liquidity purposes	-19	-25	-12	-11	-10
Net cash flows from financing activities					
Advances received (net)	-13	-43	—	-30	-16
Borrowing (net)	-325	172	105	95	145
Deposits received (net)	—	—	—	1	—
Dividends paid	—	—	—	—	—
Other financing (net)	—	—	—	—	—
Net cash flows from financing activities	-339	129	105	65	128
Net increase in cash held	-264	90	4	42	171
Net cash from operating activities and investments in non-financial assets					
Distributions paid	99	-51	-109	-31	35
Finance leases and similar arrangements (c)	—	—	—	—	—
Surplus / deficit	79	-51	-109	-31	35

(a) The ABS disaggregates this item into new and seconhand non-financial assets.

(b) Includes equity acquisitions, disposals and privatisations (net).

(c) Finance leases are shown as a negative as they are deducted in compiling the surplus/deficit.

APPENDIX A

Table A.10 General government sector taxes (\$ million)

	2004-05 Estimated result	2005-06 Budget	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Taxes on employers' payroll and labour force	741	777	816	858	902
Taxes on property					
Land taxes	261	292	301	308	318
Stamp duties on financial and capital transactions	658	563	591	606	615
Financial institutions' transaction taxes	60	5	—	—	—
Other (a)	125	130	133	135	138
Total	1 105	990	1 025	1 049	1 070
Taxes on the provision of goods and services					
Excises and levies	5	5	6	6	6
Taxes on gambling	401	414	439	423	420
Taxes on insurance	282	283	291	300	309
Total	688	702	735	728	734
Taxes on use of goods and performance of activities					
Motor vehicle taxes	383	394	408	423	439
Total	383	394	408	423	439
Total GFS taxation revenue	2 916	2 862	2 985	3 058	3 145

(a) Excludes taxes paid by general government units.

APPENDIX A

Table A.11 General government sector expenses by function (\$million)^{(a)(b)}

	2004-05 Budget	2004-05 Estimated Result	2005-06 Estimate
General Public Services	215	222	222
Government superannuation benefits	—	—	—
Other general public services	215	222	222
Defence	—	—	—
Public order and safety	940	959	1 030
Police and fire protection services	542	554	605
Law courts and legal services	237	240	251
Prisons and corrective services	150	153	161
Other public order and safety	11	12	13
Education	2 477	2 686	2 751
Primary and secondary education	1 984	2 186	2 245
Tertiary education	362	368	373
Pre-school education and education not definable by level	111	111	114
Transportation of students	18	18	19
Education n.e.c.	2	2	1
Health	2 714	2 815	2 917
Acute care institutions	2 238	2 307	2 382
Mental health institutions	na	na	na
Nursing homes for the aged	na	na	na
Community health services	288	295	306
Public health services	172	206	221
Pharmaceuticals, medical aids and appliances	na	na	na
Health research	na	na	na
Health administration n.e.c.	16	7	8
Social security and welfare	590	659	647
Social security	117	147	130
Welfare services	413	452	458
Social security and welfare services n.e.c.	60	60	58
Housing and community amenities	711	787	867
Housing and community development	361	428	447
Water supply	111	125	183
Sanitation and protection of the environment	224	219	222
Other community amenities	15	15	16
Recreation and culture	259	277	264
Recreation facilities and services	113	124	116
Cultural facilities and services	132	139	135
Broadcasting and film production	6	6	6
Recreation and culture n.e.c.	8	8	8

APPENDIX A

Table A.11 General government sector expenses by function ^{(a)(b)}(continued)

	2004-05 Budget	2004-05 Estimated Result	2005-06 Estimate
Fuel and energy	38	41	44
Fuel affairs and services	20	22	23
Electricity and other energy	3	3	3
Fuel and energy n.e.c.	15	16	18
Agriculture, forestry, fishing and hunting	186	197	196
Agriculture	177	182	187
Forestry, fishing and hunting	9	15	9
Mining and mineral resources other than fuels; manufacturing; and construction	107	93	91
Mining and mineral resources other than fuels	20	8	8
Manufacturing	6	7	6
Construction	81	78	77
Transport and communications	711	644	713
Road transport	403	312	330
Water transport	29	29	46
Rail transport	12	15	18
Air transport	—	—	—
Pipelines	na	na	na
Other transport	247	275	295
Communications	19	14	24
Other economic affairs	181	229	171
Storage, saleyards and markets	na	na	na
Tourism and area promotion	36	41	38
Labour and employment affairs	45	45	48
Other economic affairs	101	143	86
Other purposes	751	677	756
Public debt transactions	265	243	271
General purpose inter-government transactions	82	82	84
Natural disaster relief	—	6	—
Nominal superannuation interest expense	338	307	307
Other purposes n.e.c.	66	39	94
Total GFS expenses	9 881	10 285	10 670

- (a) Expenses by function data are derived from information submitted by government departments and agencies. The processes for deriving these data are subjected to ongoing refinements. Consequently the data may be subject to future revisions.
- (b) Some functional classifications are not readily distinguishable at agency level. For example in health, mental health cannot be reliably separated from acute care institutions. Similarly nursing homes for the aged, pharmaceuticals and health research cannot be easily separated from the other health categories. Those instances are denoted as not available (na).

APPENDIX A

Table A.12 General government sector capital by function (\$million)^{(a)(b)}

	2004-05 Budget	2004-05 Estimated Result	2005-06 Budget
General public services	139	144	132
Defence	—	—	—
Public order and safety	67	74	75
Education	58	63	61
Health	115	124	114
Social security and welfare	6	7	6
Housing and community amenities	23	15	12
Recreation and culture	4	6	3
Fuel and energy	1	—	5
Agriculture, forestry, fishing and hunting	9	9	7
Mining and mineral resources other than fuels; manufacturing; and construction	1	1	2
Transport and communications	200	232	212
Other economic affairs	—	1	5
Other purposes	—	1	—
Total capital	625	677	634

(a) Expenses by function data are derived from information submitted by government departments and agencies. The processes for deriving these data are subjected to ongoing refinements. Consequently the data may be subject to future revisions.

(b) Excludes contributed assets.

APPENDIX A

Table A.13 Reconciliation of general government net worth

	2004-05 Estimated Result	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Net worth at beginning of year	15 760	16 293	17 065	17 638	18 126
Change in net worth from operating transactions:					
Net operating balance	173	51	78	109	75
Change in net worth from other economic flows:					
Movement in retained earnings of PFCs	-46	75	97	124	135
Movement in retained earning of PNFCs	1 178	548	374	228	226
Revaluation of unfunded superannuation liability	-771	—	—	—	—
SA Water return of equity	—	74	—	—	—
Inclusion of DECS Schools net worth for first time	26	—	—	—	—
Reclassification of Office of Public Transport from PNFC Sector	6	—	—	—	—
Other revaluation adjustments	-32	25	25	28	32
<i>Subtotal</i>					
Total other economic flows	361	722	496	379	393
Net worth at year end	16 293	17 065	17 638	18 126	18 594

Loan Council arrangements

The Australian Loan Council — a ministerial council established in 1927 comprising the Commonwealth, State and Territory Treasurers — requires all jurisdictions to nominate a Loan Council Allocation (LCA) for consideration at its annual meeting.

LCA nominations, prepared in March, are intended to provide an indication of each government's probable call on financial markets over the forthcoming financial year. The Loan Council, having regard to each jurisdiction's fiscal position and reasonable infrastructure requirements, along with the macroeconomic implications of the aggregate figure, then considers the nominations.

Following the endorsement of LCA nominations, jurisdictions are further required to update their nominated LCAs at budget time for changes in economic parameters and policy decisions, and also provide an LCA outcome at the end of the financial year. A tolerance limit of 2 per cent of total public sector revenue, set at nomination time, applies between both the nomination and budget, and the budget and outcome LCAs. If the tolerance limit is exceeded, the Loan Council must be notified and a report detailing the reasons for change released publicly.

Nominated LCAs for 2005-06, for all jurisdictions and in aggregate, were reviewed and endorsed by the 144th meeting of the Australian Loan Council on 23 March 2005.

South Australia's nomination, budget and estimated outcome LCAs for 2004-05 are shown in Table A.14, with nomination and budget-time LCAs for 2005-06 shown in Table A.15. These tables are prepared in accordance with the requirements of the accrual UPF, endorsed by Loan Council in March 2000.

As Table A.14 indicates, South Australia is expecting an LCA surplus of \$236 million for 2004-05. This is lower than the 2004-05 Budget (May 2004) estimated surplus of \$339 million, following an increase in net lending by HomeStart, which was partially offset by better than expected returns from FundsSA (superannuation memorandum item). On the basis of these estimates, South Australia's 2004-05 LCA outcome will not exceed the 2 per cent of total revenue tolerance limit applied to the May 2004 budget-time LCA.

South Australia's 2005-06 Budget LCA, detailed in Table A.15, is an estimated \$289 million surplus. This is a considerable decrease from the \$445 million surplus nominated in March of this year for the Treasurers' Conference, but does not exceed the LCA nomination tolerance limit of \$223 million. The change stems primarily from a large reduction in the estimated general government result since the Mid-Year Budget Review, upon which the LCA nomination was based.

