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CHAPTER 1: FISCAL STRATEGY AND BUDGET PRIORITIES

Overview

The 2004-05 Budget provides substantial additional funding for priority areas, including health and the welfare of families and the community and for infrastructure. It also delivers tax relief to business and first homebuyers.

The Government has achieved this while continuing the process of restoring the State's financial position. The budget predicts a small surplus in 2004-05 and larger surpluses over the forward estimates. The larger surpluses in these years are prudent given the greater uncertainty about estimates into the future and the possibility of new expenditure pressures emerging.

While the expected 2003-04 net lending outcome is stronger than forecast at the 2003-04 Mid-Year Budget Review (MYBR), the net lending surpluses in 2004-05 and the forward years are lower than previously estimated. The estimated net lending outcomes are summarised in Table 1.1. Budget surpluses mean that, for the general government sector, revenues will more than meet operating expenses and capital expenditure without adding to State debt.

Table 1.1: General government sector net lending (\$ million)

	2003-04 Estimated result	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
2003-04 MYBR	4	138	147	243	n.a.
2004-05 Budget	264	52	126	137	165

The budget demonstrates the Government's commitment to improving community services and meeting emerging cost pressures in a fiscally responsible and sustainable manner. Significant increases in funding have been provided in the areas of hospital services, mental health, child protection and police. It is important to note that additional funding has had to be provided in respect of health and family and community services simply to restore the integrity of agency budgets in this area. The financial management within the Department of Human Services has been deficient for a number of years. This resulted in a situation where expenditures on particular services could not be accurately identified and unsustainable funding arrangements were in place.

The 2004-05 Budget has benefited significantly from increases in property taxes, payroll tax and Commonwealth general purpose grants (GST grants), the latter moderated by a reduced share of Commonwealth funding as a result of the Commonwealth Grants Commission's 2004 methodology review recommendations.

As noted above, the Government has been faced with very substantial pressures, particularly in relation to health and child protection. Budget savings have been made in a number of

areas to help accommodate these pressures. However, in large part, the expenditure increases have only been possible because of the very strong upward revisions to revenue.

The budget also provides tax relief. Payroll tax will be reduced to 5.5 per cent from 1 July 2004 and lease duty and cheque duty will be abolished from the same date. In addition, the first homebuyer stamp duty concession will be extended to provide a concession for first homes valued between \$80 000 and \$250 000. Currently, the concession ceases above \$130 000. The extension of the concession will provide greater stamp duty relief to first homebuyers in recognition of recent increases in housing prices in South Australia. All first homebuyers will also be exempt from mortgage duty.

In accordance with undertakings made under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, debits tax will be abolished from 1 July 2005.

An instalment payment option for land tax will be introduced from the 2004-05 financial year. The new instalment payment option will be available to all land tax payers and will allow payments in equal instalments over four consecutive months. Payment of land tax accounts by credit card will also be accepted within financial limits.

With budget surpluses projected across the forward years, the Government's financial liabilities are forecast to decrease. General government net debt is already low and, on current projections, is expected to be eliminated by June 2007. Nevertheless, it should be recognised that superannuation liabilities are still large. Accordingly, the Government remains firmly committed to fully funding new superannuation obligations for its current employees and progressively funding past superannuation liabilities.

This budget therefore builds upon the sound financial position delivered by the Government in its previous budgets. The Government's demonstrated track record in achieving budget surpluses; providing an appropriate level of community services in a sustainable manner; and adopting prudent arrangements to manage the State's liabilities maintains progress towards achieving a triple-A credit rating.

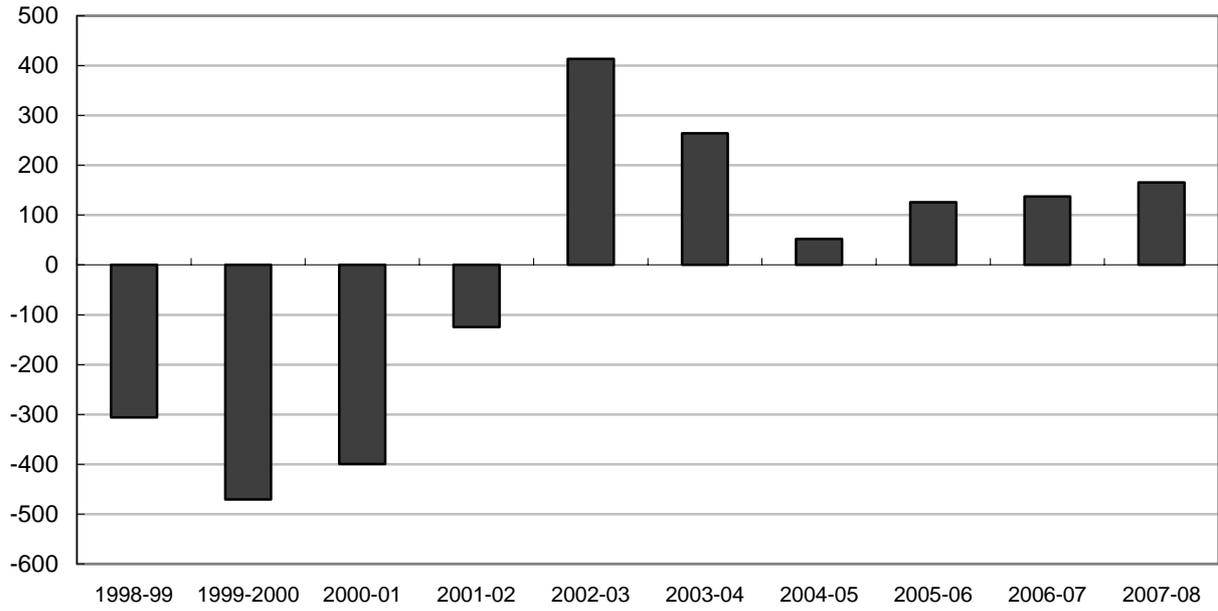
Fiscal strategy

Fiscal targets

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

Figure 1.1 illustrates the improvement in the financial position of the general government sector from a deficit position prior to 2002-03 to the delivery of a budget surplus in 2002-03 and forecasts of budget surpluses in 2003-04 and across the forward years.

Figure 1.1: General government sector net lending (\$ million)



1998-99 to 2002-03 are actual outcomes; 2003-04 to 2007-08 are forecasts

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

Table 1.2: Progress in achieving the Government's fiscal targets

Target	Progress in achieving target
<i>To achieve, on average, balanced budgets in the general government sector.</i>	The 2004-05 Budget builds upon the net lending surplus achieved in 2002-03. The projected surpluses from 2003-04 to 2007-08 are consistent with this objective.
<i>To ensure the State has an effective tax regime having regard to the Government's social and economic objectives.</i>	<p>Tax relief measures introduced in the 2004-05 Budget are consistent with State Strategic Plan objectives of encouraging the provision of affordable housing in the community and maintaining Adelaide's rating as the least costly place to set up and do business in Australia.</p> <p>Progress with national tax reform commitments will also be made with the abolition of lease duty, cheque duty and mortgage duty for first homebuyers in 2004-05 followed by the abolition of debits tax from 1 July 2005.</p>
<i>To provide value for money community services and economic infrastructure within available means.</i>	<p>Significant funding increases have been delivered to priority areas, particularly in the health sector. The budget also provides necessary infrastructure to enhance service delivery in priority areas. The budget includes administrative efficiency savings.</p> <p>The State Strategic Plan includes a target to lead the nation in cost effectiveness of government services within five years.</p>
<i>To fully fund accruing superannuation liabilities and progressively fund past service superannuation liabilities.</i>	The Government continues to fund past liabilities in order to meet the target of fully funding liabilities by 2034.
<i>To ensure risks to State finances are prudently managed, while maintaining at least AA plus credit rating.</i>	<p>The Government has increased reporting of risks and provided greater disclosure of risk management strategies (refer Chapter 7).</p> <p>In its State Strategic Plan, the Government has announced a target of achieving a triple-A credit rating within the next three years, in line with other mainland States.</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's 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 2004-05 Budget demonstrates the Government's commitment to achieving its target of balanced budgets, on average, in the general government sector. Budget surpluses are forecast in all years from 2003-04 to 2007-08.

The full suite of accrual statements produced under the *Uniform Presentation Framework* is provided in Appendix A. Table 1.3 provides operating statement details for the general government sector for 2003-04, the budget year and over the following three forward years.

Table 1.3: General government sector operating statement — 2003-04 to 2007-08 (\$ million)

	2003-04 Budget	2003-04 Estimated result	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
GFS Revenue						
Taxation revenue	2 463	2 783	2 780	2 798	2 917	3 009
Current grants	4 729	4 916	5 051	5 222	5 439	5 685
Capital grants	166	165	177	137	131	151
Sales of goods and services	952	1 049	1 101	1 120	1 131	1 163
Interest income	123	159	161	162	171	186
Other	729	722	727	730	652	657
<i>Total revenue</i>	9 161	9 793	9 997	10 169	10 441	10 851
<i>less</i>						
GFS expenses						
Gross operating expenses						
Employee expenses	4 088	4 271	4 406	4 528	4 652	4 800
Depreciation	410	427	452	448	457	465
Other operating expenses	2 481	2 310	2 491	2 508	2 541	2 675
Nominal superannuation interest expense	337	354	338	343	347	351
Other interest expenses	249	269	263	249	226	213
Other property expenses	—	—	—	—	—	—
Current transfers	1 516	1 868	1 914	1 962	2 023	2 076
Capital transfers	23	29	17	15	19	17
<i>Total expenses</i>	9 103	9 528	9 881	10 051	10 265	10 596
<i>equals</i>						
GFS net operating balance	58	264	116	118	176	255
<i>less</i>						
Net acquisition of non-financial assets						
Purchases of non-financial assets	535	563	627	560	599	655
<i>less</i> Sales of non-financial assets	49	138	111	120	103	100
<i>less</i> Depreciation	410	427	452	448	457	465
<i>plus</i> Change in inventories	2	2	—	—	—	—
<i>plus</i> Other movements in non-financial assets	—	—	—	—	—	—
<i>equals</i> Total net acquisition of non-financial assets	78	—	64	- 8	39	90
<i>equals</i>						
GFS net lending	- 20	264	52	126	137	165

The attachment to this chapter summarises variations to net lending estimates since the MYBR.

Key budget aggregates and fiscal trends

Key budget indicators are summarised in Table 1.4.

Table 1.4: Summary of key general government budget indicators

		2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
		Actual	Estimated	Budget	Estimate	Estimate	Estimate
			result				
Budget balances							
Net lending	\$m	414	264	52	126	137	165
Net operating balance	\$m	448	264	116	118	176	255
Cash surplus	\$m	658	381	92	256	240	273
Revenue and expenses							
Total revenue real growth	%	6.7	0.7	-0.4	-0.2	0.6	1.9
Total expenses real growth	%	-0.4	3.0	1.2	-0.2	0.1	1.2
Interest ratios							
Net interest to total revenue ^{(a) (b)}	%	1.6	1.1	1.0	0.9	0.5	0.3
Net interest plus nominal superannuation interest to total revenue ^(b)	%	4.9	4.8	4.5	4.3	3.9	3.5
Debt and net financial worth ratios							
Net debt to total revenue	%	7.1	3.9	3.1	0.6	-1.5	-4.0
Net debt plus unfunded superannuation liabilities to total revenue ^(c)	%	54.7	62.7	61.5	58.8	55.8	51.7
Net debt to GSP	%	1.4	0.7	0.6	0.1	-0.3	-0.7
Net debt plus unfunded superannuation liabilities to GSP ^(c)	%	10.5	11.8	11.2	10.4	9.6	8.8
Net financial worth to GSP	%	7.2	6.5	6.7	6.8	7.1	7.4

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

(b) Total revenue does not include interest income.

(c) 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 later in this chapter.

Note: Real terms calculations use the Australian Non-Farm Gross Domestic Product deflator.

The ratios of the Government's net debt plus unfunded superannuation liability to total revenue and gross state product (GSP) are expected to fall across the forward years. This reflects the forecast net lending and cash surpluses in each of those years.

Table 1.5 shows that general government net debt will decrease over the forward estimates. General government net financial worth and net worth are expected to improve over time, as net lending surpluses are achieved and the Government's financial liabilities are reduced.

Table 1.5: Balance sheet position — June 2003 to June 2008 (\$ million)

As at 30 June	2003 Actual	2004 Estimated Result	2005 Budget	2006 Estimate	2007 Estimate	2008 Estimate
General government						
Net financial worth	3 500	3 393	3 656	3 923	4 294	4 687
Net worth	15 288	15 227	15 529	15 834	16 282	16 804
Liabilities						
Net debt	666	382	314	64	- 155	- 429
Unfunded superannuation ^(a)	4 445	5 756	5 837	5 911	5 978	6 036
Net debt plus unfunded superannuation ^(a)	5 111	6 138	6 151	5 975	5 823	5 607

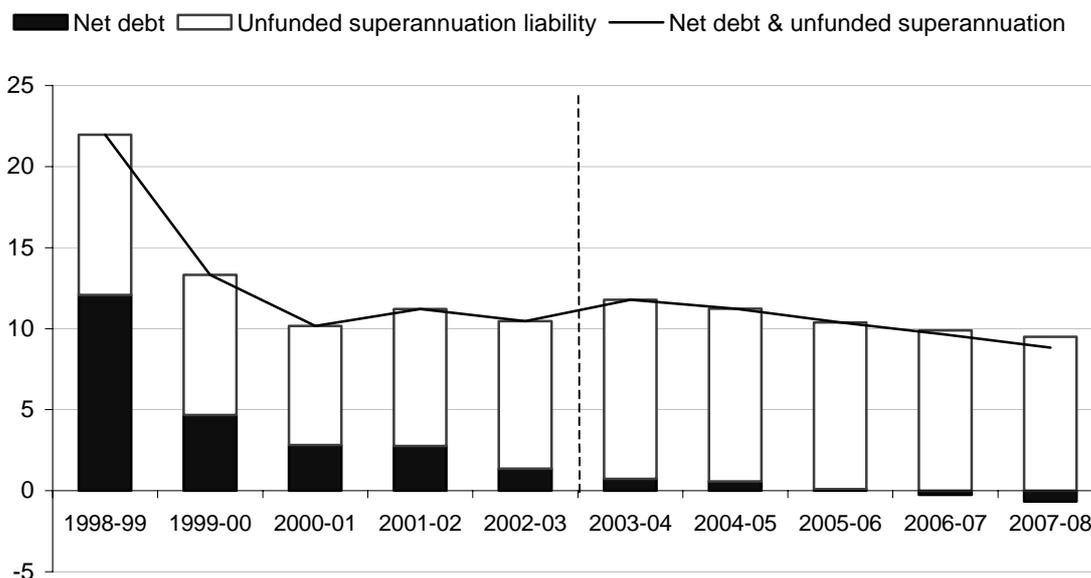
(a) There is a structural break in the methodology used to calculate superannuation liabilities between 2002-03 and 2003-04. This accounting change involved a significant increase in superannuation liabilities and is explained in further detail later in this chapter.

General government net debt is estimated to be \$195 million lower at June 2004 than forecast in the 2003-04 MYBR due to the improved cash surplus (reflecting higher than expected receipts) in 2003-04, partly offset by the correction of the accounting treatment of certain financial assets.

A more complete picture of the Government's financial liabilities is provided by adding unfunded superannuation liabilities to net debt. The unfunded superannuation liability is similar to a debt in that it is an obligation to current and former members of the defined benefit superannuation fund that will need to be met in future years. While net debt is projected to be eliminated by 2007, unfunded superannuation liabilities will be around \$6 billion.

Figure 1.2 shows the improvement in the general government net debt and unfunded superannuation liabilities as a percentage of GSP since 1999.

Figure 1.2: South Australian general government net debt and unfunded superannuation liabilities as a percentage of GSP^{(a)(b)}



(a) 2003-2004 onwards based on estimates.

(b) 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 will be valued using the national government bond rate. Accordingly, there is a structural break in the data from 2002-03.

The estimated unfunded superannuation liability is expected to increase by \$1.3 billion from 30 June 2003 to 30 June 2004. However, the increase in the unfunded superannuation liability during 2003-04 is primarily a result of the adoption of a revised long-term discount rate consistent with a proposed new accounting standard for employee benefits. The expected new standard, which is based on the corresponding International Accounting Standard (IAS) 19, requires superannuation liabilities to be valued using the national government bond rate (or similar rate). A discount rate of 6.0 per cent (previously 7.5 per cent) was adopted in the 2003-04 MYBR. This rate remains the appropriate discount rate given current bond rates.

In addition, the assumed earnings rate on superannuation assets was revised from 7.5 per cent to 7.0 per cent per annum in the MYBR. This provides consistency with Funds SA's target rate of return.

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

Table 1.6: Interstate comparison of key budget aggregates (figures for 2004-05)

Indicators	NSW	Vic	Qld	WA	SA	Tas	ACT	NT ^(a)
General government net lending (\$m)	-275	-658	-470	-120	52	15	-128	-29
General government net financial worth per capita (\$)	6 400	1 929	2 707	5 249	2 371	3 548	9 303	-8 350
General Government net debt to GSP (%)	-0.4	0.9	-8.6	0.8	0.6	1.6	-10.3	12.9
General government net debt & superannuation liabilities to GSP (%)	5.6	6.9	1.0	6.4	11.2	16.1	2.7	28.1
Credit rating	AAA	AAA	AAA	AAA	AA+	AA	AAA	na

(a) No credit rating from Standard & Poor's is available for the Northern Territory.

Source: Vic, WA, ACT, Tas and NT data have been sourced from the jurisdictions' 2004-05 Budget papers. Information for other jurisdictions is sourced from 2003-04 MYBR papers.

Table 1.6 compares key budget aggregates across jurisdictions. These comparisons need to be interpreted with care given accounting and other differences. For example, jurisdictions use different actuarial assumptions to value their unfunded superannuation liabilities.

By keeping debt and the unfunded superannuation liability under control, the Government is creating a positive environment for economic growth and investment in South Australia. Reducing these liabilities also means that South Australia will be better placed in the future to manage the demands of an ageing population on State budgets.

Ongoing achievement of budget surpluses and reductions in the Government's financial liabilities will continue the progress towards achieving a triple-A credit rating for the State.

Budget priorities

The key priority for the 2004-05 Budget is the health and welfare of families and the community. Very substantial increases in funding have been provided to address pressures in the hospital system, mental health and child protection. Significant funding has also been provided to improve literacy outcomes for junior primary school students.

The importance of investing in the State's infrastructure has also been recognised with funding directed to key transport projects, new mainstream mental health facilities and public infrastructure to grow private economic activity.

Importantly, the 2004-05 Budget delivers new initiatives to address all six key objectives of the State Strategic Plan announced by the Premier on 29 March 2004. The State Strategic Plan has six interrelated objectives to guide South Australia's development over the next decade:

- improving well-being;
- expanding opportunity;
- growing prosperity;
- attaining sustainability;
- fostering creativity; and
- building communities.

Improving well-being

In 2004-05, \$3547 million will be directed to support the delivery of human services (including housing services provided by the South Australian Housing Trust). This is an increase of \$248 million over the 2003-04 Budget.

As a key priority area for this budget, new initiatives in human services (principally health and families and communities) amount to \$603 million over four years. These initiatives include (four-year totals):

- \$239 million to address cost pressures, restore integrity to budgets and sustain services in metropolitan hospitals;
- \$103 million to ensure that Family and Youth Services is fully funded and to provide a further expansion in its operational capacity, particularly in the area of child protection services;
- \$41.4 million to implement a range of further child protection initiatives in response to the Layton Report;
- as part of a \$159 million mental health strategy an additional \$41.5 million has been provided in this budget to implement major mental health reform, including a range of infrastructure projects (costing \$27.7 million over the forward estimates period) to provide mental health services in mainstream hospital settings. Pathways Home funding of \$14.5 million has also been directed to the mental health strategy;
- \$30.1 million to expand and improve emergency services at Flinders Medical Centre;
- \$20.5 million for demand management strategies in the health sector, with support to develop hospital avoidance strategies (for example, by providing more services for people to be cared for in their own homes);
- \$8.0 million to help reduce waiting times for elective surgery procedures at metropolitan and country hospitals; and
- \$4.5 million to help reduce dental waiting lists.

In addition, \$1.5 million is provided over four years for the Statewide Physical Activity Strategy aimed at increasing levels of physical activity for all South Australians.

Expanding opportunity

The 2004-05 Budget provides a coordinated package of measures amounting to \$35 million over four years to improve literacy outcomes for junior primary school students. This funding will support the employment of 125 additional teachers. Resources will be provided:

- for school based class support with one to one interventions available for year 1 students identified as being at risk of not achieving year 3 literacy benchmarks;
- to enable the Reading Recovery program to be expanded; and

- to enable skilled literacy teachers to work alongside classroom teachers to model and guide effective practice.

Funding will also be directed to preschool support for Aboriginal children to improve learning outcomes by further reducing child to staff ratios.

Supporting these strategies will be professional development activities for every preschool to year 3 teacher, a range of resource materials and additional District Early Childhood Initiatives Coordinators to work across the birth to eight years range. Two senior program development officers will be appointed to coordinate program design, development of the resources and support the statewide implementation program.

The budget also provides \$12.2 million over four years as an investment in financial and human resource management systems and to support financial management training for school support staff. This new funding recognises the technological and financial skills required to efficiently run a modern school system.

Other initiatives that have received funding include:

- \$8.6 million over four years to expand the Home and Community Care Program;
- \$8.0 million of additional funds over four years for measures to address homelessness;
- \$6.2 million from 2006-07 to upgrade public transport conveyances, premises and infrastructure to provide improved access for disabled people; and
- \$4.5 million to be provided in 2003-04 to provide an aged care facility for homeless people as a joint venture between the Adelaide Anglican Diocese and the State Government.

Growing prosperity

A range of measures have been funded over the four years to help support economic growth in South Australia, including:

- \$87.3 million on new road infrastructure projects, including the replacement of Bakewell Bridge, upgrade of the Britannia Roundabout and the upgrade of South Road between Port Road and Torrens Road;
- \$14.7 million to support the further expansion of the mining and energy industries as part of the Plan for Accelerating Exploration;
- \$10.0 million for headworks infrastructure associated with the development of Outer Harbor;
- \$12.9 million to support the expansion of ecologically sustainable development of South Australia's fisheries, aquaculture and marine eco-tourism industries through the Marine Innovation SA (MISA) initiative. This initiative will be undertaken in partnership with universities, industry, and the Commonwealth Scientific and Industrial Research Organisation (CSIRO). The initiative will provide the aquaculture industry with market development opportunities associated with technology transfer and education;

Chapter 1: Fiscal strategy and budget priorities

- \$3.0 million for a tourism infrastructure fund;
- \$1.2 million (in 2004-05) for an expanded domestic tourism marketing campaign; and
- upgrade of the Le Fevre Peninsula Transport Corridor and Pelican Point Road at a cost to the South Australian Government of \$9 million, of which \$6.3 million is funded by a contribution from AUSBULK.

The new Department of Trade and Economic Development has been created in response to the recommendations of the Economic Development Board's *A Framework for Economic Development in South Australia*. Recognising that private sector activity generates the State's wealth, the primary objective of the restructure was to ensure the department is focused on the core activities of:

- providing the Government's interface with business and industry;
- facilitating strategic and major projects; and
- providing economic development advice to the Government.

As a result of the restructure and refocusing of the activities of the former Department of Business, Manufacturing and Trade and the Office for Economic Development, savings of \$16.5 million will be achieved in 2004-05 in back office and subsidy costs, some of which have been redirected to other economic development initiatives in the 2004-05 Budget.

Attaining sustainability

New initiatives in the 2004-05 Budget include:

- \$6.8 million over four years to support the creation of regional Natural Resource Management Boards to assist in securing the long-term productivity of the State's natural resources and to protect native habitats;
- \$5.0 million over four years to support the Living Coasts strategy, which includes a range of marine reserve creation and implementation initiatives; and
- \$5.0 million over four years for a site contamination legislative package that supports actions designed to help manage a number of serious site pollution issues across South Australia.

In the 2003-04 Budget the Government introduced a broad based levy to fund critical expenditure needed to ensure the health of the River Murray. Spending of \$17.4 million has been programmed for 2004-05 to support various initiatives including:

- funds set aside for South Australia's contribution to the national initiative to provide environmental flows in the Murray Darling basin; and
- works and measures to achieve a reduction in salinity, conserve the river's ecology, implement the River Murray water allocation plan, undertake research into improving irrigation efficiency, improve water quality, increase funding for the Murray Darling Basin Commission programs, and upgrade infrastructure along the river.

Fostering creativity

The 2004-05 Budget invests new funding of \$23.5 million over four years to support arts and cultural institutions within South Australia. The SA Museum, the Art Gallery of South Australia, the SA Film Corporation and the Adelaide Festival Centre have all received additional funding to support their ongoing operations and ensure they meet their core functions.

Arts and cultural initiatives include:

- \$3.0 million in 2006-07 as a State contribution towards the University of South Australia Art Museum; and
- \$2.0 million over four years to continue the upgrade of the State's four regional theatres. This further allocation supports an amount of \$500 000 provided as part of the 2003-04 Budget, which allowed the most urgent of the required works to proceed.

Major science and innovation initiatives that have received funding include:

- \$8.0 million over four years for the Premier's Science and Research Council; and
- \$2.4 million over four years to support rental subsidies for start up companies operating from a new \$9 million bioscience incubator to be built by the Land Management Corporation at the Thebarton Bioscience Precinct.

Building communities

The MYBR included a major expansion in resources for the SA Police. An additional 200 police officers are to be employed, with recruitment commencing in 2003-04 and with an ongoing cost when fully implemented of almost \$20 million per annum from 2006-07. This budget maintains that commitment with \$9 million included in 2004-05 for this initiative.

The 2004-05 Budget invests new funding of \$36 million over four years to support the emergency services functions within South Australia. Initiatives that have received funding include:

- \$5.4 million over four years to support the restructure of the Police Security Services Branch which will provide improved security services to State government infrastructure and other assets;
- \$4.3 million for a substantially improved State Rescue Helicopter Service (using three helicopters instead of the current two helicopters);
- \$3.5 million over four years for the acquisition of protective clothing and breathing apparatus for the Metropolitan Fire Service;
- \$2.9 million in 2006-07 to accelerate the replacement of fire trucks and bulk water carriers by the Country Fire Service;
- \$2.0 million over four years for increased training and development of the Country Fire Service and Metropolitan Fire Service to meet national requirements; and

- \$0.6 million over four years to extend the Country Fire Service community bushfire safety awareness program.

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

Fiscal responsibility framework

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

The framework comprises an amended Public Finance and Audit Act. The *Public Finance and Audit (Honesty and Accountability in Government) Amendment Bill 2002* was introduced into Parliament in May 2002. It requires the Treasurer to prepare a Charter of Budget Honesty within three months of the commencement of the Bill. It is intended that the charter would state the broad fiscal objectives of the Government and establish a framework for assessing the Government's performance in achieving those objectives. Reporting including budget papers, mid-year reviews, outcomes reports and pre-election updates would be required under the charter.

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

Attachment - Variation to net lending estimates at the MYBR

Table 1.7 provides a reconciliation of the 2004-05 Budget estimates with the corresponding estimates published in the 2003-04 Budget and the 2003-04 MYBR.

Table 1.7: Reconciliation statement — general government net lending (\$ million)

	2003-04 Estimated result	2004-05 Budget	2005-06 Estimate	2006-07 Estimate
2003-04 Budget	-20	77	109	133
Parameter and other variations				
Revenue - taxation	191	129	108	115
Revenue - other	51	153	172	210
Operating expenses	-147	-142	-158	-151
Net capital investment expenditure	-8	-8	0	-4
Net effect of parameter and other variations	87	132	122	170
Policy measures				
Revenue - other	0	-1	-1	-1
Operating expenses	-66	-54	-67	-62
Net capital investment expenditure	3	-14	-16	4
Net effect of policy measures	-63	-70	-84	-60
2003-04 MYBR	4	138	147	243
Parameter and other variations				
Revenue - taxation	129	132	126	136
Revenue - other	261	261	210	160
Operating expenses	-124	-330	-246	-328
Capital investment expenditure	60	-15	-26	9
Net effect of parameter and other variations	326	48	64	-23
Policy measures up to the budget				
Revenue - other	0	6	9	11
Operating expenses	-97	-15	-8	-2
Capital investment expenditure	20	-27	0	12
Net effect of policy measures up to the budget	-77	-35	0	21
Policy measures in the budget				
Revenue - taxation	0	-40	-45	-47
Revenue - other	0	11	12	12
Operating expenses	-20	-170	-182	-205
Capital investment expenditure	3	-19	10	-84
Net effect of policy measures in the budget	-17	-218	-206	-324
Use of provisions set aside in the 2003-04 Budget and the 2003-04 MYBR				
Operating expenses	29	70	70	41
Capital investment expenditure	0	50	50	179
Net effect of use of provisions set aside	29	120	120	220
2004-05 Budget	264	52	126	137

Total expenditure (operating expenses and capital expenditure) in 2004-05 and across the forward years has increased by over \$570 million per annum since the 2003-04 Budget. Part

of this large increase is due to accounting changes that boost reported expenditure but have no impact on the overall budget balance because they are matched by revenue flows (including the expenditures and revenues of the South Australian Ambulance Service). Nevertheless, even after taking these accounting changes into account, there has been a significant increase in anticipated future expenditure. This increase in spending has been possible due to strong increases in revenue. Further details on major parameter and other variations are provided in Table 1.8.