APPENDIX A

Table A.14 Loan Council allocation 2004-05 ^(a) (\$million)

	Nomination (March 2004)	Budget (May 2004)	Estimated Result (May 2005)
General government sector cash deficit/surplus	-211	-92	-62
PNFC sector cash deficit/surplus	-65	-36	-17
Total non financial public sector cash deficit/surplus ^(b)	-275	-127	-79
Net cash flows from investments in financial assets for policy purposes ^(c)	-5	5	5
Adjusted total non financial public sector deficit/surplus	-281	-122	-74
Memorandum items ^(d)			
Operating leases ^(e)	-42	-42	-40
Recourse asset sales	—	—	—
Superannuation ^(f)	-270	-290	-372
Local government	29	29	21
Home finance schemes	83	86	230
Total memorandum items	-200	-217	-162
LCA deficit/surplus ^{(g)(h)}	-481	-339	-236

- (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 per cent of total revenue tolerance limit around South Australia's 2004-05 LCA is \$205 million.
- (h) South Australia has no infrastructure projects with private sector involvement that meet the recognition criteria for 2004-05.

APPENDIX A

Table A.15 Loan Council allocation 2005-06^(a) (\$million)

	Nomination (March 2005)	Budget (May 2005)
General government sector cash deficit/surplus	-254	11
PNFC sector cash deficit/surplus	65	40
Total non financial public sector cash deficit/surplus ^(b)	-189	51
Net cash flows from investments in financial assets for policy purposes ^(c)	-37	-38
Adjusted total non financial public sector deficit/surplus	-226	13
Memorandum items ^(d)		
Operating leases ^(e)	-33	-40
Recourse asset sales	—	—
Superannuation ^(f)	-306	-293
Local government	26	26
Home finance schemes	94	5
Total memorandum items	-219	-302
LCA deficit/surplus ^{(g)(h)}	-445	-289

- (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 per cent of total revenue tolerance limit around South Australia's 2005-06 LCA is \$223 million.
- (h) South Australia has no infrastructure projects with private sector involvement that meet the recognition criteria for 2005-06.

GENERAL GOVERNMENT AND NON-FINANCIAL PUBLIC SECTOR FINANCIAL STATISTICS TIME SERIES

General Government

The following tables provide historical data on key fiscal aggregates, together with estimates contained in the 2005-06 Budget. Data provided is sourced for 1998-99 from Australian Bureau of Statistics Government Financial Statistics 2003-04 (catalogue number 5512.0) and 1999-2000 to 2003-04 from Budget Outcome publications for South Australia. The estimates for 2004-05 onwards are contained in the 2005-06 Budget papers.

Data are provided from 1998-99, the first year for which information is available in the accrual format. Prior to 1998-99, government finances were measured using a cash-based methodology.

As historical data in this time series has not been back-cast to reflect classification and accounting changes, care must be taken in interpreting the data. These changes include a structural break in the methodology used to value the unfunded superannuation liability between 2002-03 and 2003-04, and the inclusion of new entities.

Table B.1: General government key operating statement aggregates

	Revenue			Expenses			Net Operating Balance \$m	Net acquisition of non financial assets \$m	Net lending		
	\$m	% real growth	% GSP	\$m	% real growth	% GSP			\$m % Rev		
1998-99	7 297		18.4	7 505		18.9	-208	19	-227	-3.1	
1999-2000	7 644	2.2	18.5	7 974	3.6	19.3	-330	140	-471	-6.2	
2000-01	8 108	3.0	18.1	8 406	2.3	18.8	-297	102	-399	-4.9	
2001-02	8 538	2.0	17.8	8 713	0.4	18.1	-174	-50	-124	-1.5	
2002-03	9 346	5.2	18.6	8 898	-1.8	17.7	448	34	414	4.4	
2003-04	9 955	3.4	18.5	9 570	4.4	17.8	385	-38	424	4.3	
2004-05	10 458	2.5	18.3	10 285	4.9	18.0	173	114	59	0.6	
2005-06	10 721	-0.2	17.8	10 670	1.0	17.7	51	41	10	0.1	
2006-07	10 968	-0.2	17.3	10 890	-0.4	17.2	78	219	-141	-1.3	
2007-08	11 291	0.4	17.0	11 182	0.2	16.8	109	197	-88	-0.8	
2008-09	11 549	-0.2	16.5	11 474	0.1	16.4	75	125	-50	-0.4	

APPENDIX B

Table B.2: General government key balance sheet aggregates (\$ million)^(a)

As at 30 June	Net debt ^(b)	Unfunded superannuation	Net financial liabilities	Net financial worth	Net worth
1988	859				
1989	694				
1990	854				
1991	1 817				
1992	4 610				
1993	7 884				
1994	7 113				
1995	5 815				
1996	5 512				
1997	4 983				
1998	4 762				
1999	4 780	3 909	9 769	1 892	10 622
2000	1 920	3 543	6 928	2 986	12 447
2001	1 246	3 249	6 067	4 091	14 788
2002	1 303	3 998	6 895	3 559	14 706
2003	666	4 445	6 980	3 500	15 288
2004	224	5 668	7 969	3 842	15 760
2005	174	6 504	8 666	4 293	16 293
2006	127	6 569	8 629	4 979	17 065
2007	201	6 628	8 800	5 294	17 638
2008	209	6 675	8 913	5 546	18 126
2009	196	6 712	8 989	5 845	18 594

(a) Unfunded superannuation data from 1998-99 data are sourced from the 1998-99 Budget Outcome publication for South Australia.

(b) Net debt data for the years up to and including 1998 are sourced from ABS, Government Financial Estimates 2003-04 (catalogue number 5501).

APPENDIX B

Table B.3: General government sector receipts, payments and surplus (\$ million)^(a)

	Receipts	Payments	Cash Surplus
1979-80	1 891	1 671	220
1980-81	2 065	1 917	148
1981-82	2 210	2 122	87
1982-83	2 664	2 507	156
1983-84	2 988	2 734	255
1984-85	3 380	4 356	531
1985-86	3 634	3 161	474
1986-87	3 956	3 416	540
1987-88	4 307	3 858	449
1988-89	4 630	3 977	653
1989-90	4 973	4 370	603
1990-91	5 260	4 796	463
1991-92	5 387	5 396	-10
1992-93	5 967	5 456	512
1993-94	6 087	6 024	63
1994-95	6 155	6 220	-66
1995-96	6 405	6 164	241
1996-97	6 379	6 282	97
1997-98	6 988	6 724	264
1998-99	7 165	7 041	123
1999-2000	7 676	7 915	-239
2000-01	8 278	8 387	-108
2001-02	8 698	8 748	-50
2002-03	9 522	8 864	658
2003-04	10 023	9 502	522
2004-05	10 572	10 511	62
2005-06	10 908	10 919	-11
2006-07	11 003	11 072	-70
2007-08	11 327	11 331	-4
2008-09	11 581	11 565	16

(a) There is a break in the series between 1998-99 and 1999-2000. Data for the years up to and including 1998-99 are sourced from ABS and are consistent with ABS GFS reporting requirements on a cash basis. From 1999-2000 onwards, data are derived from an accrual ABS GFS reporting framework, with receipts proxied by receipts from operating activities and sales of non-financial assets, and payments proxied by payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases. Due to the associated methodological and data-source changes, time series data that encompass measures derived under both cash and accrual accounting should be used with caution.

APPENDIX B

Table B.4: General government sector operating statement (\$ million)

	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
GFS revenue											
Taxation revenue	2 433	2 748	2 197	2 193	2 431	2 806	2 916	2 862	2 985	3 058	3 145
Current grants	2 914	3 098	3 992	4 485	4 638	4 906	5 195	5 427	5 553	5 769	5 932
Capital grants ^(a)	—	—	—	—	209	191	184	182	206	212	169
Sales of goods and services	733	696	982	902	997	1 165	1 233	1 227	1 263	1 287	1 310
Interest income	143	215	169	131	146	172	147	154	157	159	166
Other	1 074	888	768	827	925	715	783	868	804	807	828
Total revenue	7 297	7 644	8 108	8 538	9 346	9 955	10 458	10 721	10 968	11 291	11 549
less											
GFS expenses											
Gross operating expenses	5 296	5 694	6 216	6 489	6 524	7 053	7 912	8 250	8 499	8 778	9 051
Nominal superannuation	277	274	248	244	299	354	307	307	309	309	308
Interest expense											
Other interest expenses	643	601	353	272	297	253	242	242	225	213	205
Other property expenses	—	—	—	—	—	—	—	—	—	—	—
Current transfers	1 208	1 345	1 545	1 663	1 724	1 894	1 806	1 853	1 837	1 865	1 892
Capital transfers	81	59	43	44	54	16	19	19	20	18	18
Total expenses	7 505	7 974	8 406	8 713	8 898	9 570	10 285	10 670	10 890	11 182	11 474
equals											
GFS net operating balance	-208	-330	-297	-174	448	385	173	51	78	109	75
less											
Net acquisition of non-financial assets											
Gross fixed capital formation	364	478	427	337	433	406	574	497	688	675	616
less Depreciation	323	337	322	390	401	435	440	456	469	478	492
<i>plus</i> Change in inventories	-2	—	-3	3	2	-10	-19	—	—	—	—
<i>plus</i> Other movements in non-financial assets	-21	—	—	—	—	—	—	—	—	—	—
equals Total net acquisition of non-financial assets	19	140	102	-50	34	-38	114	41	219	197	125
equals											
GFS net lending	-227	-471	-399	-124	414	424	59	10	-141	-88	-50

(a) Prior to 2002-03, capital grants were not reported separately.

APPENDIX B

Table B.5: General government sector balance sheet (\$ million)

	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Assets											
Financial assets											
Cash and deposits	1 884	3 187	1 806	1 844	2 052	2 178	1 981	2 075	2 088	2 128	2 295
Advances paid	1 304	—	1 258	1 233	1 167	1 133	1 075	1 021	996	979	946
Investments, loans and placements	12	1 608	127	170	170	154	159	161	163	165	167
Other non-equity assets	409	360	325	311	289	386	423	435	435	423	415
Equity	11 661	9 914	10 158	10 454	10 479	11 811	12 959	13 608	14 094	14 460	14 834
Total financial assets	15 270	15 068	13 673	14 012	14 157	15 661	16 597	17 300	17 777	18 155	18 658
Non-financial assets											
Land and fixed assets	8 674	9 270	10 636	11 076	11 710	11 835	11 915	11 999	12 256	12 491	12 658
Other non-financial assets	56	191	62	71	78	83	85	88	88	89	90
Total non-financial assets	8 730	9 461	10 697	11 146	11 788	11 917	12 000	12 086	12 345	12 580	12 748
Total assets	24 000	24 529	24 371	25 158	25 945	27 579	28 597	29 387	30 121	30 735	31 406
Liabilities											
Deposits held	522	639	470	401	329	309	385	330	330	336	368
Advances received	1 099	935	844	790	780	733	719	676	676	647	631
Borrowing	6 359	5 140	3 123	3 359	2 947	2 648	2 285	2 378	2 442	2 499	2 606
Unfunded superannuation liability	3 909	3 543	3 249	3 998	4 445	5 668	6 504	6 569	6 628	6 675	6 712
Other employee entitlements and provisions	612	840	976	1 057	1 352	1 495	1 466	1 497	1 524	1 556	1 588
Other non-equity liabilities	877	985	920	847	806	967	946	871	883	896	908
Total liabilities	13 378	12 082	9 583	10 453	10 658	11 819	12 304	12 321	12 483	12 608	12 813
Net worth	10 622	12 447	14 788	14 706	15 288	15 760	16 293	17 065	17 638	18 126	18 594
Net financial worth	1 892	2 986	4 091	3 559	3 500	3 842	4 293	4 979	5 294	5 546	5 845
Net debt	4 780	1 920	1 246	1 303	666	224	174	127	201	209	196

APPENDIX B

Table B.6 General government expenses by function (\$ million)^{(a)(b)}

	2002-03 Outcome	2003-04 Outcome	2004-05 Estimated Result	2005-06 Budget
General public services	260	329	222	222
Defence	—	—	—	—
Public order and safety	882	900	959	1 030
Education	2 239	2 420	2 686	2 751
Health	2 357	2 563	2 815	2 917
Social security and welfare	533	545	659	647
Housing and community amenities	622	710	787	867
Recreation and culture	248	255	277	264
Fuel and energy	35	87	41	44
Agriculture, forestry, fishing and hunting	161	189	197	196
Mining and mineral resources (other than fuels); manufacturing and construction	98	87	93	91
Transport and communications	589	624	644	713
Other economic affairs	254	219	229	171
Other purposes	620	642	677	756
Total expenses	8 898	9 570	10 285	10 670

- (a) Expenses by function data are derived from information submitted by government departments and agencies. The processes for deriving these data are subjected to ongoing refinements. Consequently the data may be subject to future revisions.
- (b) The methodology for compiling functional data changed in 2003-04. Consequently 2002-03 data and 2003-04 data are not directly comparable.

Table B.7: General Government Sector Capital by Function (\$ million)

	2002-03 Outcome	2003-04 Outcome	2004-05 Estimated Result	2005-06 Budget
General public services	27	122	144	132
Defence	—	—	—	—
Public order and safety	53	53	74	75
Education	42	44	63	61
Health	135	113	124	114
Social security and welfare	1	5	7	6
Housing and community amenities	7	21	15	12
Recreation and culture	42	18	6	3
Fuel and energy	—	—	—	5
Agriculture, forestry, fishing and hunting	5	4	9	7
Mining and mineral resources (other than fuels); manufacturing; and construction	2	—	1	2
Transport and communications	158	125	232	212
Other economic affairs	2	—	1	5
Other purposes	—	—	1	—
Total capital	474	506	677	634

Non-Financial Public Sector

Table B.8: Non-financial public sector key operating statement aggregates

	Revenue			Expenses			Net operating balance	Net financial assets	Net lending		
	\$m		% real growth	\$m		% real growth			\$m	\$m	% Rev
1998-99	9 474		23.9	9 607		24.3	-133	-115	-18	-0.2	
1999-2000	9 206	-5.2	22.3	9 552	-3.0	23.1	-346	-3 508	3 161	34.3	
2000-01	9 051	-4.5	20.2	9 279	-5.7	20.7	-228	-1 111	883	9.8	
2001-02	9 367	0.3	19.5	9 487	-0.9	19.8	-120	-124	5	0.1	
2002-03	10 172	4.4	20.2	9 696	-1.7	19.3	476	72	405	4.0	
2003-04	10 707	2.2	19.9	10 294	3.1	19.1	413	33	379	3.5	
2004-05	11 175	1.8	19.6	10 970	4.0	19.2	206	128	78	0.7	
2005-06	11 306	-1.5	18.8	11 290	0.2	18.7	16	121	-104	-0.9	
2006-07	11 535	-0.5	18.2	11 489	-0.7	18.2	46	234	-188	-1.6	
2007-08	11 885	0.5	17.9	11 801	0.2	17.8	83	203	-120	-1.0	
2008-09	12 172	-0.1	17.4	12 122	0.2	17.4	50	99	-49	-0.4	

Table B.9: Non-financial public sector key balance sheet and aggregates (\$ million) ^(a)

As at 30 June	Net debt ^(b)	Unfunded superannuation	Net financial liabilities	Net financial worth	Net worth
1988	4 397				
1989	4 197				
1990	4 457				
1991	5 418				
1992	8 142				
1993	11 610				
1994	10 550				
1995	8 844				
1996	8 432				
1997	8 170				
1998	7 927				
1999	7 658	3 909	13 152	-12 258	10 622
2000	4 355	3 543	9 952	-8 986	12 445
2001	3 223	3 249	8 185	-7 109	14 816
2002	3 317	3 998	8 999	-7 902	14 721
2003	2 696	4 445	9 120	-8 811	15 288
2004	2 285	5 668	10 167	-9 550	15 760
2005	2 217	6 504	10 879	-10 293	16 293
2006	2 284	6 569	11 036	-10 352	17 065
2007	2 398	6 628	11 245	-10 451	17 638
2008	2 434	6 675	11 392	-10 463	18 126
2009	2 404	6 712	11 468	-10 394	18 594

(a) Unfunded superannuation data from 1998-99 data is sourced from the 1998-99 Budget Outcome publication for South Australia.

(b) Net Debt data for the years up to and including 1998 are sourced from ABS, Government Financial Estimates 2003-04 (catalogue number 5501).

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Table B.10 Non-financial public sector receipts, payments and surplus (\$ million)^(a)

	Receipts	Payments	Cash Surplus
1979-80	2 681	2 388	292
1980-81	2 877	2 649	228
1981-82	3 145	2 963	182
1982-83	3 651	3 356	295
1983-84	4 383	4 014	369
1984-85	4 887	4 356	531
1985-86	5 172	4 415	757
1986-87	5 542	4 790	752
1987-88	6 078	5 299	780
1988-89	6 946	5 784	1 162
1989-90	7 517	6 465	1 052
1990-91	7 830	6 839	991
1991-92	8 352	7 969	383
1992-93	8 939	7 946	993
1993-94	8 761	8 119	642
1994-95	8 570	8 142	428
1995-96	8 985	8 654	331
1996-97	8 908	8 532	375
1997-98	9 426	8 895	532
1998-99	9 301	8 692	609
1999-2000	13 014	9 501	3 513
2000-01	10 572	9 414	1 158
2001-02	9 726	9 722	4
2002-03	10 439	9 805	634
2003-04	10 891	10 403	488
2004-05	11 397	11 318	79
2005-06	11 609	11 660	-51
2006-07	11 690	11 799	-109
2007-08	12 009	12 040	-31
2008-09	12 305	12 270	35

(a) There is a break in the series between 1998-99 and 1999-2000. Data for the years up to and including 1998-99 are sourced from ABS and are consistent with ABS GFS reporting requirements on a cash basis. From 1999-2000 onwards, data are derived from an accrual ABS GFS reporting framework, with receipts proxied by receipts from operating activities and sales of non-financial assets, and payments proxied by payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases. Due to the associated methodological and data-source changes, time series data that encompass measures derived under both cash and accrual accounting should be used with caution.