Table 1.8: Major revenue and expense variations (parameter and other) since the 2003-04 MYBR (\$ million)

	2003-04	2004-05	2005-06	2006-07
Revenue-Taxation				
Payroll tax	18	20	24	29
Conveyances	90	50	42	46
Land tax	1	40	38	40
Other property tax	13	10	11	12
Insurance taxes	1	2	2	2
Gambling tax	0	0	-2	-4
Motor vehicle taxes	7	10	10	11
Total taxation revenue	129	132	126	136
Revenue-Other				
GST revenue grants	84	27	-2	-3
Specific purpose grants	49	80	38	33
Royalties	7	12	13	19
Carryovers	7	13	2	0
Interest revenue	36	31	20	11
Fines and penalties	-10	7	18	19
Inclusion of SA Ambulance Service	45	49	52	55
Other variations	43	43	70	26
Total other revenue	261	261	210	160
Operating Expenses				
Nominal superannuation interest expense	-3	21	23	25
Interest expense	-18	-6	16	43
Carryovers	70	-63	-1	0
Inclusion of SA Ambulance Service	-46	-49	-49	-58
Reclassifying contingencies - investing to operating	-7	-5	-14	-16
Other variations	-120	-228	-220	-321
Total expenses	-124	-330	-246	-328
Net Capital Investment Expenditure				
Carryovers	97	-54	-26	-13
Provision for project slippage	-40	60	0	0
Inclusion of SA Ambulance Service	-2	0	-1	3
Reclassifying contingencies - investing to operating	7	5	14	16
Other variations	-2	-25	-13	3
Total net capital investment expenditure	60	-15	-26	9

Variations in revenue estimates

Significant upward revisions to taxation estimates, relative to the MYBR, mainly relate to property taxes reflecting stronger growth than anticipated in property values during 2003-04. The uplift in property values is not expected to be reversed and so flows through as a base

effect to conveyance duty estimates for future years. The forecasts for 2004-05 and 2005-06 continue to reflect an assumption of lower levels of property transactions than in 2003-04.

Upward revisions to conveyance duty are larger in 2003-04 because of the timing of a number of large commercial property sales which have occurred since the MYBR producing \$31 million in revenue.

Increases in property values that have occurred since the Valuer-General's last assessment will be reflected in land tax assessments for 2004-05 and subsequent years.

Payroll tax receipts have been revised up over the forward estimate period reflecting underlying strength in economic conditions in 2003-04 which has lifted the payroll tax base.

The change in GST revenue grants since the MYBR reflects the combined effects of the decrease in the Commonwealth Grants Commission relativity as a result of its 2004 Review (from 2004-05 onwards), the estimated movements in future relativities (including the effect of the abolition of debits tax), and the increase in GST revenues included in the Commonwealth Budget.

The upward revisions to specific purpose payments since the MYBR primarily reflect Commonwealth advice regarding expected payments for education and transport.

Upward revisions to royalty estimates since the MYBR mainly relate to oil and gas royalties, reflecting the impact of new extraction technologies and revised oil price assumptions. Mineral royalty estimates have been revised up, to a smaller extent, mainly reflecting revised copper price assumptions. Revised exchange rate assumptions allow for some depreciation in the Australian dollar over the forward estimates period and this also contributes to the improved royalty outlook.

The major component of fines and penalties is traffic fines, in particular speeding fines and red light camera fines. Since the 2003-04 MYBR, revenue relating to traffic fines has been revised down in 2003-04 reflecting changes in driver behaviour following the introduction of the 50km per hour speed limit in 2003.

Revenue from traffic fines has been revised up in 2004-05 and 2005-06, compared with the MYBR, reflecting a widening of the use of speed cameras and of red light cameras as speed cameras. These measures are consistent with the recommendations of the Road Safety Advisory Council.

Other fines (mainly court imposed fines) have been revised up since the MYBR in 2004-05 and 2005-06 reflecting a delayed flow-through of the increase in traffic fines from 2004-05.

SA Ambulance has been included in the general government sector for the first time. The inclusion of SA Ambulance is expected to have only a very small net impact on the budget result.

Variations in operating expenses and capital investment estimates

In relation to parameter and other variations, key factors that have contributed to an increase in operating expenses and capital investment estimates are summarised below.

From 2004-05, nominal superannuation interest expense is expected to decrease by more than \$20 million per annum from estimates contained in the MYBR, largely reflecting the higher than expected earnings rate expected to be achieved by Funds SA in 2003-04. Consistent with trends in financial markets, Funds SA has recorded earnings well above its longer term earnings target so far in 2003-04.

It is appropriate to consider movements in interest on borrowings in net interest expense terms. Table 1.9 summarises the movements in net interest expense since the MYBR.

Table 1.9: Net interest expense (\$ million)^(a)

	2003-04	2004-05	2005-06	2006-07
	Estimated	Budget	Estimate	Estimate
	Result			
2003-04 MYBR	129	127	123	109
2004-05 Budget	110	102	86	55
Decrease in net interest expense since MYBR	19	25	37	54

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

The reduction in net interest expense primarily reflects the lower forecast levels of net debt than estimated at the time of the MYBR.

Carryover expenditure reflects under expenditure by agencies in 2003-04 which will now be incurred in later years.

Finally, other variations have resulted in a significant increase in estimated expenses across the forward estimates period. This covers a range of variations, including changes in provisions for future policy decisions and employee expenses, accounting variations since the MYBR, flow through of specific purpose payments and a variety of parameter variations across agencies.

The carryover of capital expenditure in 2003-04 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 2004-05. This is 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 priorities and the trends in general government expenditure. The 2004-05 Budget includes new expenditure initiatives (cost pressures and new proposals) in the general government sector totalling \$1 150 million over the next four years. A summary of both the operating and investing expenditure initiatives is shown in Table 2.1.

In this chapter expenditure is defined as expenses less depreciation plus capital investment.

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

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Operating initiatives	218.9	230.9	254.8	249.0
Investing initiatives	29.7	12.5	87.7	66.9
Total	248.6	243.4	342.5	315.9

The 2004-05 Budget includes agency savings measures totalling \$235 million over the next four years (Table 2.2). A significant part of the savings result from the restructure of the former Department of Business, Manufacturing and Trade. These savings reflect to some extent the reallocation of functions and funding to other agencies. However, a general efficiency dividend has been applied to all portfolios. Further details on the individual operating, investing and saving initiatives of this Budget for each portfolio are provided in Tables 2.8 – 2.20.

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

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Agency savings	59.5	71.6	53.5	50.7

General Government Expenditure

General government expenditure in 2004–05 is estimated to be \$392 million (1.5 per cent in real terms) higher than the 2003-04 estimated result. This reflects decisions to increase spending in priority areas and parameter effects. Detailed explanations of trends in expenditure appear later in this Chapter.

The key drivers of the growth in expenditure are:

- cost pressures and demand for services in the health sector;
- cost pressures and increased services provided by Family and Youth Services; and
- predicted growth in employee expenses.

Key components of expenses

Expenses by type

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

Table 2.3: General government expenditure - forward estimates (\$ million)^(a)

	2003-04 Budget	2003-04 Estimated result	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Employee expenses						
Salaries and wages	3 562	3 680	3 853	3 972	4 085	4 214
Other employee entitlements	525	591	553	556	567	586
Operating expenses						
Depreciation expense	410	427	452	448	457	465
Transfers	1 538	1 898	1 930	1 977	2 042	2 092
Interest expense	249	269	263	249	226	213
Nominal superannuation interest expense	337	354	338	343	347	351
Other	2 481	2 310	2 491	2 508	2 541	2 675
Total expenses	9 103	9 528	9 881	10 051	10 265	10 596
<i>less</i>						
Depreciation expense	- 410	- 427	- 452	- 448	- 457	- 465
<i>plus</i>						
Purchases of property, plant and equipment	532	560	625	558	597	653
Total expenditure on net lending basis	9 225	9 661	10 053	10 161	10 405	10 783

(a) Table may not add due to rounding.

Employee expenses

General Government sector employment is expected to increase in 2004-05. The major increases are expected to occur in Police, Human Services and Education and Children's Services. This is partly offset by the effect of restructuring the former Department of Business, Manufacturing and Trade, which was undertaken in accordance with the recommendations of the Economic Development Board's *Framework for Economic Development in South Australia* report. The creation of a new Department of Trade and Economic Development and the refocusing of the Government's industry policy has reduced the employee requirements of the new department by approximately 50 per cent. However, this reduction is partly offset by increased employment in other agencies as a result of functions being transferred to them.

Consistent with the State Strategic Plan's objective for South Australia to lead the nation in cost effective government services, an efficiency dividend has been imposed on agencies. This dividend has been broadly calculated as 3 per cent of administrative employee expenses. However, it is up to individual agencies how they achieve these savings. For budget estimates purposes, the impact of \$18.6 million per annum is reflected in the salaries and wages line in Table 2.3.

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.

In November 2003, a new enterprise agreement between the Government and South Australian Salaried Medical Officers Association was finalised. A number of enterprise agreements have expired in 2003-04. The Government is currently in the process of negotiations with the public sector salaried and public sector weekly paid employees whose enterprise agreement expired in November 2003. Negotiations are also underway with the Australian Nursing Federation whose agreement expired in March 2004. The previous agreement with the Police Association expired in June 2003 and negotiations will commence shortly with the next salary increase due to occur in July 2004.

The 2004-05 Budget fully funds current enterprise agreements until they expire and provides for estimated remuneration increases after existing enterprise agreements expire.

Operating expenses

The estimated growth in other operating expenses in 2004-05 (\$181 million) is mainly due to:

- the net effect of new spending and savings decisions taken during 2003-04 and in the 2004-05 Budget; and
- general growth in goods and services expenses in line with movements in the Consumer Price Index.

Transfers

Table 2.4 provides details of transfer payments from the general government sector to other sectors of government and the private sector. These transfers include:

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

Table 2.4: General government transfer and subsidy payments (\$ million)^(a)

	2003-04 Estimated Result	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
<i>Current transfers</i>					
Subsidy payments					
To public non-financial corporations					
Community service obligation payments	103	104	103	110	111
Other subsidies	437	468	414	420	428
To public financial corporations					
To other	31	31	58	28	28
To other	784	808	889	956	992
Current grant expenses	388	381	374	380	385
Other current transfer payments	125	122	125	128	131
Total	1 869	1 914	1 962	2 023	2 076
<i>Capital transfers</i>					
Capital grant expenses					
	23	11	9	12	9
Other capital transfer payments					
	6	6	7	7	8
Total	29	17	15	19	17

(a) Table may not add due to rounding.

Subsidy payments to public financial corporations rise in 2005-06 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.

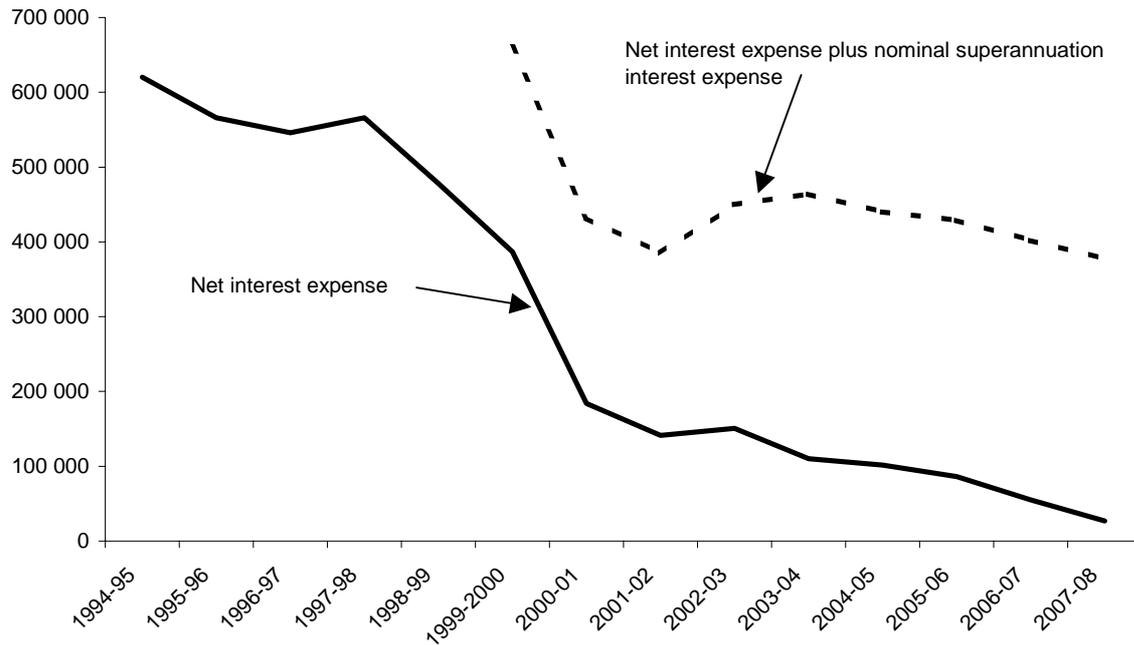
Interest expenses

Forecast interest expenses decline over the forward estimates reflecting the declining level of gross debt over the period following the application of cash surpluses to reduce debt.

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. Past revenues received as dividends and tax equivalents from privatised government businesses have, however, also been eliminated as a consequence.

The 2006-07 and 2007-08 years show net interest expenses notwithstanding negative net debt positions in both years. This largely reflects negative margins arising from concessional rate loans to entities outside the general government sector.

Figure 2.1: General government sector net interest expenses: 1994-95 to 2007-08 (\$'000)



Superannuation

There are two elements to superannuation expenses, namely the nominal superannuation interest expense (which is the interest expense associated with the unfunded superannuation liability) and the new service superannuation expense (included as an employee expense), which represents the annual cost of the benefits accrued for the current year's service of each employee. Superannuation expenses have been revised downwards slightly since the 2003-04 Budget primarily as a result of:

- a reduction in the nominal superannuation interest expense due to the higher than expected earnings rate expected to be achieved by Funds SA in 2003-04. Consistent with trends in financial markets, Funds SA has recorded earnings well above its longer-term target so far in 2003-04. This benefit has been partly offset by the effect of changes in accounting assumptions. The Government has adopted a revised discount rate (from 7.5 per cent to 6.0 per cent) in anticipation of a new Australian Accounting Standard for employee benefits. The standard, which is currently in draft form but is anticipated to be implemented within the next 18 months, requires superannuation liabilities to be valued using the national government bond rate (or similar rate). The change in the discount rate was introduced in the 2003-04 Mid-Year Budget Review. The adoption of a lower discount rate increased the present value of the unfunded liabilities; and
- an increase in the employee expense as a result of the reduction in the assumed future earnings rate from 7.5 per cent per annum to 7 per cent per annum (to provide consistency with Funds SA's target rate of return). This has increased the superannuation payments that agencies must make to fund their superannuation obligations.

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

Public sector employment

The estimated aggregate workforce levels in the public sector for the periods ending 30 June 2004 and 2005 are shown in Table 2.5.

Table 2.5: Public sector employment numbers^(a)

	Full time equivalent employees	
	30 June 2004	30 June 2005
	Estimate	Estimate
General government sector	67 037	67 626
Public non-financial corporations sector	3 928	3 946
Financial corporations sector	497	500
Estimated total public sector employment	71 462	72 072

(a) Table 2.5 aligns with the annual survey of the State's public sector workforce conducted by the Commissioner of Public Employment.

In the year to 30 June 2005 employment in the State's general government sector is estimated to increase by 589 full time equivalents.

Two Targeted Voluntary Separation Package (TVSP) schemes operated during 2003-04 to assist in separating surplus employees as a result of the Government's savings strategies.

The first scheme, which also operated during 2002-03, closed on 11 August 2003. Under this scheme 322 separations occurred between 1 July and 11 August 2003 at a cost of approximately \$25 million. These separations predominantly aligned with the Government's 2002-03 Budget savings strategies.

A second scheme, with the same terms and conditions as the first, operated between 19 January 2004 and 21 May 2004. This scheme has assisted agencies in delivering the Government's 2003-04 Budget savings strategies. Under this scheme, more than 650 separations were offered. All formal offers were made by 21 May 2004 and separations must occur by no later than 18 June 2004.

The ongoing savings from TVSPs in terms of lower employee costs are sufficient to offset the costs of separation payments after two years. No provision has been made for TVSPs in 2004-05.

Expenses by function

Expenses by function are shown in Table 2.6 according to the Australian Bureau of Statistics Government Purpose Classification. Health (26.9 per cent) and education (25.1 per cent) expenditures account for a significant component of government expenditures. The increase in the Fuel and Energy and the Agriculture, Forestry, Fishing and Hunting functions are primarily a result of accounting changes since the 2003-04 Budget (in particular expenditures and revenues have been reported in gross terms). The fuel and energy function increase in 2003-04 compared to budget is due to a one-off payment of \$64.5 million for full retail contestability for gas. The decrease in the Other Economic Affairs function in 2004-05 is primarily a result of savings arising from the former Department of Business, Manufacturing and Trade.

The estimated increase in total expenses in 2004-05 over the 2003-04 Budget is 8.5 per cent. Health expenditures have increased by 12 per cent, social security and welfare by 15.3 per cent, and mining, manufacturing and construction by 28.6 per cent. Transport and communication has been boosted by 15.7 per cent, while fuel and energy has grown by 24.2 per cent.

Table 2.6: Estimate of expenses by function (\$ million)

	2002-03 Outcome	2003-04 Budget ^(a)	2003-04 Estimate	2004-05 Estimate	2004-05 % change on 2003-04 Budget
	\$m	\$m	\$m	\$m	
General public services	260	278	298	312	12.2
Defence	—	—	—	—	—
Public order and safety	911	886	894	950	7.2
Education	2 239	2 350	2 422	2 477	5.4
Health	2 295	2 374	2 512	2 659	12.0
Social security and welfare	415	470	526	542	15.3
Housing and community amenities	694	692	706	725	4.8
Recreation and culture	251	229	241	252	10.0
Fuel and energy	35	33	105	41	24.2
Agriculture, forestry, fishing and hunting	161	152	155	163	7.2
Mining and mineral resources (other than fuels); manufacturing and construction	98	119	111	153	28.6
Transport and communication	589	617	613	714	15.7
Other economic affairs	256	241	244	205	-14.9
Other purposes	693	662	701	688	3.9
Total expenses	8 897	9 103	9 528	9 881	8.5

(a) Consistent with ABS standards, funded superannuation expenses have been allocated to the relevant functional category (for example, the accruing superannuation for teachers is included as part of total education expenses). However in the 2003-04 Budget Statement all superannuation expenses were recorded as part of the general public services function. The original 2003-04 Budget estimates have been recast on this basis to ensure consistency.

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 funds 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 2.7 compares actual and standardised expenditures for South Australia for a wide range of government functions. The published CGC data has been adjusted to remove a double count of superannuation expenses and to correct mis-classifications. In aggregate South Australia's actual expenditures in 2002-03 were \$187 million, or 2.3 per cent, above the equivalent standardised expenditure. This is substantially less than the over-expenditure reported by the CGC for 2001-02 in its 2003 Update report, reflecting methodology and data changes introduced in the 2004 Review.

Table 2.7: Commonwealth Grants Commission expenditure assessments, South Australia

	2002-03	
	Difference between actual and standardised expenditure	
	\$m	%
Education	61.5	3.7
Health	24.8	1.3
Welfare	-8.8	-1.3
Law, order and public safety	135.7	20.2
Culture and recreation	18.0	8.7
Economic activities	-167.0	-14.2
General public services	123.4	7.0
Total expenditure	187.5	2.3

Source: CGC Report on State Revenue Sharing Relativities 2004 Review, adjusted for incorrect classification of some South Australian expenditures by the CGC.

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 2004-05 Budget savings and spending initiatives by portfolio – that is, classified according to the operational and administrative structure of the Government.

Tables 2.8 – 2.20 detail the 2004-05 Budget savings and expenditure initiatives for each portfolio over the forward estimates period. Savings and expenditure initiatives are shown on a gross basis after taking into account contributions from sources external to the Government. Expenditure decisions made outside of the budget process by the Government since the 2003-04 Mid-Year Review are shown as memorandum items in these tables.

The operating expenses of each portfolio as a whole are summarised in Table 2.21. The capital investment program for each portfolio is summarised in Table 2.22. Table 2.23 shows the net effect of these measures in summary form for each portfolio. Expenditure decisions since the 2003-04 Mid-Year Review that involve expenditure in 2003-04 are shown in Table 2.24. Expenditures are recorded as negative (-) items while savings are recorded as positive (+) items.

Legislature

Advisory and administrative support is provided to both Houses of Parliament to assist in the making of laws and providing representative and responsible government for South Australians.

Additional funding has been provided for the establishment of a Natural Resources Committee. The Committee will review the protection and enhancement of the natural resources of the State, including the River Murray.

Table 2.8: Legislature — savings and expenditure initiatives (\$000)

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Operating initiatives	-270	-267	-282	-277
Total impact on budget balance	-270	-267	-282	-277
House of Assembly				
Operating initiatives				
Natural Resources Committee — establishment of the Parliamentary committee	-270	-267	-282	-277

Premier and Cabinet

Additional funding has been provided to address homelessness, in accordance with recommendations of the Social Inclusion Board, and to provide additional services to respond to serious social problems in the Anangu Pitjantjatjara Yankunytjatjara (APY)

communities. Funding for these initiatives will be administered by the Premier's Department to ensure it is directed to highest priority services from government agencies or other providers.

The SA Museum, the Art Gallery of South Australia, the SA Film Corporation and the Adelaide Festival Centre have all received additional funding to ensure these institutions continue to meet their core functions and stated objectives for the benefit of South Australians. An allocation has also been made to ensure the protection of the State's valuable cultural assets and visitors to the North Terrace cultural precinct. Funding has also been provided for facilities maintenance works in important heritage public buildings and for the upgrade of the States' regional theatres.

The savings measures within the Premier and Cabinet portfolio are, in the main, focused on better targeting of expenditure and the rationalisation of administrative activities.

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

Table 2.9: Premier and Cabinet — savings and expenditure initiatives (\$000)

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Operating initiatives	-11 799	-9 874	-13 081	-10 105
Investing initiatives	-500	-500	-500	-500
Savings initiatives	1 313	1 343	1 343	1 343
Total impact on budget balance	-10 986	-9 031	-12 238	-9 262
Department of the Premier and Cabinet				
Operating initiatives				
Clipsal 500 — additional State and business promotion associated with the annual V8 race	-100	-100	-100	-100
Natural Disaster Management Program — additional State support	-720	-360	-360	-360
Security and Emergency Coordination and upgrades — national and State counter-terrorism, emergency management planning and preparedness and protective security measures	-730	-495	-510	-520
Social Inclusion — new strategies for suicide prevention, youth employment and support for young offenders	-494	-421	—	—
Solar Power — installation of photovoltaic panels on North Terrace buildings	-250	6	6	6
Savings initiatives				
Administrative measures — reduction in operating costs	643	643	643	643
Information Technology — efficiency measures	100	100	100	100
Information technology charges — reduced EDS costs	3	3	3	3
Administered items for the Department of the Premier and Cabinet				
Operating initiatives				
Anangu Pitjantjatjara Yankunytjatjara Lands — additional services	-1 500	-2 000	-3 000	-3 000
Social Inclusion — homelessness initiatives	-2 000	-2 000	-2 000	-2 000

Table 2.9: Premier and Cabinet — savings and expenditure initiatives (\$000) continued

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Arts SA				
Operating initiatives				
Adelaide Cabaret Festival — continuation of the festival	-500	-500	-500	-500
Adelaide Festival Centre — increase to operational budget	-400	-400	-400	-400
Adelaide Festival of Arts — increase to operational budget	-750	-750	-750	-750
Art Gallery — increase to operational budget	-300	-300	-300	-300
Dunstan Playhouse — improved seating	-200	—	—	—
Heritage and Public Buildings — additional maintenance	-1 000	-1 000	-1 000	-1 000
National Visual Arts and Crafts — State contribution to the national strategy	-215	-341	-341	-341
North Terrace cultural precinct — security upgrade	-510	-523	-536	-550
South Australian Film Corporation — operational support	-300	-300	—	—
South Australian Museum — increase to operational budget	-290	-290	-290	-290
South Australian Museum — research and development	-390	—	—	—
State Opera of South Australia — additional support for performance of Wagner's Ring Cycle	-1 000	—	—	—
University of SA Art Museum — State contribution towards construction	—	—	-3 000	—
Investing initiatives				
Regional Theatres — maintenance work	-500	-500	-500	-500
Savings initiatives				
Administrative measures — reduction in operating costs	555	585	585	585
Information technology charges — reduced EDS costs	10	10	10	10
Adelaide Festival Centre Trust				
Savings initiatives				
Information technology charges — reduced EDS costs	2	2	2	2
State Governor's Establishment				
Operating initiatives				
Government House — maintenance work	-150	-100	—	—
Memorandum items — measures up to the 2004-05 Budget				
Operating initiatives				
Anangu Pitjantjatjara Yankunytjatjara Lands — additional services	-950	-200	-200	-200
Public sector reform — establishment of unit	-1 000	—	—	—
State Opera of South Australia — additional support for the production of Wagner's Ring Cycle	-1 000	—	—	—
Population Policy — implementation of initiatives to increase the State's population	-2 698	-2 557	-2 465	-2 479

Trade and Economic Development

The Department of Trade and Economic Development has been created in response to the recommendations of the Economic Development Board's report, *Framework for Economic Development in South Australia*. As a result of the restructure and refocus of the former Department of Business, Manufacturing and Trade and the Office for Economic Development, savings of \$16.5 million will be achieved in 2004-05 in back office and subsidy costs, some of which have been redirected to other economic development initiatives in the 2004-05 Budget.

Additional resources have been provided to promote and develop economic opportunities in the Upper Spencer Gulf region, ensuring that there is a greater whole-of-region focus. A new strategic industry support fund will be established in order to assist the development of important projects. Additional funding has been provided to promote the competitiveness of South Australia for business investment and migration. A one-off allocation has been made in 2004-05 to facilitate the augmentation of electricity supplies to Kangaroo Island. This investment is aimed at improving the reliability of supply and reducing the length of outages.

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

Table 2.10: Trade and Economic Development— savings and expenditure initiatives (\$000)

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Operating initiatives	-6 841	-3 843	-4 347	-4 349
Savings initiatives	16 538	15 698	16 648	14 337
Total impact on budget balance	9 697	11 855	12 301	9 988
Department of Trade and Economic Development				
Operating initiatives				
Economic Development — marketing of economic development initiatives to promote South Australia	-2 000	-1 000	-1 000	-1 000
Kangaroo Island — improvements to electricity supply	-2 000	—	—	—
Strategic Industry Support — establishment of a fund to enable the Government to respond to strategic private sector investment proposals	-2 000	-2 000	-2 000	-2 000
Upper Spencer Gulf Region — establishment of a fund to facilitate growth and investment in the Upper Spencer Gulf and outback areas zone	-500	-500	-1 000	-1 000
European wasps — contribution to local government management of wasps	-70	-70	-70	-70
Savings initiatives				
Administrative measures — reduction in operating costs within the Office of Local Government	76	76	76	76
Industry Investment Attraction Fund (IIAF) ^(a)	5 385	4 545	7 495	5 184
Organisational review — restructure of the former Department of Business Manufacturing and Trade and the Office of Economic Development	11 077	11 077	9 077	9 077

Table 2.10: Trade and Economic Development— savings and expenditure initiatives (\$000) continued

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Local Government Grants Commission				
Operating initiatives				
Local Government Grants Commission — increase in operating costs	-101	-103	-107	-109
Venture Capital Board				
Operating initiatives				
Investor Ready Program — continuation of program	-170	-170	-170	-170

(a) The Government intends to address industry assistance in a more strategic fashion and so the IIAF arrangements are being allowed to run down.

Treasury and Finance

New funding is provided for the more effective management of past industry assistance agreements under the Industry Investment Attraction Fund (IIAF). Treasury and Finance will take on this new function following a review that identified serious deficiencies in the management of industry assistance agreements by the former Department of Business, Manufacturing and Trade.

Additional revenue collection officers will also be employed to improve administration of the State's revenue base.

Additional resources have been provided to enable indexation of the Government's contribution to the Gamblers' Rehabilitation Fund, which is administered by the Department of Human Services. The Government has also provided an additional \$350 000, which is subject to matched funding from hotel and club gaming venues, to support early intervention strategies for problem gamblers. This would provide for counsellors to periodically attend large gaming machine venues to help identify and assist problem gamblers at the earliest opportunity.

Significant administrative savings have been budgeted in the Treasury and Finance portfolio.

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

Chapter 2: Expenditure

Table 2.11: Treasury and Finance — savings and expenditure initiatives (\$000)

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Operating initiatives	-2 895	-2 676	-1 538	-1 642
Savings initiatives	1 287	1 537	1 537	1 787
Total impact on budget balance	-1 608	-1 139	-1	145
Department of Treasury and Finance				
Operating initiatives				
Industry Investment Attraction Fund (IIAF) — management of existing contracts	-1 200	-850	-700	-700
Taxation administration — improve administrative capability	-300	-306	-312	-318
Savings initiatives				
Administrative measures — reduction in operating costs	679	679	679	679
Information technology charges — reduced EDS costs	25	25	25	25
Office equipment — reduction in PC replacements	83	83	83	83
Project analysis — reduction in consultancies	500	500	500	500
Treasury and Finance - Administered				
Savings initiatives				
Australian Major Events — withdrawal of bid for World Chess Olympiad	—	250	250	500
Support Services to Parliamentarians				
Operating initiatives				
Electorate Offices — office equipment	—	-70	-20	-60
Electorate Offices — security upgrades	-1 000	-1 000	—	—
Treasurer				
Operating initiatives				
Gamblers Rehabilitation Fund — increased funding	-45	-91	-138	-187
Gambling intervention — implementation of intervention strategies in gaming venues	-350	-359	-368	-377
Memorandum items — measures up to the 2004-05 Budget				
Operating initiatives				
Taxation Administration — costs of revised land tax payment arrangements	-532	-532	-532	-532

Justice

In the mid-year review, the Government included a major expansion in resources for the South Australian Police (SAPOL). An additional 200 police officers are to be employed, with recruitment commencing in 2003-04 and with an ongoing cost when fully implemented of almost \$20 million per annum from 2006-07. This budget maintains that commitment with funding of \$9 million provided in 2004-05. Additional funding is being provided to upgrade Police Security Services, with a particular focus on critical Government infrastructure. SAPOL will provide seven sworn officers on a temporary basis to the Anangu Pitjantjatjara

Yankunytjatjara (APY) lands in 2004-05 and from 2005-06 officers will be permanently stationed on the APY lands.