APPENDIX B

Table B.11: Non-financial public sector operating statement (\$ million)

	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
GFS revenue											
Taxation revenue	2 237	2 527	2 024	2 027	2 272	2 629	2 711	2 633	2 751	2 821	2 905
Current grants	2 914	3 106	3 995	4 488	4 641	4 909	5 191	5 425	5 552	5 769	5 932
Capital grants ^(a)	—	—	—	—	237	215	217	203	220	238	197
Sales of goods and services	3 606	2 869	2 401	2 107	2 272	2 446	2 394	2 348	2 356	2 406	2 463
Interest income	81	176	121	85	103	125	107	114	119	124	133
Other	637	528	510	660	648	382	556	583	538	526	541
<i>Total revenue</i>	<i>9 474</i>	<i>9 206</i>	<i>9 051</i>	<i>9 367</i>	<i>10 172</i>	<i>10 707</i>	<i>11 175</i>	<i>11 306</i>	<i>11 535</i>	<i>11 885</i>	<i>12 172</i>
<i>less</i>											
GFS expenses											
Gross operating expenses	7 662	7 585	7 461	7 625	7 689	8 219	8 875	9 160	9 379	9 682	9 987
Nominal superannuation	277	274	248	244	299	354	307	307	309	309	308
Interest expense											
Other interest expenses	834	782	447	354	374	315	327	337	324	315	308
Other property expenses	5	3	—	—	3	15	17	20	19	15	20
Current transfers	765	860	1 080	1 220	1 276	1 375	1 420	1 441	1 433	1 457	1 478
Capital transfers	63	48	43	44	54	16	24	25	25	23	22
<i>Total expenses</i>	<i>9 607</i>	<i>9 552</i>	<i>9 279</i>	<i>9 487</i>	<i>9 696</i>	<i>10 294</i>	<i>10 970</i>	<i>11 290</i>	<i>11 489</i>	<i>11 801</i>	<i>12 122</i>
<i>equals</i>											
GFS net operating balance	-132	-346	-228	-120	476	413	206	16	46	83	50
<i>less</i>											
Net acquisition of non-financial assets											
Gross fixed capital formation	670	-2280	-594	479	666	687	807	802	936	918	831
less Depreciation	658	607	512	588	603	651	661	681	702	714	732
plus Change in inventories	-101	10	-5	-15	9	-3	-19	—	—	—	—
plus Other movements in non-financial assets	-26	-630	—	—	—	—	—	—	—	—	—
<i>equals Total net acquisition of non-financial assets</i>	<i>-115</i>	<i>-3508</i>	<i>-1111</i>	<i>-124</i>	<i>72</i>	<i>33</i>	<i>128</i>	<i>121</i>	<i>234</i>	<i>203</i>	<i>99</i>
<i>equals</i>											
GFS net lending	-18	3 161	883	5	405	379	78	-104	-188	-120	-49

(a) Prior to 2002-03, capital grants were not reported separately.

APPENDIX B

Table B.12: Non-financial public sector balance sheet (\$ million)

	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Assets											
Financial assets											
Cash and deposits	2 016	3 303	1 932	1 915	2 124	2 250	2 052	2 147	2 155	2 201	2 376
Advances paid	198	—	184	189	192	186	159	131	110	103	95
Investments, loans and placements	11	385	143	182	182	164	171	175	178	181	184
Other non-equity assets	610	358	332	337	294	356	373	398	400	393	376
Equity	894	966	1 076	1 098	309	618	586	685	794	929	1 075
Total financial assets	3 729	5 012	3 666	3 720	3 100	3 574	3 341	3 534	3 638	3 807	4 106
Non-financial assets											
Land and fixed assets	22 822	21 209	21 914	22 605	24 074	25 285	26 577	27 408	28 080	28 580	28 978
Other non-financial assets	58	222	11	17	24	24	9	9	9	9	9
Total non-financial assets	22 880	21 431	21 925	22 622	24 098	25 309	26 586	27 417	28 089	28 589	28 988
Total assets	26 609	26 444	25 592	26 342	27 199	28 883	29 927	30 951	31 727	32 396	33 093
Liabilities											
Deposits held											
Deposits held	407	440	252	190	148	122	188	188	189	190	190
Advances received	1 099	935	844	790	780	733	719	676	676	647	631
Borrowing	8 377	6 668	4 386	4 623	4 267	4 030	3 691	3 872	3 976	4 083	4 238
Unfunded Superannuation liability	3 909	3 543	3 249	3 998	4 445	5 668	6 504	6 569	6 628	6 675	6 712
Other employee entitlements and provisions	1 024	987	1 068	1 137	1 419	1 586	1 557	1 591	1 621	1 656	1 690
Other non-equity liabilities	1 171	1 425	977	884	853	984	974	989	999	1 019	1 039
Total liabilities	15 987	13 998	10 776	11 622	11 911	13 124	13 634	13 886	14 089	14 270	14 500
Net worth	10 622	12 445	14 816	14 721	15 288	15 760	16 293	17 065	17 638	18 126	18 594
Net financial worth	-12 258	-8 986	-7 109	-7 902	-8 811	-9 550	-10 293	-10 352	-10 451	-10 463	-10 394
Net debt	7 658	4 355	3 223	3 317	2 696	2 285	2 217	2 284	2 398	2 434	2 404

CONSOLIDATED ACCOUNT

Table C.1 Summary of receipts and payments

	2005-06 Budget \$000	2004-05 Estimated Result \$000	2004-05 Budget \$000
Receipts			
Taxation	2 661 870	2 756 813	2 609 161
Commonwealth general purpose grants	3 510 800	3 357 600	3 267 800
Commonwealth specific purpose grants	73 453	47 885	56 414
Contributions from State undertakings	586 871	555 134	534 604
Fees and charges	52 005	38 941	69 036
Recoveries	170 474	265 048	280 236
Royalties	94 000	95 300	84 000
Other receipts	296 218	317 921	360 634
Total receipts	7 445 691	7 434 642	7 261 885
Payments			
Appropriation Act	7 420 370	6 990 824	6 894 107
Specific appropriation authorised in various Acts	109 581	105 586	111 101
Total payments	7 529 951	7 096 410	7 005 208
Consolidated Account financing requirement	84 260	- 338 232	- 256 677
Borrowing from/(repayment to) South Australian Government Financing Authority	84 260	- 338 232	- 256 677

APPENDIX C

Table C.2 Estimates of payments

	2005-06 Budget	2004-05 Estimated Result	2004-05 Budget
	\$000	\$000	\$000
Payments from Appropriation Act			
Premier and Cabinet			
Department of the Premier and Cabinet	63 025	50 056	42 252
Administered Items for the Department of the Premier and Cabinet	17 732	17 413	19 209
State Governor's Establishment	2 725	3 228	2 498
Arts SA	95 071	96 099	91 984
Tourism			
South Australian Tourism Commission	45 314	43 111	41 121
Minister for Tourism	4 634	5 261	4 511
Auditor-General			
Auditor-General's Department	10 386	10 112	10 112
Administered Items for the Auditor-General's Department	812	851	851
Treasury and Finance			
Department of Treasury and Finance	45 050	43 227	41 708
Administered Items for the Department of Treasury and Finance	1 029 798	964 005	1 088 661
Independent Gambling Authority	1 386	1 362	1 362
Trade and Economic Development			
Department of Trade and Economic Development	59 469	61 255	82 710
Administered Items for the Department of Trade and Economic Development	—	—	601
Office of the Venture Capital Board	10 520	2 493	11 493
Primary Industries and Resources			
Department of Primary Industries and Resources	116 141	120 280	113 809
Administered Items for the Department of Primary Industries and Resources	202 287	92 335	92 335
South Australian Local Government Grants Commission	3	—	—
Office of Local Government	2 626	—	—
Administered Items for the Office of Local Government	620	—	—
Offices for Sustainable Social, Environmental and Economic Development	1 816	—	—
Outback Areas Community Development Trust	459	—	—
Planning SA	15 689	—	—
Administered Items for Planning SA	870	—	—
Justice			
Attorney-General's Department	68 761	64 416	63 278
Administered Items for the Attorney-General's Department	47 046	48 274	43 868
Courts Administration Authority	71 263	65 262	63 679
Administered Items for Courts Administered Authority	—	—	30
Department for Correctional Services	134 305	127 881	125 271
South Australia Police	439 438	363 704	361 606
Administered Items for Police and Emergency Services	5 306	6 935	6 655
State Electoral Office	9 843	2 147	2 076

APPENDIX C

Table C.2 Estimates of payments (continued)

	2005-06 Budget \$000	2004-05 Estimated Result \$000	2004-05 Budget \$000
Human Services^(a)			
Department of Human Services and Department for Families and Communities	—	—	1 838 751
Administered Items for the Department of Human Services and Administered Items for the Department for Families and Communities	—	—	166 349
Health^(a)			
Department of Health	1 475 210	1 420 689	—
Administered Items for the Department of Health	46 907	43 617	—
Families and Communities^(a)			
Department for Families and Communities	585 245	570 712	—
Administered Items for the Department for Families and Communities	134 929	151 868	—
Education and Children's Services			
Department of Education and Children's Services	1 494 042	1 494 024	1 458 237
Administered Items for the Department of Education and Children's Services	133 773	130 218	137 400
Further Education, Employment, Science and Technology			
Department of Further Education, Employment, Science and Technology	256 273	238 271	232 684
Environment and Conservation and the River Murray			
Department for Environment and Heritage	121 759	115 788	113 196
Administered Items for the Department for Environment and Heritage	3 587	3 589	3 589
Department of Water, Land and Biodiversity Conservation	84 859	86 499	65 278
Administered Items for the Department of Water, Land and Biodiversity Conservation	28 719	18 954	37 854
Environment Protection Authority	7 074	8 704	8 692
Transport and Urban Planning^(b)			
Office of Local Government	—	2 879	—
Administered Items for the Office of Local Government	—	601	—
Office of Public Transport	—	179 722	173 263
Offices for Sustainable Social, Environmental and Economic Development	—	1 335	1 335
Outback Areas Community Development Trust	—	300	—
Planning SA	—	16 396	14 723
Administered Items for Planning SA	—	2 231	844
TransAdelaide	—	2 791	2 791
Transport Services	—	109 742	51 892
Administered Items for Transport Services	—	8 700	67 600
Transport Planning	—	2 610	2 467
Transport , Energy and Infrastructure^(b)			
Department for Transport, Energy and Infrastructure	354 873	300	—
Administered Items for Transport, Energy and Infrastructure	13 767	—	—
TransAdelaide	2 787	—	—

(a) During the year, the Department of Human Services was restructured with two separate departments created for the Department of Health and Department for Families and Communities.