An improved State Rescue Helicopter Service will include a third helicopter and increased capability to provide an improved emergency response service. Key emergency service operational items, including new protective clothing and breathing apparatus for Metropolitan Fire Service fire-fighters and additional training support for incident command and control will be provided. Ageing Country Fire Service fire appliances and bulk water carriers previously transferred from local government councils will be replaced and additional expenditure on the Government Radio Network and state radio system maintenance program will be provided. The South Australian Country Fire Service will extend its bushfire safety awareness program.

An additional District Court Master will help manage the increasing pressures being experienced in our civil courts. Additional resources will ensure compliance with the *Authorised Betting Operations Act*, the Gambling Codes of Practice and the new *Coroner's Act*. Further additional resources are to be provided to support legal services to Government and legal aid to the community. Additional funding has been provided to develop a new courts complex in Port Augusta. Multi purpose courtrooms will be designed to provide a high degree of flexibility in the operating configuration to suit the specific requirements of particular hearings/trials. The new courts complex will be one of the more significant public buildings in the Port Augusta community. As a contemporary court facility it will make clear statements about the accessibility, accountability and transparency of the judicial process.

Further funding for Correctional Services will address increased costs of workers compensation and provide additional resources to the Parole Board to meet increased requirements of the courts.

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

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

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

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Operating initiatives	-17 253	-15 651	-15 029	-15 237
Investing initiatives	2 125	-1 491	-11 425	—
Savings initiatives	5 830	6 000	6 001	6 001
Total impact on budget balance	-9 298	-11 142	-20 453	-9 236

South Australian Police

Operating initiatives				
Police Security Services — increased security for critical infrastructure	-850	-1 460	-1 480	-1 560
Workers compensation and injury management — increased costs	-450	-461	-472	-485

Chapter 2: Expenditure

Table 2.12: Justice — savings and expenditure initiatives (\$000) continued

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Savings initiatives				
Information technology charges — reduced EDS costs	319	319	319	319
Administered items for South Australian Police				
Operating initiatives				
State rescue helicopter service — additional helicopter and improved capability	-1 617	-1 009	-879	-790
Emergency Services Administrative Unit				
Operating initiatives				
State Emergency Services — maintenance costs	-250	-250	-250	-250
Savings initiatives				
Information technology charges — reduced EDS costs	9	9	9	9
South Australian Metropolitan Fire Service				
Operating initiatives				
Personal protective clothing — accelerated replacement program	-1 324	-403	-399	-395
Investing initiatives				
Breathing apparatus — accelerated replacement program	—	-1 000	—	—
Country Fire Service				
Operating initiatives				
Bushfire safety — extension of community awareness programs	-146	-149	-152	-155
Emergency services — training and support for the Country Fire Service	-464	-504	-517	-531
Radio and telecommunications — additional costs in emergency services	-1 520	-1 538	-1 576	-1 615
Investing initiatives				
Fire appliances — accelerated replacement of fire trucks and bulk water carriers	—	—	-2 943	—
Fire indicator panels — replacement and upgrade program	-235	-241	-247	—
Courts Administration Authority				
Operating initiatives				
<i>Coroner's Act</i> — administration of the new legislation	-193	-669	-707	-715
Court buildings — maintenance services	-245	-251	-257	-264
Court operations — improved service delivery	-200	-205	-210	-215

Table 2.12: Justice — savings and expenditure initiatives (\$000) continued

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Investing initiatives				
Court security — extending the use of X-ray machines in metropolitan courtrooms	-240	—	—	—
Port Augusta Court redevelopment — increased costs	3 400	—	-7 985	—
Supreme Court — minor building works to address occupational health and safety standards	-300	—	—	—
Savings initiatives				
Administrative measures — reduction in operating costs	770	770	770	770
Information technology charges — reduced EDS costs	94	94	94	94
Administered Items for Courts Administration Authority				
Operating initiatives				
District Court — additional Master in the civil jurisdiction	-391	-407	-423	-440
State Electoral Office				
Operating initiatives				
State Election — additional funding for conduct of the 2006 election	—	-750	—	—
Attorney-General's Department				
Operating initiatives				
<i>Authorised Betting Operations Act</i> — administration of new regulations	-388	-397	-407	-416
Gambling codes of practice — industry compliance costs	-500	-220	-224	-229
Justices of the Peace — increased service support ^(a)	-361	-200	-204	-208
Legal services provided by the Crown Solicitor's Office and the Office of the DPP — support for increased demand	-2 000	-2 000	-2 000	-2 000
Operation Flinders — Government support for continued operation of the program	-200	-205	-210	-215
Savings initiatives				
Administrative measures — reduction in operating costs	1 441	1 441	1 441	1 441
Community Emergency Services Fund — reduction in administrative costs	335	335	335	335
Information technology charges — reduced EDS costs	11	11	11	11
Administered Items for the Attorney General's Department				
Savings initiatives				
Community Emergency Services Fund — savings reallocation to fund emergency services initiatives	2 130	2 300	2 300	2 300
Correctional Services				
Operating initiatives				
Community Correctional Centre — relocation of the South-West centre ^(b)	-977	-195	-200	-205
Courts and Parole Board — increased services	-1 312	-1 157	-1 186	-1 215

Chapter 2: Expenditure

Table 2.12: Justice — savings and expenditure initiatives (\$000) continued

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Men's prison — investigation and evaluation of options for new prison	-700	—	—	—
Offender Aid and Rehabilitation Services — relocation of client services facility	-61	-63	-64	-66
Prison safety and security — workplace initiatives	-154	-158	-162	-166
Workers compensation and injury management — increased costs	-2 200	-2 250	-2 300	-2 352
Investing initiatives				
Mobilong Prison — new facilities to support increased capacity ^(c)	-500	-250	-250	—
Savings initiatives				
Administrative measures — reduction in operating costs	584	584	584	584
Information technology charges — reduced EDS costs	47	47	47	47
Legal Services Commission				
Operating initiatives				
Legal defence services — increased funding	-750	-750	-750	-750
Savings initiatives				
Administrative measures — reduction in operating costs	75	75	75	75
Legal Services Commission — reduction in administrative costs	15	15	16	16
Memorandum items — measures up to the 2004-05 Budget				
Operating initiatives				
Anangu Pitjantjatjara Yankunytjatjara Lands — additional police services	-580	-520	-400	-410
<i>Gaming Machines Act</i> — changes to licensing and regulatory arrangements	-50	—	—	—
Regional police stations and courts — revised cost profile	2 700	689	-300	-127
Legal aid — support for legal defence costs of expensive cases	-485	—	—	—
National Child Offender Registry — State contribution	-500	—	—	—
South Australian Police — reversal of 2003-04 saving measures	-543	-543	-543	-543
Women's Prison — saving from not proceeding with project at this stage	—	—	5 777	5 921
Investing initiatives				
Information technology — enhanced computing capability within South Australian Police vehicles	-1 852	-252	-112	-112

(a) Includes investing expenditure of \$161 000 in 2004-05.

(b) Includes investing expenditure of \$787 000 in 2004-05.

(c) Includes operating expenditure of \$93 000 in 2006-07.

Primary Industries and Resources

Additional resources have been provided to support the expansion of ecologically sustainable development of South Australia's fisheries, aquaculture and marine eco-tourism industries through the Marine Innovation SA (MISA) initiative. The initiative will provide the aquaculture industry with market development opportunities associated with technology transfer and education. Both Adelaide and Flinders Universities have indicated they will also provide in-kind contributions to this initiative.

MISA seeks to secure South Australia as the focus for southern temperate marine research, development, teaching and industry in Australia through a formal linkage of the marine science research and development capabilities in South Australia with the State's marine based industries.

Extension of the FarmBis initiative is supported in the 2004-05 Budget with resources provided for the FarmBis III grant program to build farm business and resource management skills.

A Plan for Accelerating Exploration to showcase South Australia as a premier destination for resource investment has also been funded. Specific initiatives include:

- a project to ensure a balance between resource development and conservation;
- drilling partnerships between PIRSA and the mining industry to undertake drilling in areas hampered by cover rocks and other materials that discourage investment;
- development of a centre of excellence at Adelaide University to assess and perfect the range of approaches to explore successfully under cover rocks;
- the conduct of infill gravity, aeromagnetic and seismic surveys for mineral and petroleum potential;
- provision of economic development opportunities in South Australia's remote regions, particularly to indigenous communities, through training and employment. Such development seeks to ensure the retention of culturally strong communities while facilitating exploration on indigenous lands;
- further developing a readily accessible database of geochemical survey data to provide a critical basic information set to focus company exploration;
- development of next generation (3D model) geoscientific data delivery to ensure explorers get the required information to discover the next major mining or petroleum field; and
- the appointment of a high profile industry ambassador to promote the prospectivity of South Australia.

The State's energy needs will be reviewed with funding allocated for the development of a State Energy Plan.

The transfer of funding support for the Food Centre and the South Australian Wine Industry Council to PIRSA from the former Department of Business, Manufacturing and Trade consolidates agency service delivery to the food industry within PIRSA and will result in significant efficiency savings across government.

Funding provided to the South Australian Wine Industry Council supports its strategic role in addressing issues impacting on the entire South Australian wine industry sector. Funding will be focussed on addressing strategic, state level needs including issues such as access to water, vineyard salinity and the identification of longer term growth regions.

Savings measures within the portfolio are focused on the rationalisation of administrative activities and more targeted expenditure in a number of research areas.

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

Table 2.13: Primary Industries and Resources — savings and expenditure initiatives (\$000)

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Operating initiatives	-9 915	-14 105	-16 325	-16 248
Investing initiatives	800	500	—	—
Savings initiatives	1 339	1 339	1 339	1 339
Total impact on budget balance	-7 776	-12 266	-14 986	-14 909

Primary Industries and Resources

Operating initiatives

Energy efficiency and demand management — suite of energy efficiency initiatives	-50	-50	-150	-200
FarmBis III — continued development of farm business and resource management skills ^(a)	-1 500	-4 000	-4 500	-4 000
Marine Innovation SA — research into the ecologically sustainable development of South Australia's fisheries and aquaculture ^(b)	-300	-500	-4 100	-8 000
Plan for Accelerating Exploration — resource investment initiatives ^(c)	-4 550	-5 400	-3 700	-1 000
Regulatory compliance — increased compliance costs due to increased number of licensed operators in the resource sector	-495	-1 335	-905	-928
South Australian Food Centre — operational funding ^(d)	-2 270	-2 070	-1 870	-1 270
South Australian Wine Industry Council — operational funding	-500	-500	-500	-500
State energy planning — measures to achieve a secure, competitive and innovative energy sector in South Australia	-250	-250	-600	-350

Investing initiatives

Asset sales — disposal of surplus land at Glenside and Loxton	800	500	—	—
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Table 2.13: Primary Industries and Resources — savings and expenditure initiatives (\$000) continued

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Savings initiatives				
Administrative measures — reduction in operating costs	1 094	1 094	1 094	1 094
Brukunga Mine site — rationalisation in rehabilitation monitoring	69	69	69	69
Information Technology — rationalisation of seismic datasets	40	40	40	40
Information technology charges — reduced EDS costs	24	24	24	24
Seismic Analysis — rationalisation of activity	36	36	36	36
<i>Petroleum Act</i> — administrative efficiencies	33	33	33	33
Petroleum regulation research — rationalisation of activity	43	43	43	43

(a) Includes Commonwealth contribution of \$0.75 million in 2004-05, \$2 million in 2005-06, \$2.25 million in 2006-07 and \$2 million in 2007-08.

(b) Includes contributions from the Commonwealth and industry of \$1.8 million in 2006-07 and \$3.4 million in 2007-08. Also includes investing expenditure of \$0.8 million in 2006-07 and \$2.5 million in 2007-08.

(c) Includes investing expenditure of \$200 000 in 2004-05, \$250 000 in 2005-06 and \$50 000 in 2006-07.

(d) Includes industry contribution of \$270 000 in years 2004-05 to 2007-08.

Administrative and Information Services

Additional resources are being provided to manage the contract process and transitional arrangements for the provision of government information technology and communication services beyond June 2005. Resources will also be made available to continue the operation of the State's radio system beyond the current contract term, which expires in June 2006.

Additional funding has been provided to improve the service and amenity of housing provided in regional areas for government employees through a program of bathroom and kitchen upgrades. An increase in the construction budget for new employee housing is also provided to enable more police and health care workers to live on the APY lands.

The purchase of a new scanning electron microscope will assist Forensic Science in conducting firearm investigations. Additional resources will also provide for an extra pathologist and scientific support staff to meet the growing demand for post mortem examinations and toxicology cases.

Additional resources are also provided to implement the Government's freedom of information programs, support procurement reform and proposed new procurement legislation and improve the detection and management of asbestos in government facilities.

An additional judge and support staff in the Industrial Relations Court will assist in providing faster resolutions to workers compensation disputes and other matters.

A Statewide Physical Activity Strategy will be funded and is aimed at increasing the levels of physical activity undertaken by all South Australians.

Significant industrial infrastructure development will be undertaken at Outer Harbor and on the Le Fevre Peninsula Transport Corridor and Pelican Point Road.

The saving measures within the portfolio better target current expenditure and rationalise administrative and related activities.

Chapter 2: Expenditure

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

Table 2.14: Administrative and Information Services — savings and expenditure initiatives (\$'000)

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Operating initiatives	-19 861	-21 385	-25 058	-21 561
Investing initiatives	-4 624	3 995	-5 040	-2 000
Savings initiatives	3 814	3 815	3 817	3 819
Total impact on budget balance	-20 671	-13 575	-26 281	-19 742
Department of Aboriginal Affairs and Reconciliation				
Savings initiatives				
Administrative measures — reduction in operating costs	81	81	81	81
Administrative and Information Services				
Operating initiatives				
Asbestos management — increased costs	-215	-85	-87	-89
Contract management — management of government facilities maintenance contracts	-600	-400	—	—
Forensic Science — support for increased activity ^(a)	-726	-584	-618	-654
Government buildings — security initiatives	—	-1 000	-1 000	-1 000
ICT service arrangements — contract implementation costs	-2 000	-3 000	-3 000	-1 000
ICT service arrangements — management of government information and communications technology contracts	-2 385	-3 999	-3 219	-2 719
ICT service arrangements — procurement and transition of future information and communication technology service arrangements	-1 812	-1 846	-975	—
Parliamentary network — IT system support for parliamentarians and electoral offices	-600	-600	-700	-700
Shared services across government — development of a business case	-700	—	—	—
State Procurement reform — implementation of new legislation	-250	-256	-263	-269
State radio communications system — extension of existing service arrangements beyond the current contract term	—	—	-12 000	-12 000
State Records — compliance costs associated with Freedom of Information (FOI) reforms	-130	-133	-136	-140
VIP Fleet — increase in fringe benefits tax liability	-300	-300	-300	-300
VIP Fleet — increase in operating costs	-270	-276	-283	-290
Investing initiatives				
Asset Management System — revised implementation schedule	-1 124	995	460	—
Automated Title and Land Administration System (ATLAS) - Stage 3 — revised implementation schedule	—	1 500	500	-2 000
Education Centre refurbishment — additional cost of asbestos removal	-1 000	—	—	—
PABX system — replacement of and upgrade to existing infrastructure	—	-1 000	-1 000	—
Scanning Electron Microscope — replacement of equipment	-500	—	—	—
Tram barn — sale of former Tram barn site on Angas Street	—	5 500	—	—

Table 2.14: Administrative and Information Services — savings and expenditure initiatives (\$000) continued

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Savings initiatives				
Administrative measures — reduction in operating costs	1 982	1 982	1 982	1 982
Building management — reduction in operating costs	190	190	190	190
Efficiency measures — rationalisation of accommodation and administration	250	250	250	250
Government publishing — rationalisation of services	90	90	90	90
Information technology charges — reduced EDS costs	37	37	37	37
IT Services — reduction in operating costs	606	606	606	606
Warehousing — reduction in operating costs	320	320	320	320
Administered Items for Administrative and Information Services				
Operating initiatives				
Additional judge — salary for the appointment of an additional judge to the Industrial Relations Court	-209	-213	-217	-222
West Beach pipeline — payment to settle contract dispute	-1 000	—	—	—
Administered Items for Infrastructure				
Operating initiatives				
Le Fevre Peninsula — road and rail infrastructure upgrade ^(b)	-4 000	-5 000	—	—
Investing initiatives				
Outer Harbor development — provision of headworks infrastructure	-2 000	-3 000	-5 000	—
Industrial Relations				
Operating initiatives				
Additional judge — operational funding for the appointment of an additional judge to the Industrial Relations Court	-226	-205	-208	-213
Additional staffing — increased operating costs	-447	-458	-470	-481
Office of Infrastructure				
Operating initiatives				
Office of Infrastructure Development — support for ongoing operations	-793	-565	-557	-564
Savings initiatives				
Administrative measures — reduction in operating costs	77	78	80	82
Office for Recreation and Sport				
Operating initiatives				
Recreational Trails — provision to conclude program	-788	—	—	—
Statewide Physical Activity Strategy — implementation	-410	-415	-425	-270

Table 2.14: Administrative and Information Services — savings and expenditure initiatives (\$000) continued

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Savings initiatives				
Administrative measures — reduction in operating costs	181	181	181	181
South Australian Government Employee Residential Properties				
Operating initiatives				
Government employee housing — new housing in the APY Lands and other country areas	-1 500	-1 500	—	—
Government employee housing — replacement of existing kitchens and bathrooms	-500	-550	-600	-650
Memorandum items — measures up to the 2004-05 Budget				
Operating initiatives				
Office for Infrastructure Development — operational funding	-580	-860	-1 120	-1 148
State Aquatic Centre — rescheduling of PPP payments	—	500	—	—

(a) Includes investing expenditure of \$80 000 in 2004-05.

(b) An amount of \$6.3 million is funded by AUSBULK in 2004-05.

Human Services

The priority areas for this budget are health and the welfare of families and the community. Very substantial increases in funding have been provided in the areas of hospital services, mental health and child protection.

A significant amount of the extra funding provided for health and family and community services is required simply to support existing levels of activity. Poor financial management over a number of years has meant it was difficult to identify what funds were actually being spent on. Funds allocated for one purpose were spent on other purposes. This led to a situation where the funding of current levels of activity were not sustainable any longer. Consequently it has been necessary to provide extra funding to both support current levels of activity and restore funding to areas such as housing which were short changed by past practices. A major consultancy has been let to conduct a thorough investigation of past financial practices and provide advice on future arrangements. The full financial implications will not be known until this consultancy is completed.

In 2004-05, \$3547 million will be directed to support the delivery of human services (including housing services provided by the South Australian Housing Trust). This is an increase in the Human Services budget of \$142 million over the 2003-04 estimated outcome. The 2004-05 expenditure on human services is budgeted to be \$248 million higher than estimated last budget, representing real growth of 4.9 per cent.

The 2004-05 Budget provides additional funding of more than \$60 million per annum to maintain current hospital services and support increased activity levels.

In addition, over \$7 million per annum has been provided to improve patient safety and the performance of emergency services at the Flinders Medical Centre. This will be achieved through increases in staffing within the emergency department and through the

development of a unit specifically to assist with the comprehensive assessment of patients that may require admission to hospital.

In response to the Generational Health Review, the following demand management strategies will be implemented in the health sector to reduce pressure on hospitals. This will be achieved by reducing the need for some patients to require hospital admission and assisting some patients to return home earlier than currently possible:

- home supported discharge from hospital — the provision of short-term home support services (for example help with showering, meals, shopping, etc.) to enable a person currently hospitalised to return home safely. This service would be supplied only until arrangements could be made for the former patients to access existing community services;
- prevention of admission from hospital emergency departments — the expansion of short term services (for example home based nursing services) that enable a person presenting at an emergency department who would otherwise be admitted to the hospital to return home safely;
- prevention of hospital presentation and admission from general practice and nursing homes — the provision of short term services (for example personal care, transportation, medication management, etc) to enable people, that a general practitioner would normally refer to a hospital or that an aged care service would send to hospital for treatment, to remain at home or in residential care; and
- management of complex clients and self-management strategies — a package of services that help people with chronic and complex conditions like diabetes to manage their conditions without admission to hospitals. This strategy is targeted at admitted patients with key chronic diseases and who have been admitted in the past 12 months and who are at high risk of re-admission in the next 12 months.

The purpose of these initiatives, which will receive new funding of more than \$20 million over the next four years, is to create capacity by reducing waiting times in emergency departments and improving access to elective surgery.

Mental health reform initiatives have also received a significant injection of funds to expand mental health services in the mainstream health system and to support non-institutional care. Where institutional care is necessary, the changes will provide more services in mainstream hospitals that are located closer to the patient's community rather than separate stand-alone facilities. Further, the changes would result in more community care to help people manage their conditions and live independently in the community.

Other major health initiatives include:

- Patient Assistance Transport Scheme — additional funding has been provided in response to increased demand for country residents to travel to obtain specialist services and for organ transplants performed interstate;
- Dental — additional funding of \$4.5 million over four years has been provided to continue services to reduce waiting lists for dental treatment;

- Open Architecture Clinical Information System (OACIS) — the budget provides more than \$27 million over the next four years to ensure the continued operation of OACIS. OACIS is a nationally and internationally recognised system that provides a single point of access to patient records that support clinical care decisions across the hospital system. South Australia is the only state in Australia with this type of integrated system in place. The State government support for this system is the primary reason that South Australia will receive \$20 million over three years from the Commonwealth as a HealthConnect site to facilitate the flow of information between hospitals and general practitioners;
- Health Reform Strategy — as part of the commitment to reform the South Australia health system, the budget provides over \$4 million over three years to help transition the existing health system to a regional governance model and implement a population based funding formula. These reforms will help ensure that services are based on population needs rather than institutional requirements;
- Elective Surgery — to help ensure that elective surgeries are performed in clinically acceptable timeframes, the budget provides an additional \$8 million over the next four years. In combination with the hospital avoidance programs, this funding will ensure that elective surgery can be performed in a timely manner; and
- Catherine House — ongoing support is being provided for Catherine House, which provides a broad range of services to homeless women. The focus of this initiative is for supported accommodation for women who have a mental illness.

Funding for the South Australian Ambulance Service will be increased in the 2004-05 Budget and will provide for the accelerated replacement of medical equipment.

In relation to families and communities, substantial resources have been provided to Family and Youth Services to meet service demands, particularly in the area of child protection services. These include:

- additional funding to eliminate the funding gap for existing service levels;
- further funding to increase staffing and service level shortfalls identified through the FAYS workload audit, provide additional accommodation and to relocate the Adelaide regional office; and
- funding for an improved case management computer system.

Over and above the extra funding for FAYS, additional funding has been provided to significantly improve the protection of children. These initiatives are supported by the recommendations of the Child Protection Review (the Layton Review). They include:

- improvements to alternative care by increasing the capacity to provide emergency placement responses and assessment prior to placements to ensure more stable placements for children in care;
- additional counselling and therapeutic services for children who have suffered abuse and neglect;
- increased family support services and additional training for school counsellors; and

- the creation of an independent Child Death and Serious Injury Review Committee and an Office of the Guardian for Children and Young People.

In 2003-04, \$26.7 million will be paid to the South Australian Housing Trust. This will restore Commonwealth State Housing Agreement (CSHA) funding that had previously been used to support activity elsewhere in the portfolio. This move ensures that CSHA funding is available to the housing agencies that will deliver the services and ensures that the funding is used in accordance with the CSHA agreement.

The State will increase funding in the Home and Community Care Program to match additional Commonwealth funds.

The Commonwealth Government has recently made a revised offer to the State Government to jointly fund an expansion of core State Government concessions to self-funded retirees who hold a Commonwealth Seniors Health Card. The South Australian Government will enter into negotiations with the Commonwealth Government. Subject to a satisfactory outcome to these negotiations, Commonwealth Seniors Health Card holders will receive concessions at the same rates available to pensioners for council rates, water and sewerage rates, motor vehicle registration and electricity.

Following the deferral of the replacement of the Youth Detention Centres, further funding has been provided for the ongoing maintenance of the existing Magill centre to meet safety and operating requirements. In addition the electrical wiring at the Cavan Centre will be upgraded.

The budget also includes funds for people with complex needs living in the city. Inner city services will include a mobile health service, Aboriginal community constables, a mobile legal unit, an exceptional needs supported accommodation project and a public intoxication referral service.

The saving measures within the portfolio are confined to the central administrative efficiency dividend.

The 2003-04 Mid-Year Review included provision for additional funding of around \$50 million per annum to address funding gaps in the Department of Human Services (DHS). The new expenditure announced in the 2004-05 Budget for health and family community services replaces this provision (in particular, in relation to the funding to support existing services delivered by Families and Youth Services and by metropolitan hospitals).

In addition to the measures included in the budget, the 2003-04 Mid Year Review provided approximately \$10 million per annum to address critical issues in supported residential facilities and also provided additional resources for the Home and Community Care program. New enterprise agreements with Salaried Medical Officers and Visiting Medical Specialists also required a large increase in resources.

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

Chapter 2: Expenditure

Table 2.15: Human Services — savings and expenditure initiatives (\$000)

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Operating initiatives	-121 375	-135 554	-145 173	-145 812
Investing initiatives	-5 485	-3 800	-30 200	-15 200
Savings initiatives	11 477	9 557	8 277	7 797
Total impact on budget balance	-115 383	-129 797	-167 096	-153 215
Department of Human Services				
Operating initiatives — Health				
Dental care — reduce growing waiting lists	-1 000	-1 000	-1 200	-1 300
Elective surgery — funding for elective surgery procedures	-2 000	-2 000	-2 000	-2 000
Flinders Medical Centre — emergency department	-7 200	-7 421	-7 569	-7 884
Health reform strategy — resourcing changes to governance arrangements and structural reform	-2 000	-1 510	-660	—
Hospital avoidance — improved care options to reduce emergency department presentations, hospital admissions and duration of stay	-4 330	-4 800	-5 430	-5 968
Mental health strategy — transitional resources to support reform strategy	—	-3 700	-5 693	-4 418
Metropolitan hospitals — increased operational support to address cost increases and demand pressures	-57 989	-59 487	-60 828	-60 971
Nursing — additional employment costs in country hospitals	-1 025	-1 051	-1 077	-1 104
Open Architecture Clinical Information System (OACIS) — continuation of ongoing operations	—	-9 000	-9 180	-9 585
Operational funding — increased resources for cost increases	-1 317	-1 349	-1 377	-1 384
Operational funding — reversal of previous saving measures	-1 925	-1 973	-2 012	-2 073
Pathways Home — provision of community rehabilitation facilities, step down facilities in Ceduna and Adelaide, and improved rehabilitation services	-4 300	-4 500	-4 700	-4 900
Patient Assistance Transport Scheme — increase transport assistance for rural patients	-410	-420	-431	-442
Supported Accommodation — Catherine House operational support	-670	-690	-710	-732
Operating initiatives — Family and Youth Services				
Alternative Care — improve diversity of core options for children including emergency placement arrangements in line with the Semple Review recommendations	-5 000	-5 125	-5 253	-5 384
Child protection — increased counselling and therapeutic services, family support services and training of school counsellors	-5 000	-5 275	-5 247	-5 116
Dry areas — support services for Adelaide	-200	-205	-210	-215
Family and Youth Services — additional funding to maintain existing services	-16 229	-16 716	-17 217	-17 734
Family and Youth Services — employment of additional staff to meet demand for services ^(a)	-7 000	-5 955	-10 979	-11 128
Home and Community Care Program — additional State contribution	-2 160	-2 160	-2 160	-2 160
Internal audit — increased resources	-129	-132	-136	-140
Office of Youth — increased resources	-361	-370	-379	-389
Youth Peak Body — increased support	-55	-55	-55	-55

Table 2.15: Human Services — savings and expenditure initiatives (\$000) continued

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Investing initiatives — Health				
Flinders Medical Centre Cancer Care facility — State contribution of \$2.5 million for joint initiative with Flinders Medical Centre Foundation for establishment of a new facility ^(b)	—	—	-14 500	—
Mental Health strategy — construction of a 40-bed secure forensic mental health facility replacing the existing facilities at Hillcrest and Glenside	—	-300	-1 300	—
Mental Health strategy — development of a 20-bed aged acute mental health facility at The Queen Elizabeth Hospital	—	-400	-2 800	-3 800
Mental Health strategy — development of a 30-bed adult acute mental health facility at Noarlunga Hospital	—	-500	-3 600	-2 400
Mental Health strategy — development of a mental health facility at the Womens and Children's Hospital	—	-400	-2 800	-3 800
Mental Health strategy — establishment of 40 new adult acute and 20 new aged acute mental health beds at the Lyell McEwin Health Service	—	—	-2 800	—
Mental Health strategy — expansion of the mental health facility at the Modbury Hospital to a 25 bed capacity	—	—	—	-1 600
Mental Health strategy — provision of a 30-bed secure rehabilitation mental health facility replacing equivalent facilities at Glenside	—	—	-300	-900
Renmark Aged Care facility — additional 15 beds	-1 885	—	—	—
Investing initiatives — Family and Youth Services				
Family and Youth Services — relocation of Adelaide office	-1 000	—	—	—
Family and Youth Services — upgrade case management system	-1 100	-1 100	-500	—
Magill and Cavan Youth Training Centres — ongoing sustainment of facilities	-1 500	-1 000	—	—
Savings initiatives				
Administrative measures — reduction in operating costs	3 794	3 794	3 794	3 794
Capital program — rescheduling of major works to accommodate a number of priority initiatives	7 200	5 280	4 000	3 520
Information technology charges — reduced EDS costs	476	476	476	476
South Australian Ambulance Service				
Operating initiatives				
Ambulance officers — additional employment costs	-465	—	—	—
Ambulance officers — increased cost of employer superannuation contributions	-610	-660	-670	-730
Investing initiatives				
Medical equipment — expansion of the replacement program ^(c)	—	-100	-1 600	-2 700
Savings initiatives				
Information technology charges — reduced EDS costs	7	7	7	7

Table 2.15: Human Services — savings and expenditure initiatives (\$000) continued

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Memorandum items — measures up to the 2004-05 Budget				
Operating initiatives				
Rural medical services — increased support for country doctors	-3 000	-1 500	-1 500	-1 500
Visiting Medical Specialists — additional employment costs	-285	-288	-472	-472
Clinical Academics — additional employment costs	-1 081	-1 143	-1 166	-1 190
Millicent and District Hospital — rescheduling of the construction of a 30 bed aged care facility	-4 713	626	645	660
South Australian Housing Trust — reduction in subsidy resulting from transfer of accumulated Commonwealth State Housing Agreement funds in 2003-04	1 640	1 575	1 615	1 655
Tobacco legislative reform — implementation of amendments	-275	-130	-186	-344
Telecommunications — support for the connection of the Government Radio Network to St John Ambulance	-27	-27	-27	-27
Youth Detention Centre — saving from not proceeding with PPP proposal	—	—	4 508	4 620
Investing initiatives				
Murray Bridge Soldiers' Memorial Hospital — rescheduling	-3 400	209	2 600	—
Mental Health strategy — rescheduling from 2003-04 of the construction of a 30 bed acute facility for the aged at the Repatriation General Hospital	—	-1 983	—	—
The Queen Elizabeth Hospital — rescheduling of stages 2 and 3 of the hospital redevelopment with major expenditure to occur in years 2007 to 2011	900	600	8 235	1 965

(a) Includes investing expenditure of \$1.195 million in 2004-05 to provide accommodation for additional staff.

(b) Includes government contribution of \$2.5 million with the remainder of the project to be funded through the fundraising efforts of the Flinders Medical Centre Research Foundation.

(c) Includes operating expenditure of \$10 000 in 2005-06, \$284 000 in 2006-07 and \$623 000 in 2007-08.

Transport and Urban Planning

The 2004-05 Budget provides funding for a range of important transport projects. Additional costs associated with the purchase of new trams have been accommodated along with significant new infrastructure projects, including: the replacement of the Bakewell Bridge; upgrade of South Road between Port and Torrens Road; upgrade of the Britannia Roundabout; construction of the Mawson Lakes connector (providing improved access for traffic from Main North Road); and construction of overpasses at South Road and Hanson Road as part of the Port River Expressway Project. A Rail Level Crossing Safety Program and upgrades to public transport facilities to provide improved access for disabled people are both resourced in the budget.

Resources have been provided to extend both the Overtaking Lanes and Shoulder Sealing programs. The overtaking lanes program will enable the construction of additional overtaking lanes on State regional arterial roads in order to improve passing opportunities and help reduce the number of head-on crashes. The shoulder sealing program will improve road safety by providing a greater width of seal on rural arterial roads.

Additional resources have been provided for the existing State Black Spot program to increase safety and reduce the risk of crashes. The additional resources will be focused on the upgrade of rail level crossings across the State based on risk assessments.

Increases to existing, and the introduction of new, Development Application Fees will enable Planning SA to implement recommendations of the Economic Development Board relating to the State planning and development system. Initiatives include: providing greater emphasis on the implementation and monitoring of policies in the Planning Strategy; Planning SA involvement in the preparation of amendments to development plan policies on a regional basis; creating independent Development Assessment Panels; and facilitating change management in the planning development field.

Resources have been provided to establish the Office of the North West to better coordinate the development of services in this area.

An anti-graffiti strategy in the southern suburbs will help deal with a 'hot-spot' for graffiti vandalism.

The savings measures within the portfolio are in the main focused on the rationalisation of administrative activities and better targeting of current expenditure. Lower community service obligation payments will be made to TransAdelaide as a result of the accelerated deployment of bus contract redeployees.

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

Table 2.16: Transport and Urban Planning — savings and expenditure initiatives (\$000)

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Operating initiatives	-3 240	-2 950	-5 350	-5 700
Investing initiatives	-23 550	-11 200	-40 540	-49 200
Savings initiatives	8 519	22 982	5 198	5 001
Total impact on budget balance	-18 271	8 832	-40 692	-49 899

Transport Services

Operating initiatives

Obsolete Port infrastructure — demolition of shipping berths at Port Adelaide and Port Lincoln	-790	—	—	—
Rail safety — education campaign for level crossing safety	—	-500	-200	—

Investing initiatives

Adelaide trams — increased project costs and revised timing	-10 550	-1 700	-5 300	—
Bakewell bridge — replacement of bridge to improve safety and transport efficiency	—	-3 000	-15 000	-12 000
Britannia Roundabout — upgrade of intersection	—	-5 500	-3 340	—
Mawson Lakes Connector — construction of a road between Main North Road and Main Street, Mawson Lakes	—	—	-800	-5 600
Overtaking lanes — extend existing program on strategic State arterial roads	—	-1 000	-3 500	-3 500

Chapter 2: Expenditure

Table 2.16: Transport and Urban Planning — savings and expenditure initiatives (\$000) continued

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Port River Expressway stage 1 — construction of South Road and Hanson Road overpasses ^(a)	-24 000	—	—	—
Shoulder sealing — extend existing program on rural arterial road network	—	—	-6 800	—
South East rail project — deferred	10 000	—	—	-10 000
South Road — upgrade between Port Road and Torrens Road	—	—	-3 000	-15 100
State Black Spot Program — additional expenditure on key initiatives to improve road safety	—	—	-2 800	-3 000
Walkley Heights Depot — disposal of excess land ^(b)	1 000	—	—	—
Savings initiatives				
Administrative measures — reduction in operating costs	1 526	1 526	1 526	1 526
Corporate Services — reduced operating costs	20	20	20	20
Information technology — reduction in the number of software licences	690	690	690	690
Information technology charges — reduced EDS costs	105	105	105	105
Operating costs reductions — efficiencies in security and waste management	200	180	180	180
Urban road improvement for freight — contribution to Bakewell Bridge, South Road and Britannia Roundabout	2 000	17 680	—	—
Walkerville building and land — proceeds from disposal of excess land and lease of office space, includes upgrade of air conditioning and savings in energy costs ^(c)	1 258	503	503	503
Office of Public Transport				
Operating initiatives				
Public transport facilities — improved access for disabled people	—	—	-2 700	-3 500
Savings initiatives				
Administrative measures — reduction in operating costs	152	152	152	152
Planning SA				
Operating initiatives				
State Planning System — implementation of Economic Development Board's recommendations relating to planning processes	-2 000	-2 000	-2 000	-2 000
Savings initiatives				
Administrative measures — reduction in operating costs	277	277	277	277
Business Support — rationalisation of services	350	350	350	350
Offices for Sustainable, Social, Environmental and Economic Development				
Operating initiatives				
Anti-Graffiti Strategy — program to combat graffiti in the southern suburbs	-250	-250	-250	—
Office of the North West — establishment of an office in the north-west suburbs	-200	-200	-200	-200

Table 2.16: Transport and Urban Planning — savings and expenditure initiatives (\$000) continued

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
TransAdelaide				
Savings initiatives				
Accelerated deployment of redeployees — improved deployment rates for bus contract redeployees	678	272	190	18
Operating costs — increased efficiencies	1 263	1 227	1 205	1 180
Memorandum items — measures up to the 2004-05 Budget				
Investing initiatives				
Mawson Connector and Mawson Lakes Public Transport Interchange — rescheduling of major works	-12 640	1 940	800	—
City West Connector — additional funding and rescheduling of major works	-4 650	—	—	—

(a) Includes Commonwealth contribution of \$12 million in 2004-05.

(b) Includes operating expenditure of \$500 000 in 2004-05.

(c) Includes \$1.7 million in 2004-05 from selling component of the carpark and receipts of \$270 000 per annum from 2005-06 for the lease of office space. Upgrade of Walkerville building airconditioning to occur in 2004-05 at a cost of \$500 000.

Further Education, Employment, Science and Technology

A bioscience incubator is to be built at the Thebarton Bioscience Precinct. This initiative establishes a dedicated bioscience incubator at the Thebarton Bioscience Precinct to ensure the sustainable growth of early stage bioscience companies. This investment will increase companies success rates with commercialisation and will attract the calibre of research and expertise needed to support the bioscience industry in South Australia.

The Premier's Science and Research Fund initiative will ensure South Australia is in a position to take advantage of further funding from the Commonwealth's Backing Australia's Ability fund. These resources will enable the State to build its capability in science, technology and innovation. The construction of science and technology infrastructure, engagement with industry to promote research and development and the development of science and technology intensive industry precincts will also be key outcomes.

Funding has also been provided for additional staff accommodation in the Anangu Pitjantjatjara Yankunytjatjara (APY) communities, in line with an increase in TAFE education programs.

TAFE Institutes are facing transitional cost pressures and additional resources have been provided to meet these pressures during 2004-05.

Savings in the portfolio will result from workforce restructuring. The sale of surplus property will also occur.

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

Chapter 2: Expenditure

Table 2.17: Further Education, Employment, Science and Technology — savings and expenditure initiatives (\$000)

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Operating initiatives	-5 925	-2 657	-3 732	-3 690
Investing initiatives	1 500	—	—	—
Savings initiatives	2 738	2 738	2 738	2 738
Total impact on budget balance	-1 687	81	-994	-952
Further Education, Employment Science and Technology				
Operating initiatives				
Employee housing — accommodation for increased staffing in the APY Lands	-280	-287	-294	-302
Premier's Science and Research Fund — expansion to the capacity of the Fund	-2 000	-2 000	-2 000	-2 000
TAFE system — additional funding for Aboriginal programs	-1 500	—	—	—
TAFE Institutes — transitional operational support	-2 000	—	—	—
Investing initiatives				
Wakefield Street property — sale of surplus land and buildings	1 500	—	—	—
Savings initiatives				
Administrative measures — reduction in operating costs	1 729	1 729	1 729	1 729
Information technology charges — reduced EDS costs	9	9	9	9
TAFE Institutes — workforce restructure	1 000	1 000	1 000	1 000
Bio Innovation SA				
Operating initiatives				
Bioscience Incubator — construction of an incubator at the Thebarton Bioscience Precinct	—	-150	-1 140	-1 080
Operational funding — increased costs	-145	-220	-298	-308
Memorandum items — measures up to the 2004-05 Budget				
Operating initiatives				
Electorate Offices — funding for trainees program	-384	-384	-384	-384
Cooperative Research Centres — funding support	—	-600	-600	-600

Environment and Conservation and the River Murray

The Department of Environment and Heritage (DEH) has been allocated \$7.9 million in new funding. DEH will spend around \$5 million over the next four years developing and implementing the Living Coast Strategy along Adelaide's metropolitan beaches and regional coastal areas. Around \$2.9 million in funding has been allocated to a new heritage program to substantially increase the number of heritage advisors across the state, strengthen heritage legislation and create a single heritage register. As a result of this measure, funding for the National Trust will more than double to \$1 million over the next five years.

The Department of Water, Land and Biodiversity Conservation (DWLBC) will spend more than \$9.5 million on a series of new initiatives across the state, including \$6.8 million on Natural Resource Management and \$1.2 million to improve the functions of the Barcoo

Outlet. DWLBC will continue to work with other state and federal governments to restore the health of the River Murray with funds from the Murray Darling Basin Commission, the \$500 million Council of Australian Governments (COAG) package and the Save the River Murray levy.

The Environment Protection Authority (EPA) has received a \$5 million funding boost to tackle contaminated sites around the state. The four year program will see new laws backed by strong legislation to ensure the State has the powers to make polluters responsible for the clean-up of sites and for site contamination to be considered and dealt with for all new developments.

The saving measures within the portfolio are focused on the rationalisation of current programs and administrative efficiencies across the portfolio.

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

Table 2.18: Environment and Conservation and the River Murray — savings and expenditure initiatives (\$000)

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Operating initiatives	-3 248	-3 780	-6 906	-6 948
Savings initiatives	2 188	2 088	2 088	2 088
Total impact on budget balance	-1 060	-1 692	-4 818	-4 860
Department for Environment and Heritage				
Operating initiatives				
Heritage Directions — planning and conservation activities	-448	-676	-798	-986
Living Coast Strategy — planning and creation of marine reserves	-500	-500	-2 000	-2 000
Savings initiatives				
Administrative measures — reduction in operating costs	1 125	1 125	1 125	1 125
Administered Items of the Department for Environment and Heritage				
Savings initiatives				
Administrative costs — reduction	95	95	95	95
Environment Protection Authority				
Operating initiatives				
Site Contamination Legislation — compliance resources for proposed new legislation	-500	-500	-2 000	-2 000
Savings initiatives				
Administrative measures — reduction in operating costs	279	279	279	279
Ambient water quality monitoring — retendering	20	20	20	20
National Programs and Compliance Monitoring — meeting national standards	99	99	99	99

Table 2.18: Environment and Conservation and the River Murray — savings and expenditure initiatives (\$000) continued

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Department of Water, Land and Biodiversity Conservation				
Operating initiatives				
Barcoo Outlet — remedial flood mitigation measures	-750	-154	-158	-162
Natural Resources Management Boards — establishment and support of regional boards	-1 050	-1 950	-1 950	-1 800
Savings initiatives				
Accommodation — rationalisation within the metropolitan area ^(a)	200	100	100	100
Administrative measures — reduction in operating costs	370	370	370	370
Memorandum items — measures up to the 2004-05 Budget				
Operating initiatives				
Murray Darling Basin Commision — increased contribution	-1 600	—	—	—
Perpetual lease freeholding — changed activity levels	777	778	792	-660
Red Imported Fire Ant — State contribution to national eradication program	-362	-440	-432	—
Zero Waste SA — operating activities	-2 122	-1 825	993	1 280

(a) Includes receipts of \$1.4 million which is offset by expenditure of \$1.2 million associated with the upgrade of offices.

Education and Children's Services

The Budget provides substantial additional funding for a comprehensive and coordinated program to improve literacy for children in the early years. Specific initiatives include:

- School based class support — the equivalent of 60 additional teachers will be funded to enable one to one interventions to occur in year 1 classes where a child is identified as being at risk of not achieving year 3 literacy benchmarks. Funding will also be provided for two additional reading recovery tutors to enable the Reading Recovery program to be expanded. This will enable 120 teachers to be trained by 2006 for the delivery of the program. Funding for the equivalent of an additional 30 teachers will be made available for mentor teacher salaries to enable skilled literacy teachers to work alongside classroom teachers to model and guide effective practice. Through the new district structure, all government schools will be supported in the development of a specific literacy plan which will ensure the whole community understands and shares the commitment to improved literacy outcomes for their children in the early years.
- Preschool support — the initiative aims to improve learning for three-year-old Aboriginal children in preschools by reducing child to staff ratios even more. This will enable children to get more attention and deliver better long-term attendance and learning outcomes. The equivalent of an additional 13.5 full time teachers will be engaged and this will directly affect nearly 1000 Aboriginal 3 and 4 year old children.
- Professional development — funded professional development for every preschool to year 3 teacher will be provided at the equivalent of 3 days per year. The core professional development program will address whole school/site planning, intervention strategies and effective literacy teaching methods.

- Resource development and publication — resource materials will be produced to assist teachers to monitor children’s progress, improve practice and provide information for parents.
- Program development and management — an additional 18 District Early Childhood Initiatives Coordinators will be engaged to work across the birth to eight years range. Two senior program development officers will be appointed to coordinate the program design and support the state-wide program implementation.

The budget also provides for further investment in financial and human resource management systems within the education sector and to support financial management training for school support staff. This funding recognises the technological and financial skills required to efficiently run a modern school system.

Saving measures will be achieved through the rationalisation of administrative functions within the portfolio.

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

Table 2.19: Education and Children’s Services — savings and expenditure initiatives (\$000)

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Operating initiatives	-14 145	-16 113	-16 483	-16 420
Savings initiatives	4 099	4 099	4 099	4 099
Total impact on budget balance	-10 046	-12 014	-12 384	-12 321
Education and Children's Services				
Operating initiatives				
Human Resource Management System — increased cost of implementing the system	-3 900	-1 000	-850	—
Information technology — development of a corporate data warehouse to record, analyse and report schools’ student achievement and financial information and the delivery of improvements in the schools’ administration system	-1 300	-500	-300	-300
Literacy Program — provision of one to one support and other services to students at risk of not achieving literacy benchmarks	-5 000	-10 000	-10 000	-10 000
School Bus Services — operational funding	-96	-96	-96	-96
Training and development — financial management training and support for school and preschool staff	-1 000	-1 000	-1 000	-1 000
Savings initiatives				
Administrative measures — reduction in operating costs	3 831	3 831	3 831	3 831
Information technology charges — reduced EDS costs	117	117	117	117

Table 2.19: Education and Children's Services — savings and expenditure initiatives (\$000) continued

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Administered Items for the Department of Education and Children's Services				
Operating initiatives				
Ministerial Consultative Committees — additional support	-83	-85	-87	-89
Non-government schools — higher grant payments	-987	-1 507	-2 061	-2 651
SSABSA — increased support ^(a)	-1 779	-1 925	-2 089	-2 284
Savings initiatives				
Administrative measures — reduction in operating costs	151	151	151	151
Memorandum items — measures up to the 2004-05 Budget				
Investing initiatives				
Modbury primary school — funding for accommodation of local community groups	-1 693	—	—	—

(a) Includes SSABSA revenue of \$632 000 in 2004-05, \$680 000 in 2005-06, \$515 000 in 2006-07 and \$526 000 in 2007-08.

Tourism

The South Australian Tourism Commission (SATC) will develop a new domestic marketing campaign targeting both interstate and South Australian tourists to holiday in South Australia. This initiative supports the SATC's objective of increasing annual visitor expenditure in South Australia to \$5 billion by 2008.

Additional resources have been provided to the tourism infrastructure fund to support the State's key competitive strengths of nature-based tourism, food and wine tourism and cultural tourism. An annual outback event, the Great Australian Cattle Drive, will be supported and ongoing contributions will be made to support the Adelaide International Horse Trials and the Australian Men's Hardcourt Tennis Championships.

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

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

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Operating initiatives	-2 075	-2 030	-1 460	-1 000
Savings initiatives	376	376	376	376
Total impact on budget balance	-1 699	-1 654	-1 084	-624
South Australian Tourism Commission				
Operating initiatives				
Adelaide International Horse Trials — support	-175	-300	-300	—
Australian Men's Hardcourt Tennis Championships — support	-120	-120	-120	—
Domestic Marketing — campaign to promote South Australia as a holiday destination	-1 150	—	—	—
Great Australian Outback Cattle Drive — support	-550	-550	—	—

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

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Heritage railways and tramways — assistance for public liability insurance premiums	-80	-60	-40	—
Major tourism infrastructure — development of infrastructure with a focus on nature-based and cultural tourism	—	-1 000	-1 000	-1 000
Savings initiatives				
Administrative costs — reductions across the agency	200	200	200	200
Administrative measures — reduction in operating costs	172	172	172	172
Information technology charges — reduced EDS costs	4	4	4	4

Chapter 2: Expenditure

Table 2.21: Operating expenses by portfolio ^(a)

Portfolio	2003-04	2003-04	2004-05	2004-05
	Budget	Estimated Result	Budget	% change on 2003-04 Budget
	\$m	\$m	\$m	
The Legislature	-18.1	-18.9	-18.6	2.7
Premier and Cabinet	-148.0	-151.6	-143.0	-3.4
Trade and Economic Development	-121.9	-111.5	-106.6	-12.6
Treasury and Finance	-67.0	-68.6	-69.1	3.1
Justice	-841.6	-869.0	-902.4	7.2
Primary Industries and Resources	-171.3	-185.0	-193.3	12.8
Administrative and Information Services	-594.0	-609.9	-620.2	4.4
Human Services	-3 177.8	-3 284.3	-3 433.9	8.1
Transport and Urban Planning	-665.9	-657.4	-689.3	3.5
Further Education, Employment, Science and Technology	-395.3	-404.5	-416.3	5.3
Environment and Conservation and the River Murray	-249.3	-248.9	-263.3	5.6
Education and Children's Services	-1 658.2	-1 696.0	-1 719.0	3.7
Tourism	-48.2	-52.2	-47.4	-1.8
Auditor-General	-9.7	-10.1	-10.0	3.7
Total Portfolio operating expenses	-8 166.5	-8 367.9	-8 632.2	5.7

(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.

Table 2.22: Investing payments (\$ million)

	2003-04	2003-04	2004-05
	Budget	Estimated Result	Budget
The Legislature	-2	-2	—
Premier and Cabinet	-12	-11	-2
Trade and Economic Development	-4	-2	—
Treasury and Finance	-9	-4	-5
Justice	-69	-53	-60
Primary Industries and Resources	-8	-6	-10
Administrative and Information Services	-53	-146	-144
Human Services	-133	-114	-147
Transport and Urban Planning	-186	-156	-224
Further Education, Employment, Science and Technology	-9	-9	-8
Environment and Conservation and the River Murray	-25	-19	-27
Education and Children's Services	-55	-40	-58
Tourism	—	—	—
Auditor-General	—	—	—
Contingencies and Other	-9	2	1
Provision for capital slippage	40	—	60
Total general government sector^(a)	-532	-560	-625
Public non-financial corporations	-356	-382	-328
Other	—	10	2
Total investing^(a)	-889	-932	-950

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

Table 2.23: Budget initiatives (\$ million)

Portfolio	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
The Legislature	-0.3	-0.3	-0.3	-0.3
Premier and Cabinet	-11.0	-9.0	-12.2	-9.3
Trade and Economic Development	9.7	11.9	12.3	10.0
Treasury and Finance	-1.6	-1.1	—	0.1
Justice	-9.3	-11.1	-20.5	-9.2
Primary Industries and Resources	-7.8	-12.3	-15.0	-14.9
Administrative and Information Services	-20.7	-13.6	-26.3	-19.7
Human Services	-115.4	-129.8	-167.1	-153.2
Transport and Urban Planning	-18.3	8.8	-40.7	-49.9
Further Education, Employment, Science and Technology	-1.7	0.1	-1.0	-1.0
Environment and Conservation and the River Murray	-1.1	-1.7	-4.8	-4.9
Education and Children's Services	-10.0	-12.0	-12.4	-12.3
Tourism	-1.7	-1.7	-1.1	-0.6
Total initiatives (net of savings)	-189.1	-171.8	-289.0	-265.2

(a) Table may not add due to rounding.

Table 2.24: Expenditure decisions since the 2003-04 MYBR impacting in 2003-04 (\$000)

	2003-04 Estimated Result
Legislature	
Operating initiatives	
Photocopier replacement program — additional funding	-410
Department of the Premier and Cabinet	
Operating initiatives	
Adelaide Festival Centre — operational support	-400
Anangu Pitjantjatjara Yankunytjatjara Lands — additional services	-250
Art Gallery — operational support	-154
Department of Treasury and Finance	
Operating initiatives	
Taxation Administration — increased operational costs	-104
Administered Items for the Department of Treasury and Finance	
Operating initiatives	
Full retail contestability for gas — State contribution to costs	-64 500
South Australia Police	
Operating initiatives	
Anangu Pitjantjatjara Yankunytjatjara Lands — additional services	-194
South Australian Police — reversal of 2003-04 saving measures	-366

Chapter 2: Expenditure

Table 2.24: Expenditure decisions since the 2003-04 MYBR impacting in 2003-04 (\$000) continued

	2003-04 Estimated Result
Investing initiatives	
Information technology — rescheduling enhanced computing capability within vehicles	2 328
State Electoral Office	
Operating initiatives	
Anangu Pitjantjatjara Yankunytjatjara Lands — funding for council election	-35
Administered Items for Attorney-General's	
Operating initiatives	
Legal aid — support for legal defence costs of expensive cases	-84
Department for Correctional Services	
Operating initiatives	
Workers compensation and injury management — increased costs	-2 200
Department of Primary Industries and Resources	
Operating initiatives	
Gas supply breakdown — provision of public information	-50
Department for Administrative and Information Services	
Operating initiatives	
Office for Infrastructure Development — operational funding	-70
Shared services of corporate functions — development of business case	-300
Investing initiatives	
Asset Management System — rollout of system to user agencies	-331
Administered Items for the Department for Administrative and Information Services	
Operating initiatives	
Industrial Court — extension of magistrate's term	-90
Administered Items for Infrastructure	
Operating initiatives	
Port redevelopment — government subsidy to the Land Management Corporation, including for relocation of existing activities	-10 000
Department of Human Services	
Operating initiatives	
Care of immigration detainees — reimbursement of costs by Commonwealth government	1 447

Table 2.24: Expenditure decisions since the 2003-04 MYBR impacting in 2003-04 (\$000) continued

	2003-04 Estimated Result
Clinical Academics — additional employment costs	937
Community facilities — grant contributions for a respite centre for people with an intellectual disability and a supported housing facility for homeless with a mental illness or other complex needs	-920
Elective surgery — additional support to reduce waiting lists	-5 000
Millicent and District Hospital — rescheduling of the construction of a 30 bed aged care facility	4 018
South Australian Housing Trust — transfer of accumulated Commonwealth State Housing Agreement funds	-26 745
Supported Residential Facility — grant to support provision of an aged care facility for 60 residents with a mental illness	-4 500
Telecommunications — support for the connection of the Government Radio Network to St John Ambulance	-250
The Queen Elizabeth Hospital — rescheduling of stages 2 and 3 of the hospital redevelopment with major expenditure to occur in years 2007 to 2011	900
Visiting Medical Specialists — additional employment costs	-495
Investing initiatives	
Alternative care — purchase of houses for emergency placements	-4 046
Murray Bridge Soldiers' Memorial Hospital — rescheduling	591
Mental Health strategy — rescheduling to 2005-06 of the construction of a 30 bed acute facility for the aged at the Repatriation General Hospital	1 983
Transport Services	
Investing initiatives	
Adelaide trams — increased project costs and revised timing	3 150
City West Connector — additional funding and rescheduling of major works	2 650
Mawson Connector and Mawson Lakes Public Transport Interchange — rescheduling of major works	9 900
Urban Road Improvements for Freight — reallocation of project funding to the City West Connector project	2 000
Department of Further Education, Employment, Science & Technology	
Operating initiatives	
Electorate Offices — funding for trainees program	-192
Department for Environment and Heritage	
Operating initiatives	
Perpetual lease freeholding — changed activity levels	-1 684

Table 2.24: Expenditure decisions since the 2003-04 MYBR impacting in 2003-04 (\$000) continued

	2003-04 Estimated Result
Administered items for the Department for Environment and Heritage	
Operating initiatives	
Zero Waste SA — operating activities after establishment, carryover to future years	3 172
Zoo infrastructure — additional grant to contribute towards developments and improvements for the Adelaide and Monarto zoos	-750
Department of Education and Children's Services	
Operating initiatives	
Literacy — extra resources in support of the Premier's Reading Challenge	-2 172
School Bus Services — operational funding	-96
Administered Items for the Department of Education and Children's Services	
Non-Government schools — grant funding based on actual enrolments	-410
South Australian Tourism Commission	
Operating initiatives	
International marketing — campaign to promote South Australia as a holiday destination	-500
Marketing and promotions — funding contribution for the new Adelaide - Auckland air service	-1 500
Total	-95 722

CHAPTER 3: REVENUE

Overview

The 2004-05 Budget has benefited significantly from increases in property taxes, payroll tax and Commonwealth general purpose grants (GST grants), the latter moderated by a reduced share of Commonwealth funding as a result of the Commonwealth Grants Commission's 2004 methodology review recommendations.

The Budget also provides substantial tax relief. The payroll tax rate will be reduced to 5.5 per cent from 1 July 2004 and lease duty and cheque duty will be abolished from the same date. In addition, the first homebuyer stamp duty concession will be extended to provide a partial concession for first homes valued between \$80 000 and \$250 000. Currently, the concession ceases above \$130 000. The extension of the concession will provide greater stamp duty relief to first homebuyers in recognition of recent increases in housing prices in South Australia. Loans taken out by first homebuyers will also be exempt from mortgage duty.

In accordance with undertakings made under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, debits tax will be abolished from 1 July 2005.

An instalment payment option for land tax will be introduced from the 2004-05 assessment year. The new instalment payment option will be available to all land tax payers and will allow payments in equal instalments over four consecutive months. Payment of land tax accounts by credit card will also be accepted within financial limits.

Taxation measures

Taxation measures are summarised in Table 3.1.

Table 3.1: Taxation measures (\$ million)

Taxation measures	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Revenue impact from new measures				
Payroll tax				
From 1 July 2004				
<i>Payroll tax rate reduction from 5.67% to 5.5% for wages paid on or after 1 July 2004</i>	-20.3	-23.3	-24.5	-25.7
First homebuyer stamp duty concession				
From date of announcement (in respect of contracts entered into on or after 27 May 2004)				
<i>Adjustment to thresholds and structure allowing a partial stamp duty concession on first homes valued up to \$250 000</i>	-9.4	-10.4	-10.4	-10.4
First homebuyer mortgage duty				
From date of announcement (in respect of mortgages that relate to first home contracts entered into on or after 27 May 2004)				
<i>Exemption from mortgage duty to be provided to all first home buyers</i>	-5.2	-5.8	-6.1	-6.5
Stamp duty on leases				
From 1 July 2004				
<i>Abolition of stamp duty on leases entered into on or after 1 July 2004</i>	-2.3	-2.5	-2.6	-2.7
Cheque duty				
From 1 July 2004				
<i>Abolition of stamp duty on cheque forms issued on or after 1 July 2004</i>	-2.9	-3.2	-3.2	-3.2
Land tax instalments and credit card payments				
From 1 July 2004				
<i>Introduction of instalment payment option for land taxpayers and the introduction of credit card payment facilities ^(a)</i>	—	—	—	—
Total	-40.1	-45.2	-46.8	-48.5
Revenue loss from abolition of debits tax (previously factored into the forward estimates)				
From 1 July 2005 ^(b)	—	-55.9	-61.6	-62.3

a) The additional costs for RevenueSA associated with this measure are reflected in Chapter 2.

b) 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 than subsequent years reflecting the collection of residual amounts relating to the 2004-05 year.