Hence, numbers contained in the agencies belonging to these portfolios will not be comparable.

(b) On 28 April 2005, new portfolio entity structures were adopted when the Department for Transport and Urban Planning became Department for Transport, Energy and Infrastructure.

Hence, numbers contained in the agencies belonging to these portfolios will not be comparable.

APPENDIX C

Table C.2 Estimates of payments (continued)

	2005-06 Budget	2004-05 Estimated Result	2004-05 Budget
	\$000	\$000	\$000
Administrative and Information Services			
Department for Administrative and Information Services	153 425	164 325	182 172
Administered Items for the Department for Administrative and Information Services	2 743	7 651	5 680
Legislature			
House of Assembly	6 604	6 470	6 470
Joint Parliamentary Services	7 332	8 155	7 184
Legislative Council	4 067	3 976	3 976
Total payments appropriated for administrative units, statutory authorities and Ministers	7 420 370	6 990 824	6 894 107
Payments for which specific appropriation is authorised in various Acts	109 581	105 586	111 101
Total Consolidated Account payments	7 529 951	7 096 410	7 005 208

APPENDIX C

Table C.2 Estimates of payments (continued)

	2005-06 Budget	2004-05 Estimated Result	2004-05 Budget
	\$000	\$000	\$000
Payments for which specific appropriation is authorised in various Acts			
Salaries and allowances			
Agent-General — Pursuant to Agent-General Act 1901	289	275	280
Auditor-General — Pursuant to Public Finance and Audit Act 1987	228	220	220
Commissioner of Police — Pursuant to Police Act 1998	241	236	236
Electoral Commissioner and Deputy Electoral Commissioner — Pursuant to Electoral Act 1985	412	302	302
Employee Ombudsman — Pursuant to Industrial and Employee Relations Act 1994	94	91	91
Governor — Pursuant to Constitution Act 1934	212	201	201
Judges — Pursuant to Remuneration Act 1990 Chief Justice	483	441	430
Judges	15 903	14 600	14 396
Magistrates — Pursuant to Remuneration Act 1990	10 528	9 540	9 295
Members of Various Standing Committees — Pursuant to Parliamentary Remuneration Act 1990 and Parliamentary Committees (Miscellaneous) Act 1991	558	547	549
Ombudsman — Pursuant to Ombudsman Act 1972	215	215	215
Parliamentary Salaries and Electorate and Expense Allowances —			
Ministers, Officers and Members of Parliament — Pursuant to Parliamentary Remuneration Act 1990	10 785	10 562	10 430
Senior Judge and Judges of the Industrial Relations Commission — Pursuant to Remuneration Act 1990	1 466	1 397	1 397
Solicitor-General — Pursuant to Solicitor-General Act 1972	254	254	254
Valuer-General — Pursuant to Valuation of Land Act 1971	108	105	105
Total salaries and allowances	41 776	38 986	38 401
Other			
Compensation for Injuries Resulting from Criminal Acts — Pursuant to Criminal Injuries Compensation Act 1978	6 205	6 200	6 200
First Home Owner Grant — Pursuant to First Home Owner Grant Act 2000	61 600	60 400	66 500
Total other	67 805	66 600	72 700
Total payments authorised by various Acts	109 581	105 586	111 101

APPENDIX C

Table C.3 Estimates of receipts

	2005-06 Budget	2004-05 Estimated Result	2004-05 Budget
	\$000	\$000	\$000
Taxation			
Payroll tax	932 600	892 100	862 000
Commonwealth places mirror payroll tax	16 300	15 600	15 100
Stamp duties	997 530	1 092 530	974 200
Commonwealth places mirror stamp duties	1 000	1 000	1 100
Land tax	272 400	271 900	268 800
Commonwealth places mirror land tax	1 300	1 000	1 100
Debits tax	5 100	59 900	59 900
Commonwealth places mirror debits tax	—	400	400
Other taxes on property	10	10	10
River Murray Levy	19 700	19 000	19 000
Gaming machines tax	307 400	298 000	302 400
Contribution from Lotteries Commission of South Australia	78 324	76 213	76 213
Contribution from Casino operations	18 200	17 500	17 500
Contribution from South Australian Totalizator Agency Board	8 900	8 600	8 300
Contribution from on-course totalizators, bookmakers and small lotteries	2 906	2 860	2 938
Recoup from Recreation and Sport Fund	200	200	200
Total taxation receipts	2 661 870	2 756 813	2 609 161
Commonwealth general purpose payments			
Competition grants	50 300	50 500	46 900
GST revenue grants	3 460 500	3 329 100	3 242 900
Transitional grant overpayment/recovery	—	- 22 000	- 22 000
Total Commonwealth general purpose payments	3 510 800	3 357 600	3 267 800
Commonwealth specific purpose payments^(a)			
Companies code — fees	12 264	11 965	11 965
Concessions to pensioners and others	19 519	18 862	18 862
SA Infrastructure Corporation	—	—	10 300
Debt redemption assistance	29 848	3 744	3 743
Legal Aid	11 349	12 841	11 071
Native Title Legislation — administration	473	473	473
Total Commonwealth specific purpose payments	73 453	47 885	56 414

(a) Refers only to those Commonwealth Specific Purpose Payments paid to the Consolidated Account and not those paid directly to agencies.

APPENDIX C

Table C.3 Estimates of receipts (continued)

	2005-06 Budget	2004-05 Estimated Result	2004-05 Budget
	\$000	\$000	\$000
Contributions from State undertakings			
Department for Administrative and Information Services			
Dividend	100 552	101 140	101 895
Income tax equivalent	3 562	3 551	3 551
Local government rate equivalent	623	608	608
Department of Trade and Economic Development			
Dividend	1 196	—	927
Forestry SA			
Dividend	20 181	22 340	20 375
Income tax equivalent	13 573	10 945	10 925
Local government rate equivalent	1	1	1
Funds SA			
Local government rate equivalent	170	165	165
HomeStart Finance			
Income tax equivalent	1 007	1 168	1 168
Land Management Corporation			
Dividend	14 180	2 783	2 867
Income tax equivalent	2 645	2 010	1 643
Local government rate equivalent	110	105	105
Lotteries Commission of South Australia			
Dividend	—	3 479	3 479
Income tax equivalent	7 687	7 249	7 249
Local government rate equivalent	12	12	12
Police Security Services			
Income tax equivalent	112	87	200
Private			
Local government rate equivalent	—	483	—
Public Trustee Office			
Dividend	769	954	1 371
Income tax equivalent	474	188	398
Local government rate equivalent	28	27	27
SA Water Corporation			
Dividend	201 357	174 305	173 219
Income tax equivalent	79 929	73 521	73 064
Local government rate equivalent	1 930	1 905	895
South Australian Asset Management Corporation			
Dividend	6 000	73 200	73 200
South Australian Government Captive Insurance Corporation			
Income tax equivalent	1 552	—	—
South Australian Government Employee Residential Properties			
Dividend	1 156	1 156	1 156
Income tax equivalent	493	493	493

APPENDIX C

Table C.3 Estimates of receipts (continued)

	2005-06 Budget	2004-05 Estimated Result	2004-05 Budget
	\$000	\$000	\$000
South Australian Government Financing Authority			
Dividend	89 000	37 900	38 800
Income tax equivalent	14 000	6 400	5 500
South Australian Housing Trust			
Income tax equivalent	15 015	15 015	—
TransAdelaide			
Dividend	4 063	3 954	3 954
Income tax equivalent	1 262	1 185	1 185
Local government rate equivalent	83	83	83
Transport Services			
Dividend	3 688	4 113	4 113
Income tax equivalent	—	2 600	1 490
Local government rate equivalent	82	82	82
West Beach Trust			
Income tax equivalent	379	1 927	404
Total contributions from state undertakings	586 871	555 134	534 604
Fees and charges^(b)			
Auditor-General's Department — fees for audit and other sundry			
receipts	8 963	8 745	8 745
Court and probate fees	17 720	17 197	17 197
Court fines	9 070	7 832	7 832
Department of Water, Land and Biodiversity Conservation —			
excess water charges	1 275	1 250	1 000
Guarantee fees	16 278	16 561	16 558
Infringement notice schemes — expiation fees	- 1 327	- 12 669	17 679
Sundry fees	26	25	25
Total fees and charges	52 005	38 941	69 036
Recoveries			
Child Abuse Protection program — intrasector grants received	200	200	200
Community Road Safety Fund	67 410	60 153	60 153
Contribution to the cost of private plated vehicles	10	10	10
Environmental Enhancement Levy	3 663	—	—
Essential Services Commission of SA	4 977	4 632	4 632
Helicopter service — recovery of costs and sponsorships	1 757	1 634	1 679
Independent Gaming Corporation contribution to Gamblers'			
Rehabilitation Fund	1 500	1 500	1 850
Legislature — sale of publications	564	564	564
Light motor vehicle fleet — rental payments recovery	4 300	4 300	4 300
National Tax Equivalent Program	12	12	12
Return of cash to Consolidated Account - Cash Alignment Policy	40 935	157 550	144 212
Return of cash to Consolidated Account - Cash Alignment Policy - interest	27 750	22 159	32 590
Return of Commonwealth places mirror taxes collected	—	—	17 700
Road Safety Package	14 328	9 300	9 300
Sale of evidence/transcripts	1 235	1 235	1 235
Sale of Government Gazette	150	150	150
Sundry recoupment	121	118	118
Unclaimed monies	1 562	1 531	1 531
Total recoveries	170 474	265 048	280 236

(b) Refers to only those fees and charges paid to the Consolidated Account.

APPENDIX C

Table C.3 Estimates of receipts (continued)

	2005-06 Budget \$000	2004-05 Estimated Result \$000	2004-05 Budget \$000
Royalties			
Department of Primary Industries and Resources	94 000	95 300	84 000
Total royalties	94 000	95 300	84 000
Other receipts			
<i>Interest</i>			
Interest on investments	78 597	71 536	85 691
Interest recoveries from general government entities	15 708	13 879	11 204
Interest recoveries from non commercial public trading enterprises	46 883	46 772	44 742
Interest recoveries from universities	1 414	1 414	1 414
Interest recoveries from the private sector	82	89	89
<i>Repayment of Advances</i>			
Adelaide Festival Centre Trust	926	775	775
Administered Items for Transport, Energy and Infrastructure	151	142	—
Department of Health ^(c)	551	396	—
Department of Primary Industries and Resources	1 017	1 017	1 017
Land Management Corporation	79	56	56
Lotteries Commission of South Australia	1 637	1 542	1 542
Medical Board of South Australia	12	45	—
Minister for Education and Children's Services	1 500	3 000	1 500
Office of Public Transport	—	749	749
Renmark Irrigation Trust	91	86	111
SA Country Arts Trust	20	20	20
South Australian Government Employee Residential Properties	1 193	1 193	1 193
South Australian Housing Trust	18 558	17 742	17 745
South Australian Tourism Commission	147	138	1 026
TransAdelaide	5 381	5 381	5 381
University of South Australia	15 000	—	—
West Beach Trust	80	20	72
Other Recoveries	4	—	400
<i>Repayment of equity capital contributions</i>			
Department for Administrative and Information Services	9 545	110 837	84 680
Department of Health ^(c)	16 963	—	—
Department of Human Services ^(c)	—	—	77 672
SA Water Corporation	74 340	—	—
South Australia Police	—	18 813	15 957
<i>Other</i>			
Other Recoveries	382	12 275	17
Sale of land and buildings	5 957	10 004	7 581
Total other receipts	296 218	317 921	360 634
Total Consolidated Account receipts	7 445 691	7 434 642	7 261 885

(c) During the year, the Department of Human Services was restructured with two separate departments created for the Department of Health and Department for Families and Communities.

Hence, numbers contained in the agencies belonging to these portfolios will not be comparable.

SOUTH AUSTRALIAN STATE PUBLIC SECTOR ORGANISATIONS

	General Govt. Sector	Public Non-Financial Corporations Sector	Financial Corporations Sector
2007 World Police and Fire Games Corporation	*		
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 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.....	*		
Australian Children's Performing Arts Company (trading as Windmill Performing Arts)		*	
Bio Innovation SA.....	*		
Board of the Botanic Gardens and State Herbarium.....	*		
Carrick Hill Trust	*		
Correctional Services, Department for.....	*		
Country Fire Service Board	*		
Courts Administration Authority.....	*		
Dairy Authority of South Australia	*		
Distribution Lessor Corporation		*	
Education Adelaide.....	*		
Education and Children's Services, Department of	*		
Electricity Supply Industry Planning Council.....	*		
Emergency Services Administrative Unit.....	*		
Environment and Heritage, Department for	*		
Environment Protection Authority	*		
Essential Services Commission of SA.....	*		
Eyre Peninsula Catchment Water Management Board	*		
Families and Communities, Department for.....	*		
Further Education, Employment, Science and Technology, Department of	*		

APPENDIX D

	General Govt. Sector	Public Non-Financial Corporations Sector	Financial Corporations Sector
Generation Lessor Corporation			*
Health, Department of	*		
History Trust of South Australia	*		
HomeStart Finance			*
House of Assembly	*		
Independent Gambling Authority	*		
Information Industries Development Centre (trading as Playford Capital)	*		
Infrastructure Development, Office for	*		
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	*		
Natural Gas Authority of South Australia ^(b)		*	
Northern Adelaide and Barossa Catchment Water Management Board	*		
Onkaparinga Catchment Water Management Board	*		
Outback Areas Community Development Trust	*		
Patawalonga Catchment Water Management Board	*		
Premier and Cabinet, Department of the	*		
Primary Industries and Resources, Department of ^(b)	*		
Public Employment, Office of	*		
Public Transport, Office of	*		
Public Trustee		*	
RESI Corporation		*	
River Murray Catchment Water Management Board	*		
Senior Secondary Assessment Board of South Australia	*		
South Australia Police (also known as South Australian Police Department, SAPOL)	*		
South Australian Ambulance Service	*		
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)		*	

APPENDIX D

	General Govt. Sector	Public Non-Financial Corporations Sector	Financial Corporations Sector
South Australian Government Captive Insurance Corporation (trading as SAICORP)	*		
South Australian Government Employee Residential Properties ^(a)		*	
South Australian Government Financing Authority (trading as SAFA)			*
South Australian Housing Trust		*	
South Australian Infrastructure Corporation.....		*	
South Australian Local Government Grants Commission.....	*		
South Australian Metropolitan Fire Service.....	*		
South Australian Motor Sport Board		*	
South Australian Tourism Commission	*		
South Australian Water Corporation (trading as SA Water)		*	
South East Catchment Water Management Board.....	*		
South Eastern Water Conservation and Drainage Board	*		
State Electoral Office	*		
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	*		
Trade and Economic Development, Department of	*		
TransAdelaide		*	
Transmission Lessor Corporation		*	
Transport, Energy and Infrastructure, Department for	*		
Treasury and Finance, Department of	*		
Venture Capital Board, Office of the	*		
Venue Management, Office of	*		
Water, Land and Biodiversity Conservation, Department of	*		
West Beach Trust (trading as Adelaide Shores)		*	
WorkCover Corporation of South Australia.....			*
Zero Waste SA	*		

APPENDIX D

	General Govt. Sector	Public Non-Financial Corporations Sector	Financial Corporations Sector
<u>Changes since the previous Budget:</u>			
<u>New Organisations created since the previous Budget:</u>			
Department for Families and Communities and Department of Health, replacing the Department for Human Services (from 1/07/04)	*		
Office of Public Employment (proclaimed 2/09/04)	*		
<u>Change of Entity Name since the previous Budget:</u>			
Adelaide Film Festival was previously known as the Adelaide International Film Festival (change proclaimed 23/09/04) ...	*		
Department for Transport, Energy and Infrastructure was previously known as the Department of Transport and Urban Planning (change proclaimed 18/04/05)	*		
<u>Change of Entity Business Status since the previous Budget:</u>			
Office of Public Transport, moved from a PNFC organisation to a general government sector organisation (change effective for 2004-05 financial year)	*		
<u>Future Changes of Significance, post Budget:</u>			
On 9/12/04 8 new Natural Resource Management Boards were established to administer the Natural Resources Management Act 2005. The new boards will progressively become operational from July 2005 and will replace the existing Animal and Plant Control Commission, the various listed Catchment Water Management Boards, as well as various non-public sector environmental management based organisations receiving State funds. These existing organisations will in turn be progressively abolished as the new Boards become operational.	*		
South Australian Fire and Emergency Services Commission (SAFECOM) to replace the Emergency Services Administrative Unit (Cabinet approval on 21/02/05 but proclamation and implementation have not yet occurred)	*		
State Procurement Board to replace the State Supply Board (assented to on 29/07/04, but proclamation and implementation have not yet occurred)	*		

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- (a) Department for Administrative and Information Services (DAIS) includes South Australian Government Employee Residential Properties, which is a PNFC. The rest of DAIS is classified as part of the general government sector.
- (b) Department of Primary Industries and Resources (PIRSA) includes Natural Gas Authority of South Australian, which is a PNFC. The rest of PIRSA is classified as part of the general government sector.

TAX EXPENDITURE STATEMENT

Overview

This statement provides a summary of tax expenditures incurred by the South Australian Government in 2003-04 and 2004-05.

What are tax expenditures?

The term ‘tax expenditure’ refers to differential tax treatment where the difference constitutes a departure from the tax standard or benchmark.