Note: Tables may not add due to rounding

Payroll tax

The payroll tax rate will be cut from 5.67 per cent to 5.5 per cent for taxable wages paid or payable on or after 1 July 2004. This rate reduction will provide benefits to business and bring South Australia's payroll tax rate, which is already lower than in most jurisdictions, closer to the Victorian rate. South Australia's relative business competitiveness will be enhanced by the rate reduction. No change will be made to the payroll tax threshold which will remain at \$504 000.

The reduction in the payroll tax rate is expected to deliver payroll tax relief of \$20.3 million in 2004-05 increasing to \$25.7 million by 2007-08. It is estimated that approximately 5500 firms employing approximately 340 000 employees will benefit from this rate reduction.

Comparative payroll tax rates by jurisdiction are provided in Table 3.2.

Table 3.2 Comparison of payroll tax rates

	Payroll tax rates
	%
New South Wales	6.00
Victoria	5.25
Queensland	4.75
Western Australia	6.00
South Australia – current	5.67
South Australia – from 1 July 2004	5.50
Tasmania	6.10
Australian Capital Territory	6.85
Northern Territory	6.20

First homebuyer stamp duty concession

Currently, first homebuyers receive a full stamp duty concession on first home purchases valued up to \$80 000 with a partial concession up to \$130 000.

The first homebuyer stamp duty concession will be extended to provide a partial stamp duty concession for first homes valued above \$80 000 up to \$250 000.

First home purchases valued up to \$80 000 will continue to receive a full concession. For first home purchases between \$80 000 and \$100 000 the concession rate reduces by 2.5 per cent for each \$1000 increase in property value above \$80 000. At \$100 000, the concession rate is 50 per cent and remains at 50 per cent for first home purchases up to \$150 000. Thereafter, the concession amount reduces by \$24 for each \$1000 of property value in excess of \$150 000 and phases out completely above \$250 000.

The expanded concession will be available where a contract to purchase a first home is entered into on or after 27 May 2004.

The phasing down of the concession rate between \$80 000 and \$100 000 is designed to ensure that first homebuyers in this price range are not treated less favourably than they would under existing concession arrangements and to smooth the transition from a 100 per cent concession to a 50 per cent concession.

The extension of the concession thresholds will provide greater stamp duty relief to first homebuyers in recognition of recent increases in housing prices in South Australia. It is estimated that more than 80 per cent of first homebuyers will receive either a full or partial stamp duty benefit under the amended concession. The benefit to first homebuyers of the increase in concession thresholds (together with the mortgage duty exemption for first homebuyers) at various property value levels is provided in Table 3.3.

It is estimated that extension of the first home concession will cost \$9.4 million per annum in 2004-05 and increase to \$10.4 million per annum across the forward estimates.

Mortgage duty exemption for first homebuyers

As an added benefit for first homebuyers, an exemption from mortgage duty will be provided where the mortgage relates to a first home contract entered into on or after 27 May 2004. There is no limit on the value of first home loans eligible for the mortgage duty exemption.

Eligibility for the mortgage duty exemption will be aligned to the eligibility criteria for the \$7000 first homeowner grant.

The exemption from mortgage duty is expected to benefit up to 9500 first home buyers in 2004-05 and is estimated to cost \$5.2 million in 2004-05 increasing to \$6.5 million by 2007-08.

The exemption from mortgage duty of first home loans is consistent with State undertakings to review the continued need for mortgage duty under the *Intergovernmental Agreement on Reform of Commonwealth-State Financial Relations* (IGA).

The combined benefit for first homebuyers from the expanded stamp duty concession and the mortgage duty exemption is provided in Table 3.3.

Table 3.3 Comparison of first homebuyer concessions compared to previous concessions.

Purchase price	New conveyance duty concession	Mortgage duty concession ^(a)	Total value of concessions	Previous conveyance duty concession	Net benefit
	\$	\$	\$	\$	\$
80 000	2 130	241	2 371	2 130	241
100 000	1 415	304	1 719	1 290	429
125 000	1 915	383	2 298	240	2 058
150 000	2 415	462	2 877	—	2 877
175 000	1 815	540	2 355	—	2 355
200 000	1 215	619	1 834	—	1 834
225 000	615	698	1 313	—	1 313
250 000	15	777	792	—	792

(a) Based on a mortgage equal to 90% of the purchase price.

Lease duty

Lease duty will be abolished on all leases executed on or after 1 July 2004. Currently, leases of land and non-residential property are taxed at 1 per cent of annual average rent, provided the annual lease payment is over \$50 000.

This measure is expected to relieve around 2000 businesses from stamp duty on lease arrangements. The cost of this measure is expected to be \$2.3 million in 2004-05.

The abolition of lease duty is also consistent with the State's commitment under the IGA to review the continued need for business stamp duties.

Cheque duty

Stamp duty on cheques will be abolished for all cheque forms issued on or after 1 July 2004. Currently, duty is charged at a flat ten cents per cheque in respect of cheques issued in South Australia. The revenue cost of abolishing cheque duty is estimated to be \$2.9 million in 2004-05.

Cheque duty is one of the business stamp duties that the State committed to reviewing under the IGA and so its abolition is consistent with these undertakings.

Land tax instalments and credit card payments

An instalment payment option for land tax will be introduced from the 2004-05 assessment year. In addition, payment of land tax accounts by credit card will also be accepted with financial limits.

The new instalment payment option will be available to all land tax payers and will allow payment in equal instalments over four consecutive months. There will be no interest charge for these instalment payments, nor will discounts apply if taxpayers elect to pay their tax in one single payment, as at present.

Credit card payment of land tax accounts will be available as from 2004-05 assessments subject to a \$2000 transaction limit. In conjunction with land tax instalments, this will enable annual land tax liabilities up to \$8000 to be paid using credit card facilities.

The introduction of instalments and a credit card payment option will extend the current payment period from around one month from the date a land tax assessment is raised, to around five months, assuming both the instalment and credit card payment options are utilised and depending on specific credit card payment terms.

Introduction of these payment options is estimated to cost \$0.5 million per annum for additional administration costs for RevenueSA.

Debits tax

In accordance with undertakings made under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), debits tax will be abolished from 1 July 2005. At the Ministerial Council for Commonwealth-State Financial Relations meeting in March 2004, all jurisdictions which currently levy debits tax confirmed that they will proceed with the scheduled abolition of debits tax. The revenue loss for South Australia is estimated to be \$55.9 million in 2005-06 and \$61.0 million in a full year. This revenue loss has been factored into the forward estimates for 2005-06 and later years in past budgets.

Emergency services levy

There will be no increase in 2004-05 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 3.4. For mobile property, effective rates are provided in the second last column of Table 3.4.

Target expenditure on emergency services for 2004-05 is \$165.5 million of which private owners of fixed and mobile property will contribute \$86.9 million (net of pensioner concessions).

Of the remaining balance, the Consolidated Account will fund \$77.3 million through remissions, pensioner concessions and the Government's ESL liability on its own property. A further \$1.3 million will be funded from the Community Emergency Services Fund from interest earnings and other minor revenues.

Consistent with the credit card payment arrangements to be introduced for land tax in 2004-05, the credit card limit for payment of the Emergency Services Levy will be increased from \$1000 to \$2000 per transaction.

Table 3.4: ESL levy rates for 2004-05

	Prescribed rate (a)	Remission rate	Post-remission rate	Effective levy rate paid in Regional Area 4 ^(b)
	cents per \$ (applied to capital values discounted by land use and area factors)			\$50 plus cents per \$ of non-discounted capital value
Fixed property				
Residential	0.1232	0.0972	0.0260	0.0104
Commercial	0.1232	0.0227	0.1005	0.1005
Industrial	0.1232	0.0000	0.1232 ^(c)	0.1749
Rural and vacant land	0.1232	0.0972 ^(d)	0.0260 ^(d)	0.0078
Special community use	0.1232	0.0807	0.0425	0.0043
Other	0.1232	0.0972	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 lower in 2004-05 (0.1232 cents per dollar compared to 0.1491 cents per dollar in 2003-04), due to growth in property values.

(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) The post remission rate for industrial land was 0.1315 cents per dollar in 2003-04 but will reduce to 0.1232 cents per dollar in 2004-05 as post-remission rates cannot be greater than the prescribed rate. To offset the reduction in the post remission rate, the land use factor for industrial land will increase (from 1.33 to 1.42). This will ensure the effective levy rate for industrial land remains unchanged from its 2003-04 level.

(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 0.1137 cents in the dollar and the post-remission rate is 0.0095 cents in the dollar.

Agency revenue measures

Table 3.5 summarises proposed agency revenue measures.

Table 3.5: Agency revenue measures (\$ million)

Agency revenue measures	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Department of Human Services				
Compensable fees	5.7	7.6	7.6	7.6
Ambulance fees – Motor Accident Commission	-0.2	-0.3	-0.5	-0.7
Department of Transport and Urban Planning				
Development application fees	2.0	2.0	2.0	2.0
Nationally regulated heavy vehicle charges	1.3	1.3	1.3	1.3
Department of the Environment and Conservation				
Additional freeholding of Crown land (shacks and other general holdings)	1.0	—	—	—
Water licensing and well permits	0.4	0.6	0.6	0.6
Ozone licensing and accreditation fees	-0.1	-0.2	-0.1	-0.2
Department of Treasury and Finance				
Licence fees for trade promotion lotteries	0.5	0.5	0.5	0.5
Department of Administrative and Information Services				
Increased cost recovery for Hindmarsh Stadium and the Vacswim program	0.2	0.2	0.2	0.2
Department of Primary Industries and Resources				
Agricultural services cost recovery	—	—	0.5	1.0
Total agency revenue measures	10.9	11.7	12.2	12.4

Note: Totals may not add due to rounding.

Agency revenue measures are expected raise an additional \$10.9 million in 2004-05 and include specific adjustments to existing 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.

The largest agency revenue measure is an increase in fees charged by public hospitals to compensable patients and non-Medicare patients. A compensable patient is a person receiving services from a hospital who is entitled (or may be entitled) to receive payment by way of compensation in respect of injury, illness or disease. The two largest categories of compensable patients are those covered by workers compensation or compulsory third party motor vehicle insurance.

Hospital compensable fees have not been adjusted since 1994-95 despite significant cost increases. The increase in hospital compensable fees is expected to raise an additional \$5.7 million in 2004-05 and \$7.6 million per annum over the rest of the forward estimates period. The fee increases will not apply to Medicare patients.

Development application fees administered by the Department of Transport and Urban Planning will be increased in the 2004-05 Budget to achieve a greater level of administrative cost recovery. Increases in land division application fees, building rules assessment fees,

Crown land development fees and “Section 7” enquiry fees will generate an additional \$2.0 million per annum which will be used to fund initiatives recommended by the Economic Development Board.

The National Road Transport Commission is responsible for regularly reviewing the level of heavy vehicle registration charges as part of its role to improve the efficiency and safety of road transport and reduce environmental impacts. Consistent with a commitment made at an Australian Transport Council meeting in May 2001, all jurisdictions agreed that heavy vehicle registration charges would be adjusted annually. Adjustment to the fees is set to fully recover the share of road construction and maintenance costs that can be attributed to heavy vehicles. The revised charges are expected to raise an additional \$1.3 million per annum over the forward estimates period.

Other agency revenue initiatives include:

- Additional revenue is expected in 2004-05 from a reassessment of the expected level of applications to freehold Crown Land (mainly shacks and other general Crown lease holdings). This reassessment is only expected to have a single year impact.
- *Increases in water licensing fees and well construction permits* — fees associated with transfers and variations of water licensing and well construction permits will be increased from 1 July 2004 where the transfer or variation is made at the discretion of the licensee or permit holder. The increase will fully recover costs associated with issuing and administering licences and permits.
- *Reduced revenue target for ozone licensing and accreditation fees* — the Commonwealth has introduced legislation to assume administration of all ozone licensing and administration. Accordingly, the Environmental Protection Agency will no longer be collecting this revenue.
- *Increases to licence fees for trade promotion lotteries* — fees to conduct a free lottery for the purpose of promoting a business, product or service will be increased. A new fee structure with a progressively higher fee depending on the total prize value will take effect from 1 July 2004.
- *Increased cost recovery relating to Hindmarsh Stadium and to the Vacswim swimming program* — fees and charges for the use of the Hindmarsh Stadium have not been varied for four years. Hire fees and charges will be increased to recover a greater proportion of costs associated with operating the venue. Vacswim fees will be increased by \$2.00 per participant from 1 July 2004 reflecting increased costs associated with this program.
- *Ambulance fees — Motor Accident Commission* – reduced fees payable by the Motor Accident Commission reflect the implementation of an agreed formula for the calculation of fees.
- *Increased cost recovery relating to the provision of agricultural services* — the Department of Primary Industries and Resources will progressively seek to recover a greater proportion of costs associated with the provision of agricultural services where the agricultural industry is a direct beneficiary of the services provided. The proposed increases will not take effect until the 2006-07 financial year to allow adequate time for consultation with affected industries and evaluation of economic impacts.

Fees and charges

Table 3.6 sets out the increase in fees and charges in 2004-05 for major government services.

Table 3.6: 2004-05 increase in selected agency fees and charges (\$)

Fees and charges	2003-04 \$	2004-05 \$	Increase %
Fees and charges increased by the annual adjustment factor:			
Public transport			
Single trip tickets – all times and zones	3.30	3.40	3.0
Multi trip tickets – all times and zones	21.60	22.20	2.8
Motor vehicle charges			
Registration fee – motor cars			
Four cylinder or less	79.00	82.00	3.8
Five or six cylinder	161.00	167.00	3.7
Seven or more cylinders	235.00	244.00	3.8
Registration fee – light commercial vehicles			
Mass of between 1001kg and 1500kg	176.00	182.00	3.4
Mass greater than 1500kg	299.00	310.00	3.7
Drivers' licence renewals			
Five years	115.00	120.00	4.3
Ten years	230.00	240.00	4.3
Speeding fines			
Exceeding the speed limit by:			
Less than 15km/h	139.00	144.00	3.6
More than 15km/h but less than 30km/h	220.00	228.00	3.6
More than 30km/h	330.00	343.00	3.9
Increase in other fees and charges			
Water – residential			
Annual water supply charge	135.00	141.00	4.4
Water rates per kilolitre supplied:			
up to and including 125 kilolitres	0.42	0.44	4.8
in excess of 125 kilolitres	1.00	1.03	3.0
Motor vehicle charges			
Compulsory Third Party premium			
Passenger vehicles (metropolitan postcodes)			
Standard premium	365.00	385.00	5.5
Input tax credit entitled premium	390.00	420.00	7.7

As part of the annual indexation of fees and charges, a range of government fees will increase by 3.8 per cent in 2004-05. The basic increase is 3.8 per cent to reflect 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 the nearest administratively convenient amount. This results in some fees and charges increasing by lesser or greater percentages than the indexation factor.

Metroticket fares are increasing by 3.8 per cent on average, although some fares will be increasing at a slightly different rate as they increased at a slightly different rate last year due to rounding.

Compulsory Third Party premiums are recommended by the Third Party Premiums Committee and approved by Cabinet. For 2004-05, Cabinet endorsed the Committee's recommendation for an average increase of 5.5 per cent to ensure sufficient solvency in the CTP Fund over the three years to June 2007. The larger increase for input tax credit entitled vehicles arises from including a full (9 per cent) GST differential. Only a partial differential (6.8 per cent) was applied from 1 January 2004 when the dual CTP premium structure was introduced.

General government sector revenue

The overall outlook for general government sector revenues is summarised in Table 3.7.

Total revenue and grants received are expected to exceed budget in 2003-04 by \$632 million, of which \$320 million relates to taxation revenues mainly reflecting continuing strength in property-related taxation.

An anticipated weakening in the property market in 2003-04 did not occur. Property values continued to increase during 2003-04 while activity levels remained at historically high levels that were above budget expectations. Conveyance duty, land tax and other property-related stamp duties all exceeded budget.

Grant revenue is also expected to exceed budget by \$186 million. Most of this improvement relates to GST revenue grants, partially offset by the loss of transitional funding relating to national tax reform, and specific purpose Commonwealth grants (largely matched by increased spending).

Revenue from user charges and other revenues is expected to exceed budget by \$90 million while interest income is likely to be \$36 million higher than budget.

Table 3.7: General government sector revenues (\$ million)

	2003-04 Budget	2003-04 Estimated result	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Taxation revenue	2 462.7	2 782.7	2 780.1	2 797.9	2 917.3	3 008.7
Current grants	4 728.5	4 916.0	5 050.7	5 221.9	5 439.1	5 684.7
Capital grants	166.4	164.5	177.2	136.7	130.9	150.8
Sales of goods and services	951.7	1 048.9	1 101.0	1 120.0	1 130.7	1 163.3
Interest income	122.5	158.8	160.9	162.4	171.2	186.0
Other	728.9	721.9	727.1	730.4	651.9	657.2
Total	9 160.7	9 792.8	9 997.0	10 169.3	10 441.2	10 850.8
% change on previous year						
Nominal terms growth %		4.8^(a)	2.1	1.7	2.7	3.9
Real terms growth %		0.7	-0.4	-0.2	0.6	1.9

a) Growth in 2003-04 is affected by the timing of distributions from SAAMC and SAFA which were much larger in 2002-03 than in 2003-04 and a one-off special dividend to be paid by the Land Management Corporation (LMC) in 2003-04. Excluding SAAMC, SAFA and LMC distributions, total revenue for the general government sector is estimated to have grown by 7.1 per cent in 2003-04.

Note: Totals may not add due to rounding.

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

Taxation

The forward outlook for taxation revenue is provided in Table 3.8.

Following very strong growth in 2003-04, taxation revenue is expected to increase by less than inflation in 2004-05 and 2005-06 before resuming modest growth in real terms. The sustained buoyancy in the property market is largely responsible for the strong result in 2003-04 although other taxes – payroll tax and gambling tax in particular – also grew solidly.

Negative growth in 2004-05 reflects the impact of taxation relief measures introduced in this Budget as well as a projected weakening in property market conditions. Lags in the flow through of higher property values to land tax will offset some of the slowdown in 2004-05. Continued growth in property values at the levels experienced in 2002-03 and 2003-04 is not considered sustainable. Property prices are expected to stabilise at current high levels rather than to fall while property turnover is expected to fall.

The scheduled abolition of debits tax in 2005-06 will further reduce taxation revenue growth in that year. Growth in taxation revenue will moderate again in 2007-08 with the smoking ban in gaming venues taking full effect in that year.

Table 3.8: Taxation

	2003-04 Budget	2003-04 Estimated result	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Employer payroll tax (\$ m)	678.1	712.1	720.4	755.4	793.3	833.4
<i>Annual change (%)</i>		8.9	1.2	4.9	5.0	5.0
Taxes on property (\$ m)	783.5	1 046.4	979.0	914.0	948.3	993.5
<i>Annual change (%)</i>		24.9	- 6.4	- 6.6	3.8	4.8
Taxes on gambling (\$ m)	371.8	377.1	405.1	430.9	453.9	436.5
<i>Annual change (%)</i>		11.0	7.4	6.4	5.3	- 3.8
Taxes on insurance (\$ m)	270.6	273.3	287.2	295.7	304.4	313.6
<i>Annual change (%)</i>		7.6	5.1	3.0	2.9	3.0
Motor vehicle taxes (\$ m)	354.1	369.2	383.6	397.0	412.5	426.7
<i>Annual change (%)</i>		7.7	3.9	3.5	3.9	3.4
Other taxes ^(a) (\$ m)	4.6	4.6	4.8	4.9	4.9	5.1
<i>Annual change (%)</i>		52.9	3.1	1.6	1.6	2.5
Total taxation	2 462.7	2 782.7	2 780.1	2 797.9	2 917.3	3 008.7
Adjusted to remove incomparability between years ^(b)	2 402.9	2 722.9	2 719.8	2 792.8	2 917.3	3 008.7

% change on previous year**Total taxation**

Nominal growth % 14.4 -0.1 0.6 4.3 3.1

Real terms growth % 10.0 -2.5 -1.3 2.2 1.1

**Total taxation adjusted to remove
incomparability between years ^(b)**

Nominal growth % 14.8 -0.1 2.7 4.5 3.1

Real terms growth % 10.4 -2.6 0.7 2.4 1.1

(a) Comprises levies on agricultural products.

(b) Time series has been adjusted to remove debits tax which is to be abolished in 2005-06.

Note: Totals may not add due to rounding.

Payroll tax

Payroll tax receipts in 2003-04 have been much stronger than estimated at the time of the 2003-04 Budget. Payroll tax receipts suggest that firms liable for payroll tax have experienced significantly stronger employment growth than general economic indicators of employment, as measured by the ABS, would suggest.

Limited growth in payroll tax revenue in 2004-05 mainly reflects the impact of the payroll tax rate reduction from 5.67 per cent to 5.5 per cent announced in this Budget, although taxable payrolls are also estimated to grow more slowly than in 2003-04 reflecting lower earnings and employment growth assumptions. Employment in payroll tax paying firms is projected to continue to grow more strongly than for employment generally but the differential is expected to be lower.

Property taxes

The outlook for individual property taxes is provided in Table 3.9.

Table 3.9: Property taxes

	2003-04 Budget	2003-04 Estimated result	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Conveyance duty (\$m)	341.4	565.2	439.9	431.2	457.1	485.1
<i>Annual change (%)</i>		32.1	- 22.2	- 2.0	6.0	6.1
Other stamp duties ^(a) (\$m)	82.3	104.4	88.3	88.7	93.2	98.1
<i>Annual change (%)</i>		12.8	- 15.4	0.5	5.1	5.3
Land tax (\$m)	186.6	203.0	267.3	263.7	270.5	280.5
<i>Annual change (%)</i>		29.0	31.7	- 1.3	2.6	3.7
Debits tax (\$m)	59.8	59.8	60.3	5.1	0.0	0.0
<i>Annual change (%)</i>		- 0.9	0.8	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Emergency services levy on fixed property (\$m)	60.0	62.6	66.0	66.8	67.9	69.3
<i>Annual change (%)</i>		8.9	5.4	1.2	1.6	2.1
Other ^(b) (\$m)	53.4	51.4	57.2	58.5	59.6	60.5
<i>Annual change (%)</i>		22.5	11.3	2.2	1.8	1.5
Total	783.5	1 046.4	979.0	914.0	948.3	993.5
% change on previous year						
Nominal growth %		24.9	-6.4	-6.6	3.8	4.8
Real terms growth %		20.1	-8.7	-8.4	1.7	2.7

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

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

Note: Totals may not add due to rounding.

Property taxes are expected to exceed budget by around \$263 million in 2003-04 reflecting sustained buoyancy in property market conditions. Most of the improvement above budget relates to stamp duty on property transfers, but mortgage duty and land tax are also well above budget.

The budgeted downturn in property market conditions in 2003-04 has not eventuated although a number of forward-looking economic indicators suggest that the property market is starting to slow down. The level of property transfers is expected to be only slightly below the peak levels achieved in 2001-02 and 2002-03 while property prices have exhibited further strong growth in 2003-04. Established house prices have increased by 10.7 per cent over the six months to December 2003. This follows price growth of 24.7 per cent during 2002-03.

The timing of large commercial property transfers, including ownership changes in most of the larger retail shopping complexes, has also boosted conveyance duty receipts in 2003-04.

The forward outlook reflected in this budget is for property prices to stabilise before resuming growth in line with inflation in the latter years of the forward estimates period. Property turnover, meanwhile, is projected to fall in both 2004-05 and, to a lesser extent, in 2005-06 before resuming moderate growth.

The expansion in the stamp duty concession for first homebuyers will also take effect from 2004-05 resulting in a loss of revenue from property conveyances estimated at \$9.4 million in 2004-05.

Fewer large commercial property sales are also expected to occur in 2004-05.

The net effect of these various assumptions is that conveyance duty revenues are projected to fall by 22.2 per cent in 2004-05, following estimated growth of 32.1 per cent in 2003-04.

Other property-related stamp duties are also projected to fall in 2004-05, reflecting the impact of a softening in property market conditions on mortgage duty receipts. Low growth in 2004-05 also reflects the proposed abolition of cheque duty, lease duty and mortgage duty for first homebuyers.

Land values have been a major factor contributing to the growth in house prices (both new and established). As a result, land tax revenues have also exceeded budget estimates in 2003-04 with further strong growth projected for 2004-05. The continuing uplift in land values during calendar year 2003 will not impact on land tax assessments until 2004-05. The Valuer-General's determination of land values as at 1 January 2004 will form the basis of 2004-05 land tax assessments.

Growth in land values combined with the progressive land tax structure is expected to produce very strong growth in land tax revenues in 2004-05. Thereafter, land tax revenues are projected to remain relatively flat, consistent with previous experience. Historically, strong growth in land values is followed by extended periods of relative stability.

The availability of exemptions for the principal place of residence, primary production land and small land-owners (through the \$50 000 general exemption) means that land tax is levied on a relatively narrow base. Land ownerships liable for land tax mainly comprise commercial and industrial land and residential investment including shacks and holiday homes. Taxable land value in private ownership has risen by 20 per cent in 2003-04 and is expected to increase by a further 21 per cent in 2004-05. Reflecting progression in the land tax scale, land tax revenues are expected to increase by 29.0 per cent in 2003-04 and 31.7 per cent in 2004-05.

The abolition of debits tax from 1 July 2005 is the main factor contributing to a projected fall in property tax revenue in 2005-06, although conveyance duty revenue and land tax are also projected to fall slightly in that year.

The fixed property component of the Emergency Services Levy is expected to grow more strongly in 2004-05 reflecting 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. The Save the River Murray Levy took effect from October 2003. Consequently, the 2003-04 estimated result includes only nine months of billing whereas a full year's billing is reflected in the 2004-05 estimates and this largely explains the increase in revenue from "other" property taxes in 2004-05.

Gambling taxes

The outlook for individual gambling taxes is provided in Table 3.10.

Table 3.10: Gambling taxes

	2003-04 Budget	2003-04 Estimated result	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Gaming machines (\$m)	274.9	280.0	302.4	322.6	344.0	327.1
<i>Annual change (%)</i>		15.7	8.0	6.7	6.6	- 4.9
Lotteries Commission (\$m)	70.3	72.0	74.6	79.2	79.0	79.1
<i>Annual change (%)</i>		- 1.8	3.5	6.1	- 0.2	0.2
TAB	6.4	6.3	8.3	8.6	9.7	10.0
<i>Annual change (%)</i>		6.4	31.7	3.6	12.8	3.1
Casino	18.4	17.0	17.5	18.2	18.8	17.8
<i>Annual change (%)</i>		- 1.7	2.9	4.0	3.3	- 5.3
Other ^(a)	1.8	1.8	2.3	2.4	2.4	2.5
<i>Annual change (%)</i>		50.0	29.9	2.1	2.1	2.1
Total	371.8	377.1	405.1	430.9	453.9	436.5
% change on previous year						
Nominal growth %		11.0	7.4	6.4	5.3	-3.8
Real terms growth %		6.8	4.8	4.3	3.2	-5.7

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

Note: Totals may not add due to rounding.

Total taxes on gambling are expected to exceed budget by \$5 million in 2003-04, predominantly due to gaming machine taxes.

Strong growth in gaming machine tax revenue in 2003-04 reflects the full year impact of the revised tax scales introduced from 1 January 2003 as well as underlying growth of 7.9 per cent in net gambling revenue (NGR).

The forward estimates provide for a slowing in gaming machine NGR growth with projected increases of 6.0 per cent in 2004-05 and 5.0 per cent in both 2005-06 and 2006-07, followed by a fall of 3.75 per cent in 2007-08. The estimated long-term rate of growth in gaming machine expenditure has been revised down from 5.5 per cent to 5 per cent in recognition of recently introduced harm minimisation measures (for example industry codes of practice). The introduction of smoking bans in gaming venues will have a small impact on casino table game revenue from 2004-05 but is not expected to impact on gaming machine activity in clubs, hotels and the Casino until 2007-08.

Smoking bans are proposed to be phased in with the proportion of machines located in “smoke-free” areas progressively increasing to 100 per cent by 31 October 2007. Only when access to gaming machines is entirely restricted to “smoke-free” areas is expenditure on gaming machines expected to decline. Consequently, the smoking ban will not impact on gaming machine tax revenues until 2007-08 when there will be a part year revenue impact. In a full year, the smoking ban is expected to result in a \$70 million loss in gaming tax revenue from hotels, clubs and 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 2004-05 reflecting the sale of the Lotteries Commission Rundle Mall property. Stronger sales growth in 2005-06 mainly reflects the introduction of new products. This growth is not expected to continue across the forward estimates period and, accordingly, distribution estimates in 2006-07 and 2007-08 remain flat.

The sale of the Lotteries Commission Rundle Mall property, which was originally budgeted for 2003-04, is now expected to occur in the 2004-05 financial year with associated special dividends being delayed from 2003-04 to 2004-05.

In addition to a 6.0 per cent tax on net wagering revenue, the TAB Duty Agreement provides for the State to receive additional fixed amounts of \$2 million per annum in 2004-05 and 2005-06. From 2006-07 to 2015-16 this fixed amount increases to \$3 million per annum.

Insurance taxes

Revenue raised from taxes on insurance is expected to grow by 7.6 per cent in 2003-04, following growth of 14 per cent in 2002-03. Recent experience reflects the growth in premium levels upon which stamp duty is levied. Provision is made in the forward estimates for continued slowing in the rate of growth of premiums following successive years of very strong growth in response to structural changes in the insurance industry. The uplift in property values has also impacted on insurance values and hence premiums.