Examples of tax expenditures can include:

- tax exemptions;
- reduced rates of taxation;
- tax rebates or deductions; and
- deferral of the payment of tax liabilities.

Thus a tax expenditure is a reduction in tax revenue resulting from ‘preferential’ tax treatment. In practice, differentiating preferential tax treatment from tax differences that are integral to efficient revenue-raising design is not always straightforward.

In the design of expenditure and revenue policy, Governments observe various principles of fairness and equity. Such principles apply to decisions on taxation policies as well as decisions that underpin the direction of public expenditure. As a result, a number of differential tax treatments across a broad spectrum of taxpayers and particular activities may arise.

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.

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 (for example on education, health and law and order) are subject to 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 delivered via the tax system, 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 government businesses have been required to pay taxes and tax ‘equivalents’ to put them on a more comparable footing with private sector competitors, other 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 government activities would need to be matched by additional funding to maintain service levels. Rather, tax expenditures that relate to the non commercial government activities 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

Tax expenditures in this Appendix are calculated according to the *revenue forgone* method, which involves applying the general structure of a tax to a tax base (that is, a group of people or activities) 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 – that is, the revenue forgone approach assumes that taxpayer behaviour will remain unchanged if concessions are removed. Therefore, tax expenditures measured using this approach are likely to be only a broad indication of actual revenue impacts and, more specifically, this approach is likely to overstate the actual revenue forgone as a result of an individual tax concession. 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.

Some qualifications apply to the estimates contained in this statement. Aside from the absence of assumptions about behavioural responses, the estimates are in many cases approximations, reflecting data limitations and the use of proxy indicators to measure the size of revenue bases relevant to tax concessions.

Benchmark for measuring tax expenditures

Tax expenditures should be quantified by comparing the existing tax structure with a benchmark tax structure based entirely on taxation design principles. In practice deciding on such a structure does involve some judgements. For example, the benchmark structure used for payroll tax is a flat tax at the current rate with no threshold. There is no particular merit in the current rate from the point of view of tax design but it has been adopted because it is the existing rate. Further, a zero threshold would probably not be desirable from a tax design point of view because the administrative costs of collecting revenue from very small employers might well exceed the revenue collected. However, for the sake of simplicity, a zero threshold has been adopted in this exercise.

Summary

The view has been taken that the extent of tax relief provided through the availability of exemptions, concessions, rebates and allowable deductions is sufficiently important to warrant documentation even if (a) the benchmark against which tax expenditure is assessed could be argued to be imperfectly defined, (b) the measurement of those imperfectly defined expenditures is also subject to qualification and (c) the value of many tax expenditures cannot be quantified.

Many tax expenditures have not been able to be quantified. In particular, there are a large number of exemptions from stamp duties that are not reflected in the estimates due to a lack of information on the size of the affected tax bases. Similarly, a number of exemptions relating to debits tax and some payroll tax exemptions have not been quantified. As such, the aggregate total of the estimates contained in Table E.1 does not represent the total value of assistance provided by tax expenditures.

The two largest tax expenditures are the payroll 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 2004-05 (\$488 million) represent 54 per cent of total payroll tax revenue collections. This represents an increase of \$21 million from 2003-04, notwithstanding the reduction in the payroll tax rate in 2004-05.

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 5.50 per cent (reduced from 5.67 per cent in 2003-04) above an annual threshold equivalent to \$504 000. 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 \$374 million for 2004-05 in respect of private sector employers. This comprises \$280 million in revenue forgone from small businesses that are not liable for payroll tax, and \$94 million in respect of employers who are liable for payroll tax but benefit from not paying tax on the first \$504 000 of wages per annum.

Several other groups of taxpayers are 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 \$59 million in 2004-05. Other expenditures include local government councils (\$19 million), non-profit schools (\$9 million) and non-profit hospitals and providers of health services (\$8 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 insurance have the largest tax expenditures. The total tax expenditure in 2004-05 for stamp duties (\$51 million) is equivalent to five per cent of stamp duty revenues. This represents an increase of \$7 million from 2003-04 largely on account of enhancements to the concessions provided to first home buyers.

Total tax expenditures for conveyance duty amount to \$22 million in 2004-05. First home owners in 2004-05 are eligible for a full stamp duty concession on home purchases valued up to \$80 000. A partial concession applies for first home purchases valued between \$80 000 and \$250 000. The total cost of this exemption in 2004-05 is estimated to be \$9 million, \$6 million higher than in 2003-04 due to an increase in the threshold level for partial concessions from \$130 000 to \$250 000. The stamp duty exemption for family farm transfers is estimated to cost \$6 million in 2004-05.

Approximately \$18 million of stamp duty tax expenditures in 2004-05 relate to exemptions given in respect of the \$60 stamp duty fee payable on the combined renewal certificate for vehicle registration and compulsory third party (CTP) insurance. Of this, \$12 million relates

to pensioners and State Concession Card holders. The balance mainly relates to conditionally registered vehicles (eg historic and left hand drive vehicles, special purpose vehicles such as fork lifts, tractors, self propelled farm implements and mobile cranes), government vehicles registered under the Continuous Government Registration Scheme and vehicles owned by councils.

Land tax

Total land tax expenditures are estimated at \$461 million in 2004-05. This represents 162 per cent of total land tax collections and has grown significantly (by 38 per cent or \$126 million) from 2003-04.

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 a threshold level (equal to \$50,000 in 2003-04 and 2004-05). A marginal tax rate structure applies above this threshold, with increasing marginal tax rates applied as the value of landholdings increases.

The quantification of tax expenditures for land tax is based on an approach which adheres to the general principle of benchmarking against existing tax structures.

The tax expenditures associated with land tax include:

- the \$50 000 general threshold — estimated to cost \$24 million in 2004-05;
- the principal place of residence exemption (provided the land is owned by a natural person as distinct from a corporate body) — estimated to cost \$171 million in 2004-05;
- the primary production exemption (provided it meets certain criteria) — estimated to cost \$200 million in 2004-05; and
- other specific exemptions listed in Section 4 of the *Land Tax Act 1936*. These include land used for religious purposes, State-subsidised hospitals, libraries, parklands, 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 \$66 million in 2004-05.

As part of the land tax reduction package announced on 7 February 2005, additional exemptions will be provided for caravan parks, residential parks and home-based income earning activities conducted from the principal place of residence; in the latter case, exemption levels will depend on the proportion of the house area used for the income-earning activity. The criteria used to determine eligibility for a primary production exemption for owners of land located in "defined rural areas" (close to Adelaide and Mount Gambier) will also be amended to broaden eligibility. In the 2005-06 Budget, further exemptions are also provided for supported residential facilities.

Grants will also be provided to multicultural clubs to offset land tax liabilities. Although similar to tax relief provided through the tax system, these grants do not qualify as tax expenditures as they involve direct payments and are reflected on the expenditure side of the Budget.

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 2004-05, the benefit to non-profit venues of the tax differential is estimated to be \$6 million or 2 per cent of total gambling tax collections.

Emergency services levy

The Emergency Services Levy (ESL) was originally intended to provide a comprehensive method of funding emergency services by raising sufficient funds from property holders to support aggregate expenditure on emergency services. In practice, property owners (fixed and mobile) now collectively contribute just over half of the total levy proceeds. The remaining levy 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 regions. The motivation for the differential levy rates appears to lie in a desire to achieve some alignment with relative risk of property types, the value of the service provided (related to property value) and regional variation in service levels. The effect of remissions for the variable property value element of the ESL means the ESL for residential property is predominantly a flat amount per property. 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.

Save the River Murray levy

The Save the River Murray Levy was introduced to fund specific measures aimed at improving the long-term security and quality of South Australia's water supply.

The levy is imposed at a flat rate to SA Water customers and is indexed annually to movements in the Adelaide Consumer Price Index. Consideration of the impact the levy would have on different sections of the community was taken into account before the introduction of the levy. To relieve the burden placed upon low income earners, pensioners who are eligible for a concession on their SA Water rates and charges are exempt from the levy. This exemption amounts to an estimated tax expenditure of \$4 million in 2004-05, or 23 per cent of revenue raised from the Save the River Murray Levy.

Primary producers who own land that is not contiguous, but is farmed as a single farming enterprise, are allowed to amalgamate their Save the River Murray Levy liabilities in certain circumstances. This limits their Save the River Murray Levy liability to the non-residential charge applicable on one property. However, it is not possible to quantify expenditure for this exemption.

Growth in tax expenditures

The cost of tax expenditures has increased in 2004-05 mainly in respect of:

- *land tax* — reflecting the uplift in land values impacting on 2004-05 land tax assessments;
- *payroll tax* — reflecting growth in payrolls (partly offset by the payroll tax reduction in 2004-05).

Tax expenditures associated with stamp duties exhibited strong growth reflecting, in large part, the exemption from mortgage duty and extension of conveyance duty concessions for first homebuyers announced in the 2004-05 Budget. However, due to the relatively small component that tax expenditures on stamp duties comprise, the growth in stamp duty tax expenditures had little effect on the total level of tax expenditures.