Motor vehicle taxes

Motor vehicle taxes include motor vehicle registration fees, stamp duty on registrations and transfers and the ESL on mobile property. High levels of new motor vehicle sales have resulted in stamp duty on registrations and transfers being revised above the original budget estimates for 2003-04. The forward estimates provide for lower rates of growth. In the case of the mobile ESL and vehicle registration fees, revenue growth is limited to expected growth in the total stock of registered vehicles.

South Australia's relative tax effort

Each year the 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 2002-03 financial year, South Australia's relative tax effort has increased from 9.4 per cent above average in 2001-02 to 11.0 per cent above average in 2002-03. This assessment, however, does not take into consideration a genuine incomparability between South Australia and other jurisdictions (namely land tax paid by South Australian Government entities in the Tax Equivalent Regime) nor does it include emergency service charges such as the ESL which are classified by the CGC as user charges rather than taxes.

South Australia has progressed further than other States and Territories in making its government business enterprises liable for the full range of taxes (Commonwealth, State and local) consistent with commitments made under the Competition Principles Agreement.

In 1997-98, all South Australian government business enterprises included in the tax equivalent regime (TER) became liable for State taxes, including land tax. This included the South Australian Housing Trust (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 and Emergency Services'.

After excluding land tax payments made by entities in the TER and including emergency services revenue as a tax rather than a user charge, South Australia's relative tax effort falls from 11.0 per cent to 7.8 per cent above average in 2002-03. On an adjusted basis, South Australia has the second highest tax effort ratio after Victoria.

Tax effort measured by the CGC reflects the use made of available tax bases rather than their size. South Australia has a small tax base relative to other States. As a result, in terms of tax revenue per capita, South Australia is a relatively low tax jurisdiction (fourth lowest in 2002-03 based on adjusted total taxation collections used by the CGC for that year – South Australia \$1526 per capita, national average for all States and Territories \$1827 per capita).

Details of tax effort are provided in Table 3.11.

Table 3.11: Tax effort ratios by jurisdiction

	2001-02		2002-03	
	CGC ^(a)	Adjusted ^(b)	CGC ^(a)	Adjusted ^(b)
New South Wales	101.9	101.3	101.0	100.3
Victoria	106.6	107.4	107.2	108.2
Queensland	85.9	87.2	85.8	87.1
Western Australia	96.4	95.9	99.5	98.9
South Australia	109.4	106.4	111.0	107.8
Tasmania	90.7	93.7	91.9	95.5
Australian Capital Territory	100.4	99.3	101.6	99.9
Northern Territory	89.8	88.8	90.1	89.4

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

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

Current grants

The forward outlook for current grants is provided in Table 3.12.

Table 3.12: Current grants (\$ million)

	2003-04 Budget	2003-04 Estimated result	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
COMMONWEALTH GRANTS						
General purpose grants						
GST revenue grants	3 004.1	3 154.3	3 242.9	3 368.2	3 559.7	3 745.0
Transitional grants	51.7	0.0	0.0	0.0	0.0	0.0
Competition grants	48.1	40.1	46.9	53.8	54.9	56.1
Total	3 103.9	3 194.4	3 289.8	3 422.0	3 614.6	3 801.1
Specific purpose current grants						
Direct grants	1 161.4	1 188.4	1 215.4	1 258.7	1 273.2	1 318.4
On-passed grants	405.7	440.1	450.9	461.9	473.2	484.7
Total	1 567.0	1 628.4	1 666.3	1 720.7	1 746.4	1 803.1
OTHER GRANTS						
Current grants from private sector	57.6	93.2	94.6	79.2	78.1	80.5
Total	57.6	93.2	94.6	79.2	78.1	80.5
Total Grants	4 728.5	4 916.0	5 050.7	5 221.9	5 439.1	5 684.7

% change on previous year

Commonwealth grants

Nominal growth %	5.4	2.8	3.8	4.2	4.5
Real terms growth %	1.3	0.3	1.8	2.2	2.5

Note: Totals may not add due to rounding.

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

Commonwealth grants are either general purpose grants (GST revenue grants, transitional grants and 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. States and Territories now receive most of their general purpose funding through the distribution of GST revenues. GST grant distributions between the States and Territories are determined annually by the Commonwealth Grants Commission (CGC) using fiscal equalisation principles. (Refer to Chapter 4 for a more detailed discussion on horizontal fiscal equalisation).

Included in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) is a commitment from the Commonwealth that the States and Territories will receive a Guaranteed Minimum Amount (GMA) sufficient to ensure that they are not worse off under the move to GST funding. To achieve this, the Commonwealth has agreed for each jurisdiction that any shortfall between its share of GST revenues and its GMA will be met by transitional assistance grants.

At the time of the 2003-04 Budget, it was expected that South Australia would continue to require transitional funding until the end of the 2005-06 financial year based on Commonwealth estimates of GST revenues.

At that time, the Commonwealth estimated that total 2003-04 GST collections would increase by 4.1 per cent from 2002-03. Revised Commonwealth estimates now show that GST collections will increase by 9.2 per cent in 2003-04. South Australia's share of GST revenue is now expected to exceed the GMA in 2003-04 and subsequent years.

South Australia is not expected to require transitional funding assistance over the forward estimate period. Consequently, general purpose funding projections (excluding Competition Grants) are based entirely on future GST revenue collections and South Australia's projected share of those collections.

Commonwealth estimates of GST revenue growth over the forward estimate period range from 4.5 per cent in 2004-05 increasing to 5.5 per cent by 2007-08. GST revenue grants for South Australia will, however, grow more slowly than the total GST pool, particularly in 2004-05 and 2005-06 because our share of the pool is projected to decline. Factors contributing to South Australia's reduced share include:

- its declining population share;
- a reduced share of funding for 2004-05 resulting from the CGC's 2004 Methodology Review; and
- the abolition of debits tax in 2005-06 which is expected to reduce our relativity as fiscal needs will no longer be assessed for financial transaction taxes. South Australia has in the past been assessed as having a disability relative to the larger States in relation to financial transaction taxes.

These sources of revenue loss are expected to be partially offset over the forward estimates period by projected gains from the CGC's annual update of budget and other data.

GST revenue grants for South Australia are expected to increase by 2.8 per cent in 2004-05, 3.9 per cent in 2005-06, 5.7 per cent in 2006-07 and 5.2 per cent in 2007-08. Towards the end of the forward estimate period, GST revenue grants for South Australia are projected to increase at rates that are more in line with projected growth in the GST pool.

Competition grants

In 1995, all Australian governments committed to the implementation of National Competition Policy (NCP) reforms. As part of this agreement the Commonwealth agreed to provide funding to the States and Territories contingent upon demonstrated progress in implementing NCP reforms. For 2003-04 competition payments are expected to fall short of

original budget estimates by \$8.0 million. This reflects the National Competition Council's (NCC) assessment that South Australia has not taken sufficient action to remove restrictions in chicken meat legislation, regulation of liquor sales, barley export marketing arrangements and several smaller issues. Provision is made in the forward estimates for a reduction in these financial penalties as progress is made with legislative reforms consistent with NCC requirements.

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

Specific purpose Commonwealth grants

Specific purpose grants for expenditure on State Government programs are distinguished from grants provided to the State for on-passing to other sectors (mainly non-government schools and local government). Specific purpose grants for direct expenditure on State programs include health care funding, payments from the Australian National Training Authority (ANTA), transport funding and housing assistance payments.

Specific purpose current grants, both direct and on-passed, are expected to exceed budget in 2003-04 by around \$61 million. Direct grants are expected to exceed budget estimates by \$27 million in 2003-04 due to revised Commonwealth estimates for education and health funding. On-passed grants are expected to exceed budget by \$34 million in 2003-04 largely due to revised Commonwealth estimates of funding for non-government schools and local government grants.

Over the forward estimates period, specific purpose grants increase at variable rates of annual growth. Stronger growth in 2005-06 reflects the timing of Commonwealth debt redemption assistance. Debt redemption assistance payments are provided to the State to compensate for the additional cost incurred as a result of raising debt in its own name, rather than by the Commonwealth borrowing on its behalf. In 2005-06, payments under these arrangements increase by \$26 million in comparison to 2004-05 reflecting maturing debt levels and finalisation of the arrangement.

Other current grants

Other grants refers to funds received that mainly take the form of donations, bequests, industry research and sponsorship grants. Estimates for 2003-04 are significantly higher than budget largely reflecting funding arrangements for the National Action Plan for Water Quality and Salinity and the recognition of grants received by Human Services and PIRSA. A one-off intra-government transfer relating to the sale of Edinburgh Parks is scheduled to occur in 2004-05 and is mainly responsible for the level of other grants remaining at a high level in that year. Thereafter, funding from other grants stabilises at a lower level.

Capital grants

The forward outlook for capital grants is provided in Table 3.13.

Table 3.13: Capital grants (\$ million)

	2003-04 Budget	2003-04 Estimated result	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
COMMONWEALTH GRANTS						
Specific purpose capital grants						
Direct grants	158.3	151.4	165.2	125.9	119.9	139.5
On-passed grants	8.0	8.2	8.2	8.4	8.6	8.9
<i>Total Commonwealth Grants</i>	166.4	159.6	173.5	134.4	128.5	148.4
OTHER GRANTS						
Capital grants	0.0	4.9	3.7	2.4	2.4	2.4
Total	166.4	164.5	177.2	136.7	130.9	150.8
% change on previous year						
Commonwealth grants						
Nominal growth %		4.5	8.7	- 22.5	- 4.4	15.5
Real terms growth %		0.5	6.0	- 24.0	- 6.3	13.2

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.

For 2003-04, the recognition of assets received free of charge almost offsets a projected shortfall against budget in capital grants from the Commonwealth. Over the forward estimates, the level of capital grants varies considerably with a large fall in 2005-06 mainly reflecting the timing of funding provided under the Commonwealth AusLink program for transport infrastructure projects.

Sales of goods and services

Details of this revenue category are provided in Table 3.14.

Table 3.14: Sales of goods and services (\$ million)

	2003-04 Budget	2003-04 Estimated result	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Health unit patient/client fees	120.7	100.9	110.5	113.6	116.3	116.3
Other health unit sales of goods and services	102.3	99.0	102.0	104.3	103.2	104.7
TAFE fees	77.5	65.1	66.9	68.5	70.2	71.9
Regulatory fees	175.9	204.2	215.2	223.1	232.0	244.8
Commonwealth contributions	141.8	161.9	150.0	152.0	154.5	157.1
Drivers' licence fees	37.3	25.3	27.5	26.0	27.8	28.4
Other user charges	296.1	392.5	429.0	432.5	426.7	440.1
Total	951.7	1 048.9	1 101.0	1 120.0	1 130.7	1 163.3

Note: Totals may not add due to rounding.

Sales of goods and services by the general government sector include Government fees and charges set on a cost recovery basis and adjusted annually. As discussed in the fees and charges section of this chapter, fees and charges will generally increase by a rate of 3.8 per cent from 1 July 2004.

Estimates for sales of goods and services are expected to exceed budget by nearly \$97 million in 2003-04.

Specific line items that contribute to the revised 2003-04 estimate include higher than budgeted land transfer fees reflecting the continued buoyancy in the property market, additional Commonwealth funding relating to energy-efficiency programs and the recognition of ambulance fees following the reclassification of the South Australian Ambulance Services into the general government sector.

Interest income

Interest income is expected to increase over the forward estimates period reflecting increases in the level of operating balances held by the Treasurer.

Other revenue

The forward outlook for other revenue is provided in Table 3.15

Table 3.15: Other revenue (\$ million)

	2003-04 Budget	2003-04 Estimated result	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Royalties	74.4	76.1	84.0	86.4	89.8	86.6
Fines and penalties	88.1	78.3	101.3	114.3	117.7	121.0
Distributions from PFCs	96.0	95.8	123.7	113.2	21.6	21.8
Distributions from PNFCs	350.5	361.6	299.3	296.9	296.3	301.6
Other	119.9	110.1	118.9	119.6	126.5	126.2
Total	728.9	721.9	727.1	730.4	651.9	657.2
Distributions received from PFCs comprise						
SAAMC	58.5	58.5	73.2	4.0	4.2	4.2
HomeStart	6.6	6.4	6.0	6.0	6.4	6.5
Motor Accident Commission	5.0	5.0	0.0	0.0	0.0	0.0
SAFA	25.8	25.8	44.3	103.0	10.9	10.9
Funds SA	0.1	0.2	0.2	0.2	0.2	0.2
Total	96.0	95.8	123.7	113.2	21.6	21.8

Note: Totals may not add due to rounding.

Other revenue is projected to decline over the forward estimates period mainly due to lower distributions from public financial corporations, in particular, SAAMC (from 2005-06) and SAFA (from 2006-07).

SAFA's capital and reserves are estimated to be \$186 million as at 30 June 2004. 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, an additional dividend of \$50 million payable by SAFA in 2005-06 has been included in the estimates, bringing the total distribution in 2005-06 to \$103 million. SAFA's level of capital and reserves is now estimated to be \$100 million as at 30 June 2008.

Royalty revenue is expected to come in slightly above budget in 2003-04. Cooper Basin royalties are expected to exceed budget largely reflecting stronger prices for oil and condensate while royalties from Olympic Dam are expected to fall short of budget reflecting technical problems with the copper smelter which have depressed production levels in 2003-04.

A strong improvement in royalty revenue in 2004-05 mainly reflects an expected return to higher production levels at Olympic Dam and higher copper price assumptions. Higher production levels are expected to be maintained for most of the forward estimate period. Projections allow for some weakening in copper prices offset by a depreciating exchange rate assumption.

Cooper Basin royalties are expected to fall over the early part of the forward estimate period reflecting declining production levels from established fields and increased interstate competition for the supply of gas. Royalty revenue from new oil finds is expected partly to offset declining production from established fields.

A projected decline in royalty revenue in 2007-08 is mainly due to continued production decline in the Cooper Basin and lower copper price assumptions.

Distributions from public non-financial corporations (PNFCs) are also expected to be lower over the forward estimates period compared with 2003-04, mainly on account of a \$50 million special dividend to be paid by the Land Management Corporation (LMC) in 2003-04.

Further detail on PNFCs is provided in Chapter 6.

The major component of fines and penalties is traffic fines, in particular speeding fines and red light camera fines. For 2003-04, revenue from traffic fines is estimated to fall short of budget by almost \$11 million reflecting changes in driver behaviour following the introduction of the 50km per hour speed limit in urban areas in 2003. Revenue from traffic fines is projected to increase strongly in 2004-05 and 2005-06 from a low base in 2003-04. The full year impact of using red light cameras as speed cameras is also reflected in the 2004-05 estimate. Receipts from traffic fines will be paid into the Community Road Safety Fund and will be used to fund road safety programs.

Other fines (mainly court imposed fines) are projected to remain flat in 2004-05 and to increase to a higher level in 2005-06 and subsequent years reflecting a delayed flow-through of the increase in traffic fines from 2004-05.

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 sections on horizontal fiscal equalisation and 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 fifth meeting of the Ministerial Council was convened in Canberra on 26 March 2004, where it considered expected revenue payments to the States in 2003-04 and 2004-05, as well as a range of GST administration issues. The outcomes included:

- agreement that 2004-05 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 2004 Review;
- agreement by the majority of States to a work program on the CGC's methodology, focusing on simplification and data issues, but expressly excluding an examination of the underlying principles of horizontal fiscal equalisation;
- agreement that all States will abolish Bank Accounts Debits tax by 1 July 2005;
- agreement on the terms of reference for the review of a range of business stamp duties prior to the 2005 Treasurers' Conference. The review is limited to stamp duties 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.

- endorsement of the Australian Tax Office's GST administration budget for 2004-05 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 2004-05 (South Australia's Loan Council Allocation is detailed in Appendix A).

Commonwealth Grants Commission 2004 Review

In February, the CGC released its 2004 Review of per capita relativities for the distribution of Commonwealth GST revenue grants to the States in 2004-05. In the Review, the CGC examined all aspects of its methodology in the light of extensive submissions from all States.

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

Overall, the 2004 Review relativities redistributed about \$494 million among the States (see Table 4.1), with grants redistributed to Queensland and Western Australia at the expense of the other four States and two Territories. This result was largely driven by the CGC's revisions to its capital assessments, which were widely recognised as being too generous in the past to New South Wales and the Northern Territory, mainly at the expense of Queensland and Western Australia.

South Australia's relativity fell to 1.20407 in the 2004 Review, which equates to a decrease in GST revenue grants of \$26.3 million compared to payments received using the previous relativities. Nevertheless, after the CGC's recommended distribution is implemented, South Australia will still receive approximately \$610 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 the 2004 Review methodology revisions, with the CGC assessing lower relative costs of service provision for the State than under the previous methodology. Less favourable assessments of South Australia's relative wage and salary costs and of the cost of providing urban transit services were major contributors.

This fall was partly offset by the impact on the State's relative (compared to the national average) capacity to raise revenue of replacing 1997-98 data with 2002-03 data in the rolling five-year average assessment period used by the CGC. In particular, below average increases in wages and salaries and in the values of houses and commercial and industrial land reduced the State's relative capacity to raise payroll tax, stamp duty on conveyances and land revenue.

The CGC's next update of relativities is due in February 2005, for application to the 2005-06 grant pool. It will only take into account changes to the data used while the methodology will remain unchanged from the 2004 Review. Methodology reviews are only undertaken every five years.

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 five-yearly assessment reviews. As outlined earlier in this chapter, the CGC released the findings of its most recent methodology review in February 2004. The CGC consulted widely with the States in the conduct of the 2004 Review.

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

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

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, as noted above, would be totally inconsistent with observed government policy in unitary systems. Further, those State governments do not follow these methods in allocating resources between regions within their borders.

At the recent Treasurers' Conference, all the other States again rejected calls by New South Wales and Victoria to ignore the recommendations of the CGC and use an alternate distribution method for the distribution of 2004-05 GPPs. However, it was agreed by a majority of States that a work program would be undertaken focusing on simplification of the CGC's methodology. The work program will consider:

- whether the present approach, which is based on a comprehensive assessment of virtually all receipts and expenses in the operating statements of States, is appropriate and necessary;
- the size and trend of the redistributions;
- simplification; and
- data issues.

Importantly, it was agreed that the work program will not examine the underlying principles of HFE.

Table 4.1: Commonwealth Grants Commission 2004 Review results

	2003 Update GST relativity ^(a)	2004 Review GST relativity ^(a)	Implied effect on grant share ^(b) (\$m)
New South Wales	0.89117	0.86750	-317.0
Victoria	0.87010	0.86534	-51.2
Queensland	1.01902	1.05504	262.7
Western Australia	0.96946	1.03054	230.9
South Australia	1.21215	1.20407	-26.3
Tasmania	1.59948	1.55939	-37.9
Australian Capital Territory	1.14979	1.12930	-13.4
Northern Territory	4.38638	4.26538	-47.7
Total redistributed among States			493.7

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

(b) Estimated impact of change in relativities on the 2003-04 GST pool included in the CGC's 2004 Review report.

Commonwealth grants to the States

The Commonwealth provides funding to the States in the following forms:

- *GST revenue grants* are 'untied' payments that can be used freely by the States to finance their expenditure priorities. They are distributed to the States using CGC per capita relativities.
- *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).
- *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 Human Services which provides the services to veterans. Apart from the Veterans' Affairs arrangements, the majority of these payments are relatively minor in nature.

Estimated levels of Commonwealth financial assistance for South Australia are set out in Table 4.2.

Table 4.2: Commonwealth payments to South Australia 2003-04 and 2004-05^(a)

	2003-04	2004-05	
	Estimated result \$ million	Budget \$ million	Change %
General purpose payments			
GST revenue grants	3 154.3	3 242.9	2.8
NCP payments ^(b)	40.1	46.9	16.9
Total general purpose payments	3 194.4	3 289.8	3.0
Specific purpose payments 'to' the State			
Australian Health Care Agreement (AHCA)	636.9	666.9	4.7
Government schools	167.5	177.6	6.0
Commonwealth–State/Territory Disability Agreement (CSTDA)	61.3	62.9	2.6
Commonwealth–State Housing Agreement (CSHA)	71.4	72.3	1.3
Roads ^(c)	63.2	77.8	23.1
Australian National Training Authority (ANTA)	87.0	88.0	1.1
Other 'to' payments	252.5	235.1	-6.8
Total specific purpose payments 'to' the State	1 339.8	1 380.6	3.0
Total payments 'to' the State	4 534.2	4 670.4	3.0
Major contributions^(d)			
Veterans' Affairs	64.8	65.6	1.2
'On-passed' specific purpose payments^(e)	448.3	459.1	2.4

(a) Data is compiled from agency estimates and Commonwealth Budget Paper No. 3 Federal Financial Relations 2004-05.

(b) The estimate for 2003-04 reflects the imposition of funding penalties due to the Commonwealth Government's view that the State failed to fully satisfy NCP requirements.

(c) Roads grants for 2004-05 do not include payments to be made under the Commonwealth's AusLink program, details of which are scheduled to be announced by the Commonwealth in June 2004.

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

(e) Includes Commonwealth grants for local government, non-government schools and additional First Home Owner Grant (FHOG) payments (2003-04 only).

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 only New South Wales will require transitional assistance in 2003-04, with all States' GST revenues exceeding the guarantee from 2004-05 onwards.

At the time of last year's Budget, South Australia was estimated to gain from tax reform from 2006-07. Since then, upward revisions to GST revenue by the Commonwealth mean that South Australia's GST revenue grants are expected to exceed its GMA from 2003-04 onwards.

Table 4.3 shows the estimated net impact of the national tax reform package in South Australia until 2007-08.

Table 4.3: Estimated impact of national tax reform — South Australia (\$ million)

	GST revenue less GMA^(a)
2003-04	105.5
2004-05	120.5
2005-06	105.0
2006-07	171.9
2007-08	254.3

(a) A guaranteed minimum amount (GMA) is provided under the IGA to ensure that no State is made worse off by the national tax reform arrangements. Calculated on the basis of an agreed formula that takes account of the changes to funding arrangements contained in the IGA, it is based on the pool of funds that would be available had the reforms not been implemented.

South Australia will receive an estimated \$3290 million in GPPs in 2004-05, an increase of \$95 million, or 3.0 per cent, from the \$3194 million estimated to be received in 2003-04. The relatively modest growth in GPPs to South Australia, compared to the national growth in payments of 4.5 per cent, is due to the impact of the CGC's 2004 Review, which reduced South Australia's share of GST revenue.

Table 4.4 shows the effect of revisions to South Australia's GST revenue grants since the Mid-Year Budget Review.

Table 4.4: Estimated impact of revisions to GST revenue grants since Mid-Year Budget Review (\$ million)

	2004-05	2005-06	2006-07	2007-08
GST revenue as at MYBR	3 215.5	3 370.6	3 563.0	3 749.0
Plus				
CGC 2004 Review relativity revision ^(a)	-33.8	-43.9	-54.0	-62.6
Estimated future relativity movements	—	-6.0	1.0	5.8
Commonwealth Budget GST revenue revisions	61.4	49.2	51.9	54.5
Population updates	-0.2	-1.6	-2.2	-1.7
GST revenue as at Budget	3 242.9	3 368.2	3 559.7	3 745.0
Net change since MYBR	27.4	-2.4	-3.3	-4.0

(a) These figures differ from the estimate of \$26.3 million included in Table 4.1, which was calculated by the CGC using the 2003-04 GST pool. In this table, the change in relativities has been applied to the GST pool for the relevant year.

National Competition Policy payments

In April 1995 the Council of Australian Governments (COAG), made up of the Commonwealth and State governments, endorsed the Competition Principles Agreement (CPA).

The CPA puts in place policy elements that are considered essential for a comprehensive national competition policy (NCP). Under the CPA, the South Australian Government is required to review legislation that restricts competition. The basis for such reviews is that legislation should not restrict competition unless it can be demonstrated that:

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

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

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

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

Up until 2002-03, the NCC had recommended that South Australia receive its full distribution of NCP payments, but for 2003-04 it recommended permanent deductions¹ or suspensions totalling \$17.4 million relating to reviews of legislation which restrict competition. This comprised permanent deductions of \$5.8 million for chicken meat and liquor licensing legislative restrictions, a temporary suspension of \$2.9 million for the single barley export marketing desk and a similar temporary suspension of \$8.7 million related to 49 other legislative reviews where reform implementation had not been completed. Temporary suspensions which have not been dealt with by 1 July 2004 may become permanent deductions.

Two main issues are expected to feature in the NCC's assessment for 2003-04 — the COAG water reforms and the remaining legislation reviews not included in the 2002-03 assessment.

In respect of the COAG water reforms, the Treasurer of South Australia has prepared a transparency statement demonstrating the extent to which water pricing arrangements comply with the COAG water reform obligations. This statement has been referred to the Essential Services Commission of SA (ESCOSA) to assess whether or not the processes followed comply with the COAG obligations.

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

- Liquor licensing

Following the 1997 review of the Liquor Licensing Act, a further review of the two remaining restrictions — the 'proof of need' test which constrains the number of outlets and the requirement that liquor can only be sold from stores devoted entirely to liquor sales — has been completed. The NCC has indicated that the requirement for sales from premises devoted entirely to liquor sales is a trivial restriction and no reform is required. The 'proof of need' test enables competitors to object to the issue of licences on the ground that there is no demonstrated need and permits objections by others if there is likely to be a significant social impact. The Government is considering the report's recommendations in relation to the 'proof of need' test.

- Taxi licence cap

Limitations on the number of taxi licences that may be issued annually may result in supply of taxi services being insufficient to meet the demand. There is no restriction on hire cars which provide similar telephone pre-booked services. The combined supply of passenger transport services by taxis and hire cars is considered to be adequate.

¹ Permanent deductions are irrecoverable reductions in competition payments for the current assessment year. The NCC may recommend that the permanent deduction not be imposed in subsequent years where the Government is assessed as having introduced appropriate reform. In the absence of such reform the NCC is likely to recommend in future assessments that the deductions be ongoing.

- Compulsory third party insurance (CTP)

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

- Gambling

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

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

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

- Barley marketing

Under the existing legislation, export sales of barley must be conducted through the Australian Barley Board (ABB). The 2003 Round Committee's NCP review of the export barley marketing arrangements recommended examination of a licensing model similar to that adopted by Western Australia. A comprehensive appeal was lodged in September 2003 with the Federal Treasurer against the NCC's recommendation of an annual suspension of competition payments of \$2.9 million. The NCC Secretariat has since advised that it has no objection to SA's request for an extension of time in order to allow the completion of a number of legislation reforms, including in respect of barley.

A PIRSA Task Force is examining ways of reviewing current accountability and transparency issues for ABB Grain Ltd and examining the feasibility of a licensing model. Some legislative amendments are expected to be introduced in the 2004 spring session of Parliament to clarify long standing issues.

- Chicken meat

New legislation introduced in 2003 provided for compulsory mediation and compulsory arbitration of disputes between growers and processors. A permanent deduction of \$2.9 million of NCP payments relates to these provisions. Discussions are being held with the NCC to resolve its concerns.

- **Ownership restrictions**

Legislation governing a number of health and other professions, including dentists, currently restricts ownership of practices to qualified practitioners and their spouses. These restrictions are in the process of being removed and replaced by provisions prohibiting the exercise of undue influence by the owner of the professional practice. The Minister has discretion to approve exemptions for ownership of dental practices. Ownership restrictions applying to pharmacies will not be reconsidered until mid-2005.

Review of NCP

The Commonwealth Treasurer has recently provided terms of reference to the Productivity Commission for an inquiry into NCP arrangements, with a view to informing the Council of Australian Governments' review of the NCP due by September 2005.

Specific purpose payments

SPPs are provided under Section 96 of the Constitution for both recurrent and capital expenditure purposes. In 2004-05, South Australia will receive an estimated \$1840 million of funding in this form — an increase of 2.9 per cent from the \$1788 million estimated for 2003-04.

Of the total SPPs to be received by South Australia in 2004-05, \$459 million (or 25 per cent) will be 'on-passed', predominantly to non-government schools and local government. This represents an increase of 2.4 per cent from the amount received in 2003-04, 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 \$1381 million in 2004-05, with the largest increases in health care grants, government schools grants and roads funding.

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.

Health

The previous Australian Health Care Agreement (AHCA) expired on 30 June 2003.

The States initially rejected the Commonwealth's new funding offer as it was less than expected (over \$900 million less than would have been received under the previous arrangement), included expenditure matching and reporting conditions that had not been present in previous AHCA's and introduced funding penalties for States that refused to sign the new agreement.

Despite the shortcomings of the Commonwealth offer, all States signed the new AHCA in late 2003 in order to avoid the funding penalties. It will operate for five years, expiring on 30 June 2008.

South Australia is estimated to receive \$667 million in AHCA funds in 2004-05, an increase of 4.7 per cent over the previous year.

Disability services

As part of the new Commonwealth–State/Territory Disability Agreement (CSTDA) offer, the Commonwealth asked States for a commitment to match its growth and indexation funding for the CSTDA of an average of 6.27 per cent per annum over the life of the Agreement. This was a major sticking point with all States.

The Commonwealth only provides 30 per cent of CSTDA funding, including substantial funding of Commonwealth–administered employment services. The States considered that the prescription of what they must spend on their own resources removed flexibility to shift funds between programs to achieve the best overall service provision. In the absence of a new agreement, the Commonwealth rolled over the old agreement to 2003-04.

Following negotiations with the Commonwealth, all States have now signed the new CSTDA. South Australia negotiated an acceptable level of State growth and indexation, approximately 5.0 per cent per annum, prior to signing the agreement.

South Australia is expected to receive \$63 million from the CSTDA in 2004-05, an increase of 2.6 per cent over the previous year.

Housing

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

The previous CSHA expired on 30 June 2003. An offer for a new agreement covering the five years to 2007-08 was received from the Commonwealth in November 2002 and was agreed to at the multi-lateral level by all States in mid-2003.

The main issues for the States in the offer included continuation of the 1.0 per cent per annum 'efficiency dividend', the discontinuation of the previous GST compensation component and the new provisions that make 5.0 per cent of funds contingent on States meeting reporting requirements and achieving a set of 'planned outcomes'. The one positive in the offer was the introduction of indexation, which will halt the steady decline in CSHA funds brought about by the application of the 'efficiency dividend' in the previous agreement.

The withdrawal of GST compensation funding means a significant real decrease in housing funding under the proposed new agreement. In 2004-05 it is estimated that CSHA funding assistance to South Australia will be \$72 million, a marginal increase (1.3 per cent) from the previous year, but still a reduction of almost \$10 million compared to that received in 2002-03 — the final year of the previous agreement.

Roads

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

South Australia is estimated to receive approximately \$78 million in roads funding in 2004-05. This represents an increase of 23.1 per cent over the funds provided in 2003-04 and is due primarily to the provision of funding towards the Port River Expressway under the Roads of National Importance program. Despite this considerable increase, South Australia still receives a funding share significantly less than its share of the length of national highways.

In November 2002, the Commonwealth released a proposal for changed transport infrastructure funding which it called AusLink. It is designed to deliver an integrated inter-modal land transport network. At this stage, it is still unclear what implications will follow for State funding, as the Commonwealth is not expected to release details of State-by-State funding under the AusLink program until June 2004.

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 Building Price Index published by the Australian Bureau of Statistics (ABS) is used to index capital grants.

With the current schools SPP agreements due to expire on 31 December 2004, the Commonwealth announced in March an outline of its offer for the quadrennium 2005-2008. The offer retains the AGSRC index, which the Commonwealth estimates will continue to deliver growth in funding levels to government schools of around 6.0 per cent per annum. The offer also contains some new matching and reporting requirements, the full details of which are yet to be provided.

On the basis of the new offer, the Commonwealth estimates that SPPs in 2004-05 for government schools will be \$178 million, an increase of 6.0 per cent from 2003-04. SPPs for non-government schools are estimated to be \$376 million, an increase of 10 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

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

The previous ANTA agreement expired on 31 December 2003. All States rejected the Commonwealth's offer for the period 2004-2006 and the previous agreement has been rolled over for 2004. It is expected that negotiations for an agreement for the 2005-2007 triennium will commence later this year.

SPP reform

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

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

A Heads of Treasuries SPP working group, consisting of officials from Commonwealth and State Treasuries and the Commonwealth Department of Finance and Administration, was formed in 1999 to address these issues. To date, the following progress has been made:

- All State governments have adopted a set of 'best practice' SPP principles, which are aimed at producing simpler, more transparent agreements that are outcome, rather than input, focused.
- The Commonwealth has indicated that it supports the broad objective of the SPP principles to improve the efficiency and effectiveness of SPP arrangements. However, it is not prepared to endorse them as it considers input controls are necessary to guarantee the achievement of its specific policy objectives and are the most effective means of managing its financial risks.
- The working group is undertaking related case studies that will:
 - examine the use of performance indicators within an outputs/outcomes accountability framework for SPPs;
 - explore an SPP framework that will provide the best service delivery outcomes for the community, improved resource allocation and efficiency, and a basis for the assessment of Commonwealth objectives; and
 - provide empirical evidence of the impact that SPP maintenance of effort and matching conditions have on State budget flexibility.

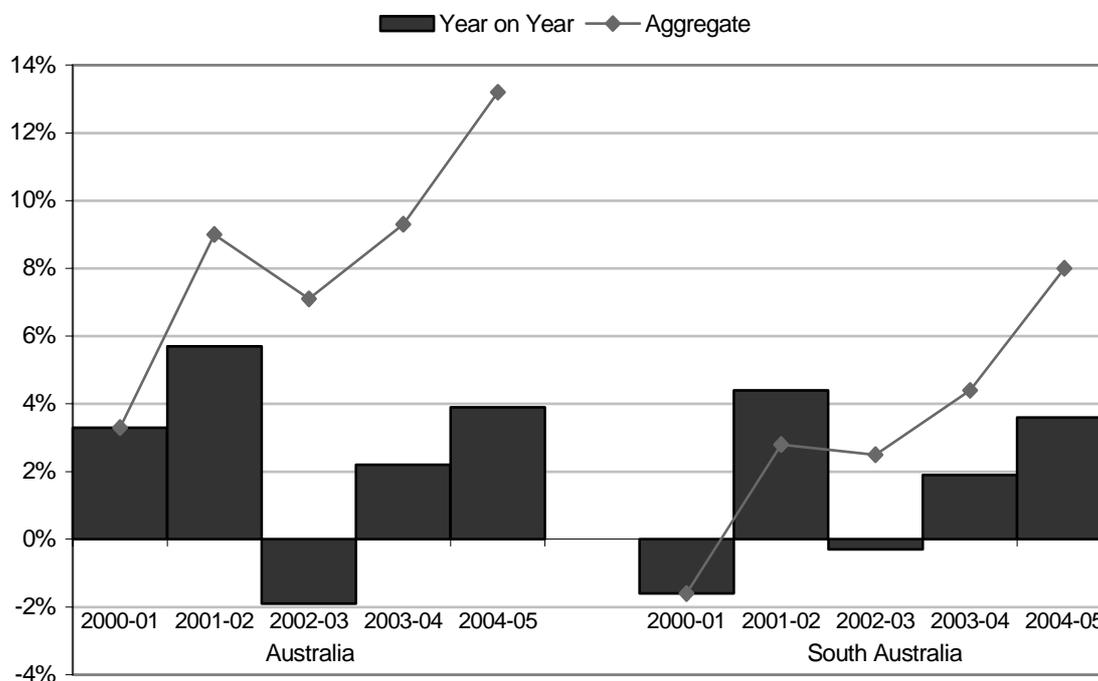
In addition, the State members of the SPP working group monitor renegotiations of major SPPs to check consistency with the SPP guidelines, and the level of SPPs to ensure that the Commonwealth is continuing to honour its commitment under the IGA not to cut aggregate SPPs as part of the national tax reform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

On the basis of current 2004-05 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. 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 Ministerial Council agreement, nominal values are deflated using the national CPI.

(b) For consistency, data for Australia and South Australia has been sourced from Commonwealth Budget Paper No. 3 Federal Financial Relations 2004-05.

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 4.5 is presented using a simplified ABS Government Finance Statistics framework. The data is drawn from the annual financial statements of councils which are prepared in compliance with Australian Accounting Standard (AAS) 27 and in a format prescribed by regulations under the Local Government Act. Consistent with an agreement between the Commonwealth and the States whereby each jurisdiction presents financial information on a Uniform Presentation Framework (UPF) basis, some councils in South Australia also have begun to provide a common core of financial information (similar to Table 4.5) in their budget papers and financial statements to enable more meaningful comparisons of each council's finances.

Table 4.5: Local government operating statement (\$ million)

		1998-99	1999-2000	2000-01	2001-02	2002-03
	Operating revenue	799	855	901	966	1 039
<i>less</i>	Operating expenses ^(a)	884	930	976	1 021	1 091
<i>equals</i>	Operating deficit	-85	-75	-75	-55	-52
<i>add</i>	Capital revenue ^(b)	44	56	50	79	97
<i>equals</i>	Net surplus (+)/deficit (-) resulting from operations ^(c)	-41	-19	-25	24	45
<i>less</i>	Acquisition of non-current assets ^(d)	181	217	206	274	322
<i>add</i>	Depreciation of non-current assets	210	218	227	247	258
<i>equals</i>	Accrual net lending (+)/ borrowing (-)	-12	-18	-4	-3	-19

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

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

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

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

As shown in Table 4.5, local government as a whole is consistently returning a relatively small accrual net borrowing result. The level of annual operating deficits is reducing steadily as many councils seek to raise more revenue for an increasing level of asset replacement/rehabilitation works. Local government taxation revenue (from general rates on property) is expected to be approximately \$700 million in 2003-04. 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 16.8 per cent over the four-year period from 1998-99 to 2002-03. Total operating expenses increased in real terms by 10.8 per cent over the same period.

Table 4.6 shows an abridged balance sheet for local government as a whole as at 30 June 2001, 2002 and 2003.

Table 4.6: Local government balance sheet (\$ million)

	30 June 2001	30 June 2002	30 June 2003
Assets			
Cash, investments and loans to community groups	146	171	184
Receivables	48	58	66
Inventories	27	29	26
Land, buildings, road infrastructure & other non-financial assets	8 002	8 453	8 805
Other	18	19	23
Total Assets	8 241	8 730	9 104

Table 4.6: Local government balance sheet (\$ million) continued

	30 June 2001	30 June 2002	30 June 2003
Liabilities			
Payables	80	88	108
Borrowings, deposits held, finance leases etc	365	391	418
Employee entitlements	70	73	79
Other	13	16	12
Total Liabilities	528	568	617
Net Worth	7 713	8 162	8 487
Net Debt ^(a)	219	220	234

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

Local government net debt at 30 June 2003 was \$234 million which is equivalent to 22.5 per cent of local government's operating revenue in 2002-03. Net debt per capita was \$154 at 30 June 2003. Put in the context of local government physical assets, with a value of \$8.8 billion, local government in South Australia (in an aggregate sense) is in a sound financial position. 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 2003 these institutions were managing assets valued at nearly \$1.2 billion and had a combined net worth of \$63 million. These amounts are not included in Table 4.6.

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 \$107.2 million in 2004-05, consisting of \$81.3 million in general purpose funding and \$25.9 million in untied local road funding. The Act provides for the allocation of grants to councils within the State on the basis of HFE principles, subject to a minimum grant provision, which requires that each council receives, as a minimum, 30 per cent of its per capita share 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 the grants within the State.

Changes are being phased in over a seven-year period, concluding with the determination of grants for 2004-05.

Commonwealth specific purpose payments to local government are estimated to be \$25.9 million in 2004-05, which includes \$20.8 million under the Roads to Recovery program and an extra \$4.25 million for local road funding. The extra \$4.25 million is part of an additional \$26.25 million to be provided over three years, as an interim measure, to address the State's current unfair share of identified local road grants being received under the Commonwealth's *Local Government (Financial Assistance) Act*. The decision by the Commonwealth to provide these additional funds follows a substantial campaign by the State Government, the Local Government Association and councils and will ensure that, by 2006-07, the State's overall share of local road funding will align with the State's share of local road grants (8.3 per cent) under the Roads to Recovery program.

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 and flood mitigation, septic tank effluent drainage schemes and strategic assessment and supply of public land.

During 2003-04, 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.

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.

Table 4.7 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 4.7: Specific purpose payments from the State to local government (\$000)

Program/purpose	2003-04 Estimated result	2004-05 Budget
Premier and Cabinet		
Cultural Facilities and Equipment Program	33 ^(a)	35 ^(a)
Festivals, Events and Commissions Program	—	10 ^(a)
Natural Disaster Mitigation Program	—	700 ^(a)
Public Art and Design Program	21 ^(a)	25 ^(a)
Public Art and Design Program – Western Gateway Project	143	300
Public Library Services	14 901	15 264
Trade and Economic Development		
European Wasp Program	70	70
Septic Tank Effluent Drainage Scheme	3 050	3 050
Supporting Rural Councils Program	75	—
Treasury and Finance		
Ad hoc assistance for disasters and other adverse events	640	1 110
Justice		
Regional Crime Prevention Program	600	600
Primary Industries and Resources		
Contribution to administration of Municipality of Roxby Downs	525	525
Subsidy of electricity provision at Coober Pedy	3 010	3 010
Administrative and Information Services		
Community Recreation and Sport Facilities Program	873 ^(a)	— ^(b)
Human Services		
Community Capacity Building – Salisbury North Project	23	23
Council rate concessions for pensioners, self-funded retirees and other eligible groups	37 267	38 646
Family and Community Development Program	624	640
Home and Community Care Program	2 823	3 148
Integrated Youth Strategy – Youth Advisory Committees	160	250
National Youth Week	101	100
Parks Community Centre – Grant to City of Pt Adelaide Enfield	1 790	1 790
Transport and Urban Planning		
Metropolitan Open Space System Program	1 500	1 400
North Terrace Upgrade Stage 1	3 000	1 900
Places for People Program	1 500	1 500
Provincial City Bus Services	964	988
Regional Open Space Enhancement Scheme	1 000	1 000
Regional Roads Program	700	700
State Bicycle Fund	200	410
State Black Spot Program – Safer Local Roads	1 750	1 630
TravelSmart SA Program	300	300
Further Education, Employment, Science and Technology		
Broadband SA Program	—	— ^(b)
Digital Bridge Program	—	200
Youth Traineeship Program – Local Government Trainees	168	375
Environment and Conservation and the River Murray		
Accelerating Local Sustainability Program	10	10
Catchment Management Subsidy Scheme	3 025	4 900
Coast Protection Board grants (mainly regional councils)	306	— ^(c)
Heritage Cemeteries Fund	26	25
Local Heritage Reviews	5	30
Local Sustainability Exchange Scheme	40	—
Metropolitan Council Coast Protection Works	620	— ^(c)
State Heritage Fund grants	20 ^(a)	50 ^(a)
Total	81 863	84 714

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

(b) Funding in 2004-05 dependent on the success of any applications received under a competitive grants process.

(c) Budget for 2004-05 program not yet determined.

CHAPTER 5: MANAGING THE STATE'S ASSETS AND LIABILITIES

Overview

With budget surpluses projected in 2003-04 and across the forward estimates, the general government sector balance sheet, including net worth and net financial worth, is expected to strengthen further.

General government net debt is now at a very low level, but superannuation liabilities remain significant. On current projections general government net debt and unfunded superannuation liabilities will be \$5607 million by 30 June 2008, down from \$6138 million at 30 June 2004.

The net debt of the non-financial public sector is projected to fall across the forward estimates largely as a result of the application of general government cash surpluses to the repayment of debt.

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	2003 Actual	2004 Estimated Result	2005 Budget	2006 Estimate	2007 Estimate	2008 Estimate
Net worth						
\$m	15 288	15 227	15 529	15 834	16 282	16 804
% of total revenue	163.6	155.5	155.3	155.7	155.9	154.9
Net financial worth						
\$m	3 500	3 393	3 656	3 923	4 294	4 687
% of total revenue	37.4	34.6	36.6	38.6	41.1	43.2
Net debt						
\$m	666	382	314	64	- 155	- 429
% of total revenue	7.1	3.9	3.1	0.6	- 1.5	- 4.0
Net debt plus unfunded superannuation^(a)						
\$m	5 111	6 138	6 151	5 975	5 823	5 607
% of total revenue	54.7	62.7	61.5	58.8	55.8	51.7

(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 later in this chapter.

General government net debt is expected to reduce steadily across the forward estimates, becoming a net financial asset position of \$155 million in 2006-07 and \$429 million in 2007-08.

This improvement primarily reflects the application of projected general government cash surpluses to the repayment of debt. Lower levels of debt mean that South Australia will be better placed in the future to manage budgetary pressures.

The other major component of the State's financial liabilities is the unfunded superannuation liability that is expected to rise from an estimated \$5756 million at June 2004 to \$6036 million by June 2008.

Net worth and net financial worth are expected to increase across the forward estimates. Net financial worth is a broader measure than net debt. This is because it also incorporates provisions for accrued liabilities, mainly superannuation and long service leave, as well as equity interests in public non-financial corporations (PNFCs) and public financial corporations (PFCs). Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

Table 5.2 reconciles movements in net worth attributable to operating transactions and revaluations.

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

	2003-04 Estimated Result	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Net worth at beginning of year	15 288	15 227	15 529	15 834	16 282
Change in net worth from operating transactions:					
Net operating balance	264	116	118	176	255
Change in net worth from other economic flows:					
Movement in net assets of PFCs	132	71	82	155	139
Movement in net assets of PNFCs	764	141	59	71	77
Revaluation of unfunded superannuation liability	-1 193	16	17	19	21
Inclusion of SA Ambulance Service net worth for the first time	38	—	—	—	—
Other revaluation adjustments	-66	-42	29	27	31
<i>Subtotal</i>					
Total other economic flows	-325	186	187	272	267
Net worth at year end	15 227	15 529	15 834	16 282	16 804

Net operating surpluses forecast across the forward estimates serve to improve general government net worth.

The net assets of public financial corporations are forecast to increase across the forward estimates. The major contributors to the increase are the Motor Accident Commission, WorkCover Corporation and the South Australian Community Housing Authority. These increases are offset, particularly in 2003-04, 2004-05 and 2005-06, by distributions payments from the retained earnings of the South Australian Asset Management Corporation (SAAMC) and the South Australian Government Financing Authority (SAFA).

In 2003-04, there was a net upward revaluation of \$1.2 billion in the unfunded superannuation liability.

As reported in the 2003-04 Mid-Year Budget Review, \$1.4 billion of the upward revaluation reflects the adoption of a revised long-term discount rate assumption, (6.0 per cent compared with the previous assumption of 7.5 per cent), in anticipation of a new accounting standard for employee benefits. This revaluation effect has been partly offset by the effect of strong returns in financial markets so far in 2003-04. Further discussion on movements in the unfunded superannuation liability appears later in this chapter.

The large increase of over \$700 million in the value of the net assets of PNFCs in 2003-04 primarily reflects the upward revaluation by the South Australian Housing Trust of its property holdings in line with the significant rise in general property prices over recent years.

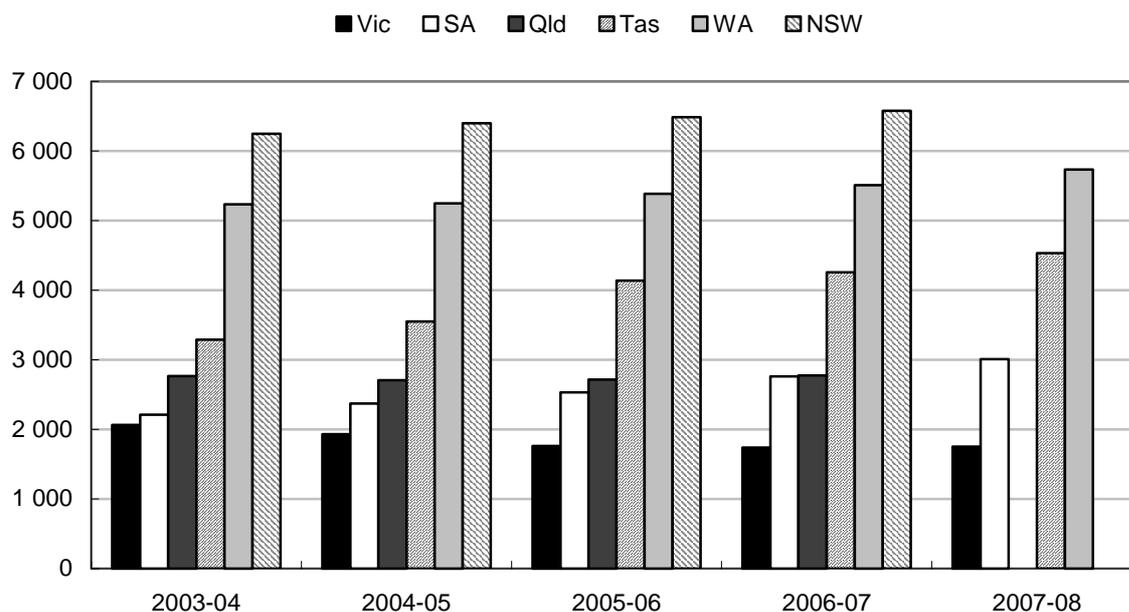
The inclusion, for the first time in 2003-04, of the net assets of the South Australian Ambulance Service in the general government sector, has improved the net worth of the sector by \$38 million.

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.

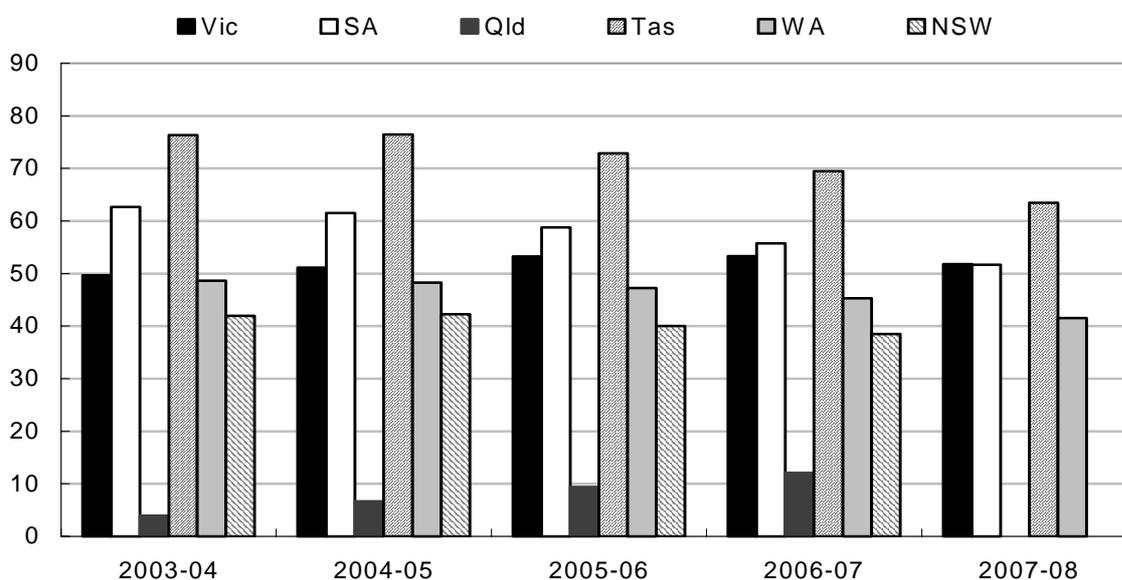
A higher level of net financial worth typically provides states with more flexibility in their financial management. South Australia's net financial worth is lower than most other states due primarily to its relatively high level of liabilities and the value of its equity investment in public non-financial corporations being lower than in some other jurisdictions. This reflects both asset sales undertaken by South Australia and the impact from the 'bail-out' of the State bank in the early 1990s. Nevertheless, on a per capita basis, South Australia's general government net financial worth is expected to be higher than Victoria's in 2004-05.

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



- (a) Data for Victoria, Western Australia and Tasmania are based on information contained in their 2004-05 Budget Statements. Other states data have been sourced from 2003-04 Mid-Year Budget Review papers.
- (b) 2007-08 data for Queensland and New South Wales were unavailable at the time of publication.

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



- (a) Data for Victoria, Western Australia and Tasmania are based on information contained in their 2004-05 Budget Statements. Other states data have been sourced from 2003-04 Mid-Year Budget Review papers.
- (b) Victorian data includes as assets funds held in the Growing Victoria Infrastructure Fund.
- (c) 2007-08 data for Queensland and New South Wales were unavailable at the time of publication.

Figure 5.2 shows that the net debt and superannuation liabilities of the South Australian general government sector as a percentage of total revenue is higher than all states with the exception of Tasmania. However, on current estimates South Australia will be very comparable with Victoria by 2007-08.

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 has adopted the national 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 financial worth, net worth, net debt and unfunded superannuation for the general government sector. In summary it can be seen that over the nine years from 1999 through to 2008 both net financial worth and net worth are steadily increasing whilst net debt has reduced.

After falls in 2000 and 2001, the unfunded superannuation liability increased in 2002 and 2003. This was primarily due to lower than expected earnings by Funds SA, consistent with the generally poor performance of financial markets over the corresponding period. As noted earlier, the estimated unfunded superannuation liability has been revised upwards by \$1.4 billion in 2003-04 due to the adoption of a revised discount rate assumption (refer to Table 5.4 for further details).

Net debt plus the unfunded superannuation liability is expected to decrease steadily over the forward estimates.

Table 5.3: General government balance sheet indicators — time series (\$ million)

As at 30-Jun	Net financial worth	Net worth	Net debt	Unfunded Superannuation ^(a)	Net Debt plus Unfunded Superannuation
1999	1 892	10 622	4 780	3 909	8 689
2000	2 986	12 447	1 920	3 543	5 463
2001	4 091	14 788	1 246	3 249	4 495
2002	3 559	14 706	1 303	3 998	5 301
2003	3 500	15 288	666	4 445	5 111
2004	3 393	15 227	382	5 756	6 138
2005	3 656	15 529	314	5 837	6 151
2006	3 923	15 834	64	5 911	5 975
2007	4 294	16 282	- 155	5 978	5 823
2008	4 687	16 804	- 429	6 036	5 607

(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 later in this chapter.

Sources: 1999 Financial data from the *ABS GFS* publication
 2000 to 2003 Financial Data SA's Budget Outcome Reports
 2004 onwards UPF data detailed in this budget paper.

Variations to estimated unfunded superannuation liabilities

Table 5.4 summarises the change in the unfunded superannuation liability since the 2003-04 Budget.

Table 5.4: Unfunded superannuation liability (\$million)

	2003-04	2004-05	2005-06	2006-07	2007-08
As at 2003-04 Budget	4 596.3	4 697.3	4 792.6	4 885.9	4 983.8
Opening balance adjustments ^(a)	- 93.9	- 92.3	- 88.6	- 84.2	- 107.2
Impact of change in discount rate assumption	1 418.0	1 419.0	1 418.0	1 413.0	1 408.0
Impact of actuarial changes and other movements	60.0	66.9	73.7	80.9	76.8
Estimate as at 2003-04 Mid-Year Budget Review	5 980.4	6 090.9	6 195.8	6 295.5	6 361.4
Impact of expected higher returns in 2003-04 on superannuation assets compared with long term assumptions ^(b)	- 230.4	- 246.5	- 263.8	- 282.3	- 302.0
Other movements	17.4	12.1	6.0	- 1.2	0.5
Impact of increased past service cash payments	- 11.0	- 19.2	- 26.6	- 34.1	- 23.8
As at 2004-05 Budget	5 756.4	5 837.3	5 911.4	5 977.9	6 036.1

(a) Includes the impact of final earnings for 2002-03.

(b) The liability in 2003-04 to 2006-07 incorporates the estimated gain in 2003-04 arising from the earnings rate on assets being 14.8 per cent but assumes a return equal to the long run earnings assumption of 7.0 per cent per annum in later years.

The projected unfunded superannuation liability has fallen significantly since the 2003-04 Mid-Year Budget Review. This is chiefly due to strong returns in financial markets so far in 2003-04. The estimate of the unfunded superannuation liability as at 30 June 2004 assumes that Funds SA will achieve an earnings rate of 14.8 per cent in 2003-04. This earnings rate is substantially above the long-term assumed earnings rate of 7.0 per cent. The projection of the earnings rate for 2003-04 has been derived by taking the estimated earnings rate to April 2004 and assuming that earnings for the remaining period to 30 June 2004 will be at an average annual rate of 7.0 per cent.

This improvement follows an increase in estimated unfunded superannuation liabilities reported in the 2003-04 Mid-Year Budget Review, following the adoption of revised accounting assumptions. In particular, in the 2003-04 Mid-Year Budget Review, the Government announced that it had adopted a revised discount rate, consistent with a new accounting standard for employee benefits. The expected new standard, which is based on International Accounting Standard (IAS) 19, requires superannuation liabilities to be valued using the national government bond rate (or similar rate). A discount rate of 6.0 per cent has been adopted in the 2004-05 Budget to value the unfunded superannuation liability. Prior to the 2003-04 Mid-Year Budget Review, the Government had used a 7.5 per cent discount rate to value its unfunded superannuation liability. The adoption of the revised discount rate has increased the estimated unfunded superannuation liability by around \$1.4 billion.

Other movements since the 2003-04 Mid-Year Budget Review reflect minor refinements to various underlying parameters used to calculate the unfunded superannuation liability.

In addition, the assumed long-term earnings rate on superannuation assets has been revised to 7.0 per cent per annum from 7.5 per cent per annum. This ensures consistency with Funds SA's long-term target rate of return.

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 superannuation liability by 2034.

Table 5.5: Estimates of past service superannuation liability cash payments (\$million)

	2003-04	2004-05	2005-06	2006-07	2007-08
	236	242	251	261	272

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 net debt of the non-financial public sector is projected to fall steadily across the forward estimates period. With net debt of the public non-financial corporations sector expected to remain relatively constant across the forward estimates period, the fall in non-financial sector net debt is largely attributable to the application of general government cash surpluses to the repayment of debt.

Table 5.6 summarises key balance sheet indicators for the non-financial public sector.

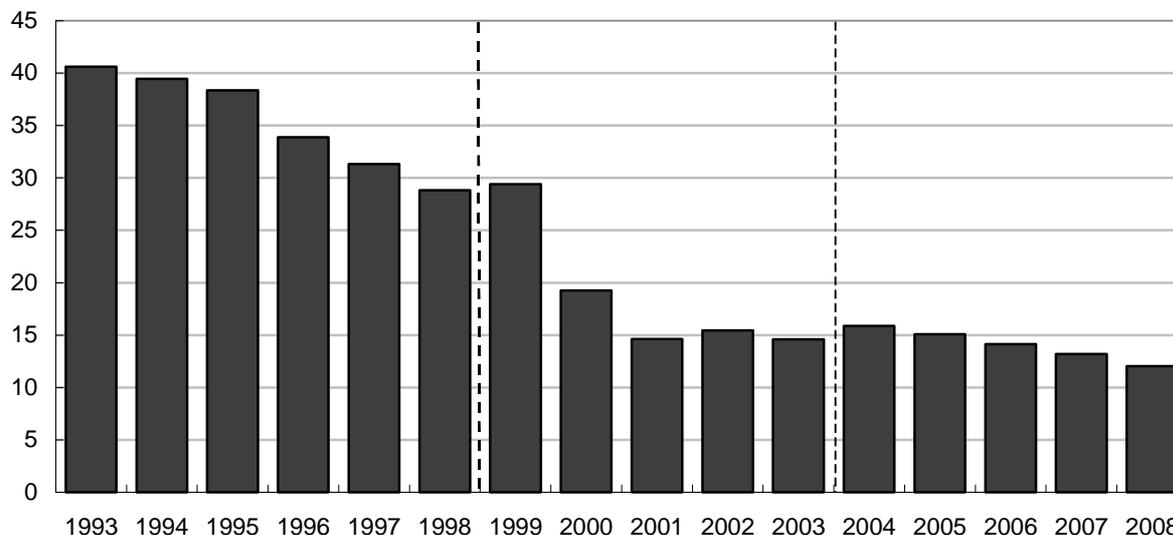
Table 5.6: Key balance sheet indicators — non-financial public sector

As at June	2003 Actual	2004 Estimated Result	2005 Budget	2006 Estimate	2007 Estimate	2008 Estimate
Net worth						
\$m	15 288	15 227	15 529	15 834	16 282	16 804
% of total revenue	150.3	145.3	144.9	145.9	146.7	145.7
Net financial worth						
\$m	-8 811	-9 806	-9 666	-9 514	-9 221	-8 824
% of total revenue	- 86.6	- 93.6	- 90.2	- 87.7	- 83.1	- 76.5
Net debt						
\$m	2 696	2 522	2 418	2 227	1 990	1 613
% of total revenue	26.5	24.1	22.6	20.5	17.9	14.0
Net debt plus unfunded superannuation^(a)						
\$m	7 141	8 279	8 256	8 139	7 968	7 650
% of total revenue	70.2	79.0	77.0	75.0	71.8	66.3

(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.