APPENDIX E

Table E.1: Summary of tax expenditures

Tax expenditures (\$ million)	2003-04	2004-05
PAYROLL TAX ^(a)		
Threshold exemption	355.6	373.9
<u>Of which:</u>		
<i>benefit to existing taxpayers with payrolls above the threshold</i>	90.1	94.1
<i>benefit to employers with payrolls below the threshold</i>	265.5	279.8
Export rebates	5.1	4.5
Trainee rebates	5.3	5.0
Firm specific relief	6.4	6.4
Public benevolent institutions	3.3	3.4
Public hospitals exemption	56.3	58.8
Non-profit schools or colleges at or below secondary level	9.0	9.4
Non-profit hospital and health providers exemption	7.8	8.2
Child care centres	0.3	0.3
Local government council exemption	17.8	18.6
Assistance for motion picture production companies	0.4	0.0
TOTAL FOR PAYROLL TAX	467.3	488.5
STAMP DUTIES		
Conveyance duty		
Family farm exemption	5.9	5.5
First home owner concessions ^(b)	2.7	8.7
Corporate reconstructions	1.5	3.8
Inner city housing rebate	0.1	0.2
General remissions	2.2	4.2
Bushfire relief	—	<0.1
Mortgage duty		
First home exemption	—	5.2
Primary producer loans and rural branch bank closures	0.2	0.4
Differential taxation treatment of mortgages for owner occupation	3.9	3.9
Bushfire relief	—	0.1
General remissions	<0.1	0.3
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	0.4	0.4
Conditionally registered vehicles	3.8	3.8
Incapacitated ex-servicemen and other persons	0.2	0.2
Pensioners and State concession card holders	12.0	12.2

APPENDIX E

Tax expenditures (\$ million)	2003-04	2004-05
Share duty		
Corporate reconstructions	9.0	0.0
General remissions	0.5	0.2
Stamp duty on motor vehicle registrations		
General remissions	0.1	<0.1
Bushfire relief	—	0.5
TOTAL FOR STAMP DUTIES	43.7	50.8
LAND TAX		
Threshold exemption	25.1	23.9
Principal place of residence	110.9	170.8
Primary production	140.8	200.4
Other exemptions ^(c)	57.6	65.5
TOTAL FOR LAND TAX	334.4	460.6
GAMBLING TAXES		
Differential taxation treatment of non-profit businesses	5.2	5.5
General remissions	<0.1	0.1
TOTAL FOR GAMBLING TAXES	5.2	5.5
SAVE THE RIVER MURRAY LEVY	3.1	4.3
EMERGENCY SERVICES LEVY		
Pensioner concessions	6.2	6.2
General remissions		
fixed property	64.1	61.4
mobile property	8.6	8.7
TOTAL FOR EMERGENCY SERVICES LEVY	78.9	76.3

- (a) Costings of specific exemptions for 2003-04 differ from those published in the 2004-05 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) Includes a wide range of exemptions provided to land used for a number of specific activities under section four of the Land Tax Act 1936. Some of these include land used for religious purposes, State-subsidised hospitals, libraries, parklands, conservation of native flora and fauna, sporting activities and so on.

GLOSSARY OF TERMS USED IN THE BUDGET PAPERS

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: Under Generally Accepted Accounting Principles, these are the three main financial statements produced by reporting entities, being the Statement of Financial Performance, the Statement of Financial Position and the Statement of Cash Flows. Accrual statements for the various sectors of the public sector are also produced in accordance with the *Uniform Presentation Framework*. These are the Operating Statement, Balance Sheet and Statement of Cash Flows.

Administered items: Resources over which an agency has legal custody, but which the agency does not control because it may not deploy them to meet its own objectives.

Assets: Assets represent future economic benefits controlled by an entity as a result of past transactions.

Australian Accounting Standards: The (former) Public Sector Accounting Standard Board's series of Accounting Standards and the Australian Accounting Standard Board's series of Accounting Standards. Accounting Standards are binding on SA Government entities by authority of Treasurer's Instruction 19.

Australian Equivalents to International Financial Reporting Standards: Accounting Standards issued by the Australian Accounting Standards Board that are equivalent to Standards issued by the International Accounting Standards Board.

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.

Consumer Price Index: A general indicator of the rate of change in prices paid by households for consumer goods and services published by the Australian Bureau of Statistics.

Controlled items: Resources that an agency is able to control and deploy to meet its objectives.

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.

Equity: Equity represents the owner's residual interest in the assets of an entity after deduction of the entity's 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.

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.

Government Finance Statistics: A series of reports prepared by the Australian Bureau of Statistics based on accrual international concepts, providing standardised reports for the public sector.

Gross State Product: The total market value of goods and services produced in the State within a given period after deducting the cost of goods and services used up in the process of production, but before deducting allowances for the consumption of fixed capital.

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.

Intergovernmental Agreement: *The 1999 Intergovernmental Agreement on the Reform of Commonwealth State Financial Relations (IGA).*

Investment income: Income received and receivable on financial assets.

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 lending/borrowing position: A GFS measure of the net operating balance, less acquisition of non financial assets, plus consumption of fixed capital (depreciation). Measures the extent to which accruing operating expenses (less depreciation) and investment expenditures is funded by revenues.

Net financial liabilities: Net financial liabilities is calculated as total liabilities less non equity financial assets, such as cash, advances and investments. This measure is broader than net debt as it includes significant liabilities other than borrowings, such as unfunded superannuation and long service leave entitlements.

Net lending/borrowing position: Equals net operating balance, less acquisition of non financial assets, plus consumption of fixed capital (depreciation). Measures the extent to which accruing operating expenses (less depreciation) and investment expenditures is funded by revenues.

Net operating balance: Measures the operating result of a “sector” of government under Government Finance Statistics (GFS) principles. It is the excess of GFS revenue over GFS expenses.

Non financial public sector: The combination of the general government sector and public non financial corporations.

Performance Indicators: Attributes of sub-programs for which performance targets are set and monitored.

Prudential Management Group: Comprises the Chief Executives of Justice, and Premier and Cabinet, and the Under Treasurer. It is 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): Government controlled entities that are mainly engaged in financial intermediation or provision of auxiliary financial services.

Public non financial corporations (PNFC): Government controlled entities that are mainly engaged in the production of market goods and/or non financial services, which recover a significant portion of their costs through user charges.

Real terms: Estimates of financial aggregates in real terms reflect adjustments made in order to take account of the impact of rising prices on the purchasing power of money. Throughout this budget paper, reference is made to real term aggregates and growth rates. All real terms calculations use the Adelaide Consumer Price Index (CPI), unless specifically stated otherwise.

Revenue: 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 Performance: The financial statement disclosing the revenues, expenses (and their sources) for a period.

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.

Uniform Presentation Framework (UPF): The reporting framework agreed by the Commonwealth, State and Territory Governments, to ensure all governments provide a common ‘core’ of financial information in their budget papers. (refer to Appendix A)

ABBREVIATIONS USED IN THE BUDGET PAPERS

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
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
AGSRC	average government school recurrent cost
AHA	Aboriginal Housing Authority
AHCA	Australian Health Care Agreement
AIFRS	Australian equivalents to International Financial Reporting Standards
ANTA	Australian National Training Authority
APY	Anangu Pitjantjatjara Yunkunytjatjara
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
BBA	budget balancing assistance
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/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
DHS	Department of Human Services
DLC	Distribution Lessor Corporation
EARF	Extractive Areas Rehabilitation Fund
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
FTE	full time equivalent
Funds SA	Superannuation Funds Management Corporation of South Australia
GAMD	Group Asset Management Division
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GGS	General Government Sector
GLC	Generation Lessor Corporation
GMA	Guaranteed Minimum Amount
GPP	general purpose payment
GSP	Gross State Product
GST	Goods and Services Tax

HFE	horizontal fiscal equalisation
IAS	International Accounting Standard
ICPC	Industrial and Commercial Premises Corporation
IGA	<i>1999 Intergovernmental agreement on the Reform of Commonwealth State Financial Relations</i>
IIAF	Industry Investment Attraction Fund
IMF	International Monetary Fund
IOA	interconnection operating agreement
ITAA	Income Tax Assessment Act
KPI	key performance indicator
LCA	Loan Council Allocation
LGA	Local Government Association
LGFA	Local Government Finance Authority of South Australia
LMC	Land Management Corporation
MAC	Motor Accident Commission
MYBR	Mid Year Budget Review
NCC	National Competition Council
NCP	National Competition Policy
NDRA	Natural Disaster Relief Arrangements
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company Ltd
NFD	non-Farm deflator
NFL	net financial liabilities
NFPS	non-financial public sector
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
OED	Office of Economic Development
PFC	public financial corporations
PIRSA	South Australian Department of Primary Industries and Resources
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
SAIPAR	South Australian Independent Pricing and Access Regulator
SARI	South Australian Racing Industry
SARS	Severe Acute Respiratory Syndrome
SATAB	South Australian Totalizator Agency Board
SATC	South Australian Tourism Commission
SBAs	significant business activities
SFD	State Final Demand
SGIC	State Government Insurance Corporation
SPP	specific purpose payments
S&P	Standard and Poor's
TAB	Totalizator Agency Board
TAFE	Technical and Further Education
TER	Tax Equivalent Regime
TLC	Transmission Lessor Corporation
Triple S	Southern State Superannuation
TRT	Temporary Relieving Teachers

TVSP	targeted voluntary separation package
UPF	Uniform Presentation Framework
VET	vocational education and training
WCI	Wage Cost Index