Figure 5.3 shows the improvement in the non-financial public sector net debt plus unfunded superannuation liability as a percentage of gross state product (GSP) since 1993.

Figure 5.3: South Australian non-financial public sector net debt and unfunded superannuation liabilities as a percentage of GSP^{(a)(b)}



- (a) 2004 onwards based on estimates.
- (b) Until 1997-98, the Australian Bureau of Statistics (ABS) classified SAFA and universities as belonging to the general government sector. Since that time, SAFA has been classified to the public financial institutions sector, and universities have been removed from the individual state finance statistics and are treated as belonging to a 'multijurisdictional category'.
- (c) 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.

Management of assets and liabilities

Debt management

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

The State's funding requirements are achieved by SAFA through the 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 2003-04 is around \$1 billion (\$1.5 billion in 2002-03), principally representing the refinancing of maturing borrowings.

SAFA has loans to the Treasurer totalling around \$3.5 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.

As the general government sector moves to a net financial asset position, the liability management framework of SAFA will need to be reviewed.

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. As discussed above, since the 2003-04 Budget the liabilities have been calculated using a discount rate set with reference to the national government bond rate. The current discount rate is 6.0 per cent but could be adjusted in future years if interest rates move. An earning rate of 14.8 per cent for 2003-04 has been assumed based on estimated investment earnings by Funds SA to April 2004.

Table 5.7 outlines the superannuation schemes operating in the State public sector, together with the estimated accrued liabilities of those schemes and the assets available to meet those liabilities, as at 30 June 2004.

Table 5.7: Public sector superannuation liabilities as at 30 June 2004 (estimated)

	Accrued liability \$m	Assets \$m	Net liability \$m
Schemes administered by SA Government ^(a)	12 058	6 327	5 731
Schemes not administered by SA Government—			
General government:			
Statutory authorities ^(b)	157	153	4
Health units ^(b)	61	61	—
Public non-financial corporations	9	9	—
Total schemes	12 285	6 550	5 735

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

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

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

Table 5.8: State Superannuation Scheme as at 30 June 2004 (estimated) (\$million)

Liabilities	
Pension Scheme	
Pensioners	3 713
Contributors	3 013
	6 726
Lump Sum Scheme	1 175
Gross liability	7 901
Less Assets	
SA Superannuation Fund (ie members contributions)	1 467
Employer fund (ie contributions by agencies including past service contributions by the Government)	1 539
	3 006
Unfunded liability	4 895

Cash Alignment Policy

In October 2003, Cabinet approved a Cash Alignment Policy designed to more closely align agency cash balances with working capital requirements.

The policy endorses an approved working cash balance 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 will be applied to cash balances held by agencies as at 30 June 2004. Surplus cash held by agencies as at this date will be transferred to the Treasurer (Consolidated Account) in 2004-05. This policy serves to reduce cash levels shown on the Government's balance

sheet while reducing gross debt liabilities at the same time. The Government's net asset position will be unaffected by this policy.

There will be no impact on the budget 'bottom-line' but there are implications for specific agency budget lines. Agencies have taken these implications into account when working through the 2004-05 Budget process.

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 received by SAICORP from client agencies for 2003-04 is \$30.7 million (\$33.8 million for 2002-03).

SAICORP has a policy of accumulating reserves over time to meet the cost of retained risks. At 30 June 2003, SAICORP's dedicated fund had:

- total assets of \$157.1 million;
- outstanding claim liabilities of \$102.4 million;
- total liabilities of \$106.7 million; and
- net assets (free reserves) of \$50.4 million.

Medical malpractice claims accounted for \$74.4 million of the outstanding claim liabilities, and public and products liability claims accounted for a further \$15.6 million.

Chapter 5: Managing the State's assets and liabilities

At 30 June 2003, the supplementary fund administered by SAICORP had:

- total assets of \$11.7 million;
- outstanding claim liabilities of \$60.1 million;
- total liabilities of \$60.1 million; and
- net assets of minus \$48.4 million.

Medical malpractice claims accounted for \$44.8 million of the outstanding claim liabilities.

CHAPTER 6: GOVERNMENT BUSINESSES

Overview

Government businesses are expected to perform soundly in 2004-05. The public non-financial corporations sector is forecast to record operating surpluses, with major businesses such as SA Water, Forestry SA and the SA Lotteries Commission all projecting solid 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. 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; for example, the South Australian Housing Trust and Aboriginal Housing Authority are presented in the Human Services Portfolio Statement. Similarly, TransAdelaide and the Office of Public Transport are included in the Transport and Urban Planning Portfolio Statement. Forward estimates for the PNFC sector are presented in Appendix A, however estimates for the PFC sector are not required under the *Uniform Presentation Framework* agreement.

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 net lending target. 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 net lending result. According to the ABS standards, the subsidies and CSO payments made to government businesses are classified as expenses for the general government sector, and dividends and tax equivalent 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. To ensure that growth in the debt of PNFCs is underpinned by commercial returns, 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). The Department of Treasury and Finance advises on PNFCs' compliance with the borrowing policy as part of the Cabinet project approval process. It is the Government's policy that projects approved by the relevant PNFC boards should also comply with this objective.

The other primary financial measure reported for PNFCs is investing expenditure, as reported in the Capital Investment Statement.

Public non-financial corporations: operating performance

Table 6.1: Public non financial corporation sector budget aggregates (\$million)^(a)

	2003-04	2004-05	2005-06	2006-07	2007-08
Net operating balance before dividends and income tax equivalents	341.0	390.9	300.8	317.0	328.6
less					
Dividends	281.0	213.8	219.0	214.5	216.2
Income tax equivalents	94.8	102.3	97.3	101.0	104.8
<i>equals</i>					
Net operating balance	-34.8	74.8	-15.6	1.5	7.7
less					
Net acquisition of non-financial assets					
Gross fixed capital formation	295.6	255.1	255.9	226.0	148.9
less Depreciation	207.8	217.0	221.8	226.2	230.5
plus Change in inventories	—	—	—	—	—
<i>equals</i> Total net acquisition of non-financial assets	87.8	38.1	34.1	-0.2	-81.6
<i>equals</i>					
Net lending / borrowing	-122.6	36.7	-49.7	1.7	89.3

(a) Table may not add due to rounding.

Operating performance

The budgeted net operating balance before income tax equivalents and dividends for the PNFC sector is \$390.9 million in 2004-05. The main contributions are from SA Water (\$269.9 million), SA Infrastructure Corporation (\$68.5 million), Forestry SA (\$36.6 million) and Lotteries Commission (\$25.8 million), offset in part by the estimated loss for the SA Housing Trust (\$30.0 million).

The budgeted 2004-05 net operating balance before income tax and dividends is an increase of 14.7 per cent on the estimated 2003-04 result of \$341.0 million. This increase can be largely attributed to:

- the receipt of the majority of government funding in 2004-05 by SA Infrastructure Corporation for capital expenditure related to the Port River Expressway stages two and three;
- increases to sewerage rates and water prices in line with inflation for 2004-05 and the continuation of high levels of development activity for SA Water into 2004-05; and
- offset by increased SA Housing Trust revenue in 2003-04 from a one off transfer of accumulated Commonwealth State Housing Agreement funds from the Department of Human Services. This largely explains the reduction in revenue between 2003-04 and 2004-05.

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 current strong market during 2003-04 has resulted in above budget revenue for these agencies, including SA Water (associated with land development), Land Management Corporation (land sales) and ForestrySA (timber sales), which will translate into strong budget contributions (dividends and tax equivalent receipts) for 2003-04. Although the

current level of activity is not expected to continue throughout the forward estimates period and is likely to be reflected in reduced contributions in future years, the continuing strong market conditions are reflected in above budget year to date results for these commercial agencies in 2003-04.

SA Water

The recent introduction of water conservation measures and weather conditions have contributed towards a reduction in SA Water's revenue from water sales. However, this has been offset by continued high levels of property development activity leading to an actual above budget profit in 2003-04.

SA Water will face pressure on its revenue base over the estimates period from water conservation measures introduced decreasing water sales by 2 per cent and the moderation of the record levels of development activity. This has resulted in SA Water profit increasing by 4 per cent over the period from 2004-05 to 2007-08, compared to a 30 per cent increase for the period from 1999-2000 to 2002-03.

SA Lotteries

SA Lotteries' expects its distributions to government in 2003-04 will be above budget due to strong sales performance in a range of lottery products including Oz Lotto, SA Lotto and Powerball. Sales growth drives higher distributions by increasing profit, and through higher gambling tax and income tax equivalent payments. The improved sales performance has offset the effects of a delay in proceeds from the sale of the Rundle Mall head office building.

SA Lotteries' forecast operating results and distribution levels closely align to the trend in sales revenue, net of prizes paid. The operating result after tax is forecast to rise by 17 per cent from 2004-05 to 2007-08, mainly due to sales growing from their current level of \$340 million per year to \$360 million per year by 2005-06 due to the planned implementation of new products including Keno Add On and Powerball 45. Sales are expected to stabilise after 2005-06 for the remainder of the forward estimates period.

Land Management Corporation

LMC's estimated result for 2003-04 indicates contributions to government will be above budget due to continuing strong demand in the building sector driving land sales significantly above original expectations.

LMC's expected operating performance over the forward estimates period reflects its project-based revenues and expenses (for example, revenues and expenses associated with the new Port Waterfront Redevelopment), as well as sales trends driven by cyclical demand in the building sector. LMC's sales revenue is projected to grow by 8.6 per cent in 2004-05 before an expected 32 per cent slowdown in 2005-06.

Sales are forecast by LMC to return to their current level by 2007-08. Major projects contributing to sales in the forward years include the Northfield Residential development, with projected sales of \$4 million to \$5 million per year from 2005-06, and commercial property sales of \$3 million to \$5 million per year relating to the portfolio of the former Industrial and Commercial Premises (ICPC) corporation, which merged with LMC during 2003-04.

ForestrySA

ForestrySA's forecasts for 2003-04 indicate its sales revenue and contributions to government will be above previous expectations. With strong construction sector demand continuing through 2003-04, sales of construction and preservation timber have been significantly above budget. Demand has also been strong for fencing and sleeper products.

In 2004-05 the impact of a slowing in building activity is expected to be offset by strategies to achieve higher returns on timber sales, and marketing activities to maintain overall sales levels. On balance, budgeted sales revenue is expected to remain stable at its 2003-04 level through 2004-05. ForestrySA's forecasts beyond 2005-06 are based on a fall in the sustainable level of cut to 0.65 million cubic metres per year, resulting in decreased contribution levels. Forestry SA is examining the scope for a sustainable cut of 0.85 million cubic metres, a strategy which is expected to improve forward contribution levels relative to the current estimates.

Investing expenditure

Investing expenditure for the PNFC sector is budgeted to be \$327.7 million in 2004-05. The main contributing businesses are SA Water (\$130.2 million), SA Housing Trust (\$117.7 million) and SA Infrastructure Corporation (\$20.0 million).

Some significant investing initiatives in 2004-05 are:

- \$20 million towards the construction of the Port River Expressway stages two and three;
- \$11 million by SA Water on upgrading the Whyalla wastewater treatment plant;
- \$10 million by SA Water to complete the new Bolivar High Salinity wastewater treatment plant; and
- \$86.3 million by SA Housing Trust for the Newbuild, Better Neighbourhoods and Urban Regeneration Programs.

Investing expenditure is budgeted to decrease over the forward estimate period, from \$327.7 million in 2004-05 to \$239.0 million in 2007-08. This reduction can be largely attributed to:

- completion of SA Water's environmental improvement program;
- expenditure on the Port River Expressway stages two and three, costing a total of \$136 million, is budgeted to end in 2006-07; and
- a projected reduction in investing expenditure by the SA Housing Trust for 2007-08.

Subsidies, community service obligation payments, dividend and tax payments

Table 6.2 summaries the financial flows between the major government businesses and the general government sector. These flows include subsidies, community service obligations (CSO) payments, dividend payments and tax equivalent payments.

Table 6.2: Financial flows between major government businesses and the general government sector (\$million)^(a)

	Subsidy / CSO			Dividend			Income Tax Equivalent		
	Actual	Estimate	Budget	Actual	Estimate	Budget	Actual	Estimate	Budget
	2002-03	2003-04	2004-05	2002-03	2003-04	2004-05	2002-03	2003-04	2004-05
PNFC									
Aboriginal Housing Authority	3.9	4.2	4.1	—	—	—	—	—	—
Adelaide Children's Performing Arts Company	1.0	1.0	1.0	—	—	—	—	—	—
Adelaide Convention Centre	7.3	5.0	4.5	0.1	—	—	—	—	—
Adelaide Entertainment Centre	2.0	0.1	—	—	—	—	—	—	—
Adelaide Festival Centre Trust	8.7	8.2	8.5	—	—	—	—	—	—
Electricity Lease Entities	—	—	1.1	—	—	—	—	—	—
ForestrySA	4.1	3.6	3.7	27.9	22.7	20.4	11.6	12.1	11.3
Industrial and Commercial Premises Corporation ^(b)	—	—	—	0.3	—	—	—	—	—
Land Management Corporation ^(c)	8.1	23.9	8.7	4.0	53.0	2.5	0.7	1.5	1.3
Lotteries Commission of South Australia ^(d)	—	—	—	72.4	73.6	79.6	7.5	6.9	7.2
Office of Public Transport ^(e)	165.1	168.8	173.3	—	—	—	—	—	—
Public Trustee	—	—	—	1.2	1.4	1.2	0.8	0.7	0.6
South Australian Government Employee Residential Properties	—	—	2.0	0.9	1.2	1.2	—	0.5	0.5
South Australian Housing Trust	80.7	110.5	116.7	—	—	—	—	—	—
South Australian Infrastructure Corporation ^(f)	—	3.4	68.5	—	—	—	—	—	—
South Australian Motor Sport Board	2.1	3.7	2.6	—	—	—	—	—	—
South Australian Water Corporation ^(g)	96.4	104.5	105.0	164.9	183.9	163.2	74.2	71.9	79.9
TransAdelaide ^(h)	7.3	5.4	2.8	4.6	3.5	4.0	-1.2	0.9	1.2
West Beach Trust	1.1	0.8	0.8	—	—	—	0.7	0.4	0.4
PNFC Total	387.8	443.1	503.4	276.3	339.2	271.9	94.3	94.8	102.3
PFC									
HomeStart Finance ⁽ⁱ⁾	—	—	—	5.0	5.0	5.0	2.6	1.4	1.0
Motor Accident Commission	—	—	—	—	5.0	—	—	—	—
South Australian Asset Management Corporation	—	—	—	230.0	58.5	73.2	—	—	—
South Australia Community Housing Authority	10.0	8.6	7.8	—	—	—	—	—	—
South Australian Government Finance Authority	—	—	—	86.8	19.7	38.8	7.7	6.1	5.5
Funds SA	—	—	—	—	—	—	—	—	—
PFC Total	10.0	8.6	7.8	321.8	88.2	117.0	10.3	7.5	6.5
PNFC and PFC Total	397.8	451.7	511.1	598.1	427.4	388.9	104.6	102.3	108.9

(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). Table may not add due to rounding.

(b) The Industrial and Commercial Premises Corporation was absorbed into the Land Management Corporation on 1 December 2003.

(c) Land Management Corporation estimates include a special dividend in 2003-04 to repatriate past earnings.

(d) The *State Lotteries Act, 1966* prescribes distributions rather than dividends. The distributions (inclusive of State Gambling Tax) and income tax equivalents for the Lotteries Commission of South Australia included in this table are directed to the Hospitals Fund and the Sport and Recreation Fund.

(e) Legislation was passed on 31 December 2003 that abolished the Passenger Transport Board and replaced it with the Office of Public Transport, within the Department of Transport and Urban Planning.

(f) Presented as Infrastructure SA in the 2003-04 Budget. The subsidy for 2004-05 includes Commonwealth Government funding of \$10.3 million.

(g) SA Water dividend excludes a return of capital of \$16 million in 2002-03.

(h) 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.

(i) 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;
- 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.

The Government is currently reviewing its PNFCs Dividend, Capital Structure and Community Service Obligation (CSO) Policies (collectively referred to as the Government's Ownership Policies'). It is expected that these Ownership Policies will be finalised in early 2004-05.

The Ownership Policies will not be agency specific. Their purpose is to establish the overarching principles and guidelines for subsequent implementation in key PNFC agencies during 2004-05, to support the development of the 2005-06 Budget.

Community service obligations

A CSO is a government requirement imposed on a government business to undertake activities that the business would not otherwise undertake on a commercial basis. A review of the CSO policy and procedural arrangements is presently underway to update and improve the CSO policy framework.

Contribution policy

Government businesses pay an annual dividend to Government in accordance with an agreed financial framework together with a tax equivalent payment — collectively comprising the budget contribution.

Dividend policy

Dividend payout ratios for PNFCs are set on a case-by-case basis. The dividend for a particular government business should reflect its financial outcomes. Estimated dividends are provided across the forward estimates period but are always subject to review in the light of actual performance.

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 using the National Tax Equivalent Regime (NTER) Manual method, the substantive Income Tax Assessment Act (ITAA) method or the accounting profit method.

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 principles 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*, which were updated in May 2003, list those businesses subject to Competitive Neutrality (CN). This list will be further reviewed during 2004-05. 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.

CHAPTER 7: RISK STATEMENT

Overview

This chapter outlines the major financial risks that could affect the fiscal outlook set out in the 2004-05 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 economic activity fluctuations, 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.

Revenue risks

State Government revenues (including Commonwealth grants) are affected both by local economic conditions and, with a lag, by economic conditions in other states. The latter influence flows from the fiscal equalisation process which effectively redistributes revenue collected by states and territories in accordance with their assessed fiscal needs. However, the Commonwealth Grants Commission methodology is such that this redistribution is only achieved over a five year period.

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. Through the course of the past 12 to 18 months, the South Australian economy has experienced strong demand growth, which contained a significant cyclical component. While the budget estimates for 2004-05 are premised on slower demand growth and a softening in property markets, there is a risk that revenues will be lower than expected if the economy slows to a greater extent than has been anticipated. 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 strong and that there will only be a modest slowing in the Australian economy, with growth remaining at relatively strong levels;
- variations in climatic conditions which could impact on the volume of South Australian agricultural output and farm incomes;
- further increases in official interest rates may dampen consumer spending and the housing market to a greater extent than has been anticipated; and
- on the other hand, the property market may remain buoyant, defying expectations of reductions in activity and generating higher than anticipated revenues from property taxes.

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 \$28 million per annum.

Reduction in gaming machines in hotels and clubs

Gaming machine numbers in hotels and clubs are proposed to be reduced by 3000, mainly by removing machines from larger venues. The timing of this reduction is subject to the passage of relevant legislation. A trading system is also proposed to be introduced to enable gaming machine licensees wishing to exit the industry to sell their gaming machine entitlements to other licensees. The net effect on gaming machine tax revenue is expected to be minor.

Larger venues will be able to replace lost gaming machine entitlements through the trading system. Any transfer of expenditure from small (possibly tax free) venues to larger venues will have a positive effect on gaming machine tax revenue because of the progressive tax structure.

Impact: A variance of 1.0 per cent of hotel and club gaming machine expenditure equates to around \$4 million in gambling tax revenue.

Ban on smoking in gaming rooms

The Government has announced its intention to ban smoking in hospitality venues including gaming rooms. The ban is to be phased in over the period to 31 October 2007.

Provision has been made in the forward estimates for a 15 per cent fall in gaming machine expenditure in licensed clubs, hotels and the Casino commencing in 2007-08 when the full ban takes effect. The assumed tax revenue loss is \$41 million in 2007-08 (\$70 million in a full year).

Provision has also been made for a small reduction in Casino tax revenue of \$0.1 million per annum commencing in 2004-05 as a result of the proposed prohibition of smoking within one metre of gaming tables.

Impact: A 1.0 per cent variance from the estimated 15 per cent fall in gaming machine expenditure in hotels, clubs and the Casino alters the estimated revenue loss by about \$3 million in 2007-08 (\$5 million in a full year).

If the partial smoking restrictions to apply up to 31 October 2007 cause a reduction in gaming machine expenditure, this would result in losses in gaming machine tax revenue prior to 2007-08.

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 2003-04, but positive impacts on royalties have been partially offset by a stronger than budgeted Australian dollar and plant-related disruptions to production at Olympic Dam.

Royalty revenue in 2004-05 may come under further pressure if the Australian dollar appreciates against other currencies.

Exchange rate movements, through their effect on royalty revenues raised in the major mining production States, affect 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 the international prices for copper, uranium, gold, oil and petroleum liquids has a direct revenue impact of \$0.6 million.

Commonwealth grants

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 expects to become fully reliant on GST revenue from 2003-04 as the source of GPPs. Accordingly, in the future South Australia's revenue will be 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 \$25–30 million.

Changes in Commonwealth National Competition Policy grants

The possibility of future National Competition Council penalties (see discussion in Chapter four) means a significant part of future National Competition Policy (NCP) payments to the State is at risk.

There is also a risk of changes to the Commonwealth's arrangements for making NCP grant payments. In its May 2003 Budget, the Commonwealth did not commit to a specific level of NCP payments beyond 2005-06, noting only that 2006-07 payments will be disclosed after the conclusion of negotiations. No further information was provided in the 2004-05 Commonwealth Budget. The Commonwealth Treasurer has recently provided terms of reference to the Productivity Commission for an inquiry into NCP arrangements, with a view to informing the Council of Australian Governments' review of the NCP due by September 2005.

Impact: The budget includes almost \$56 million in 2006-07 for NCP grants.

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 timing of the latest Review (released in February 2004) minimises the exposure to further methodology changes during the current forward estimates period. The March 2004 Treasurers' Conference agreed on a work program aimed at simplifying the Commonwealth Grants Commission's processes, but this explicitly excludes examination of the underlying principles of HFE.

Impact: The risk of HFE methodology changes that may impact on the State, either positively or adversely, is significant over the medium term.

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.

Impact: SPPs account for about 17 per cent of State Government revenues. Variations in their level or the conditions applying are a major risk to the budget.

Changes in profitability of government businesses

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

Impact: Excluding the distribution of past years' earnings, a 1.0 per cent fall in total dividends would have a \$2 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 Government is aware of this challenge and an Expenditure Review and Budget Cabinet Committee has been established to ensure 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.

Higher than expected increase in wages and salaries

The estimated costs arising from the next round of remuneration increases have been factored into the 2004-05 Budget and forward estimates. However, several new enterprise agreements are due for renewal in the next fifteen months. Should the wage and salary conditions contained in these agreements differ from the provisions included in the budget, there would be an impact on the budget.

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

Police	1 July 2004
Wages Parity	1 October 2004
Nurses	1 October 2004
Salaried Medical Officers	14 April 2005
Teachers	1 October 2005.

The South Australian Government is currently negotiating with the Public Service Association for a new enterprise agreement with Wages Parity employees (salaried and weekly paid). The Wages Parity Group comprises about 40 per cent of the total public sector workforce and includes 30 000 full time employees. Negotiations are continuing.

Impact: The budget provides for reasonable salary and wage increases 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 \$152 million in 2007-08.

In the last round of enterprise bargaining, non-salary elements such as paid maternity leave and new management classifications added about 1.0 per cent on average to the cost of each enterprise agreement over their duration. The budget provides for reasonable non-salary outcomes for each new enterprise agreement. A 0.5 per cent increase in non-salary outcomes above existing budget provisions for the duration of the agreements would have a budget impact of approximately \$43 million in 2007-08.

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 per cent increase in interest rates would increase net interest payments in the general government sector by approximately \$3 million in 2004-05. A 1.0 per cent increase in interest rates would affect the PNFC sector's profits by approximately \$21 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 2004-05 Budget, a CPI increase of 1.0 per cent more than currently anticipated would result in an estimated increase in expenditure of \$25 million in 2004-05.

Fluctuation in foreign exchange rates

Treasurer's Instruction No. 23 requires public authorities to recognise and control foreign exchange risks associated with the purchase of imported goods and services. Public authorities are required to obtain forward cover for the acquisition of goods and services that are expected to give rise to a foreign currency exposure exceeding \$A100 000. This instruction has the effect of limiting potential foreign exchange risks faced by the Government once acquisition decisions are made.

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 per cent reduction in the discount rate would increase unfunded superannuation liabilities by \$1.2 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 a deterioration of \$4 million in net lending.

A 1.0 per cent lower than expected return by Funds SA would increase estimated unfunded superannuation liabilities by around \$30 million. An increase in unfunded superannuation liabilities of this magnitude would increase nominal superannuation expenses, decreasing the net lending result by \$2 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 isolation, a 1.0 per cent movement in international equity markets would impact on the WorkCover scheme funding estimates by approximately \$2.3 million or 0.18 per cent of the scheme funding ratio. A 1.0 per cent movement in Australian equity markets would impact on the WorkCover scheme funding estimates by approximately \$1.9 million or 0.15 per cent of the scheme funding ratio.

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 \$1.6 million or 0.12 per cent. A 1.0 per cent movement in Australian equity markets would result in a change in Motor Accident Commission Fund investments of approximately \$2.5 million or 0.18 per cent of the Fund.

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.

The current uncertain state of some segments of the insurance markets in Australia and worldwide with regard to capacity and price may impact on SAICORP's ability to maintain all components of the Government's catastrophe reinsurance program at existing levels at

acceptable premiums. The Government will continue to monitor the situation closely from both a risk retention and an expenditure point of view.

Details of individual insurance claims are not discussed for legal, commercial and privacy reasons.

SAGRIC (now EDISCO Pty Ltd)

A number of claims exist against the State through its ownership of EDISCO Pty Ltd arising from EDISCO's retention of SAGRIC's interest in a joint venture to manage a project for the development and running of the Greek National Cadastre (register of land values and owners) in Greece. The claims are ongoing.

Patawalonga Flooding

On Friday 27 June 2003, a number of properties at Glenelg North were flooded following the failure of barrage gates at the southern end of the Patawalonga Lake. This caused storm water to back up through the local storm water system causing flood conditions in nearby streets and inundation of the properties. The Government established an urgent investigation into the cause of the flooding. The Government also implemented plans to immediately compensate residents and businesses affected by the floods. Payment of compensation is contingent upon claimants making application for compensation and subrogation of rights of recovery to SAICORP. The compensation monies are being paid in the first instance by SAICORP. Recovery will be sought as appropriate from third parties considered to have liability for the incident or liability for payment of compensation.

The Government compensation scheme provided for claims to be split into four categories of loss — buildings, contents, motor vehicle, and other losses. Many claimants have lodged claims covering more than one category of loss.

To the end of March 2004, SAICORP had received 150 claims. As at the end of March, 99 claims had been finalised and the majority of the remaining 51 claims represented outstanding building repair claims. Payments totalling \$1.115 million had been made. Outstanding compensation claims were estimated at about \$0.480 million and investigation and other costs of about \$125 000 had also been incurred by SAICORP.

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 valid claims are made by the policy owners.

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. 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 as was \$4.2 million in funding to cover the actuarially calculated claims. The risk attached on the worker's compensation is limited to a number of existing known claims, which are amply provided for. The only factor that would affect this risk, is the quantum of compensation that a judge would award to a claimant if any of the cases reach the trial stage. In any event, the compensation relating to most of these policies is governed by legislation and when the funding was estimated, the actuaries appear to have conservatively calculated the liability.

The total of the above funds (that is, \$4.7 million) appears 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 2003, with comparative data for 30 June 2002.

Table 7.1: Contingent liabilities of the Government of South Australia to entities external to the public sector as at 30 June^(a) (\$ million)

	2002	2003
Guarantees ^(b)	822	833
Net present value of operating leases ^(c)	245	239
Other ^(d)	198	164
Total	1 265	1 236

(a) Valued at nominal values. No adjustments have been made to take into account the probability of actual liabilities occurring. The 2002 data differ from the corresponding data published in the 2003-04 Budget. The 2002 data are presented here on a consistent basis with the 2003 data. They exclude off-balance sheet exposures, for example, interest rate and cross currency swaps, as these are now recognised on the Government's balance sheet. The data also differ from that reported in the Government's Australian Accounting Standard (AAS) 31 Accounts due to omission of joint venture and other contingent liabilities from the AAS 31 Accounts.

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

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

(d) Includes contingent liabilities arising from financial assistance provided by the former Department for Business, Manufacturing and Trade, 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.

There has been a small decline in the total quantifiable contingent liabilities of the Government from 2002 to 2003. While the Government's total exposure to guarantees was largely unchanged, the former Department of Business, Manufacturing and Trade's financial obligations as at 30 June 2003 fell by around \$48 million from 2002, which contributed to a decline in other contingent liabilities at June 2003.

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 2003, total liabilities of the public financial corporations sector were \$10.8 billion and total liabilities of the public non-financial corporations sector were \$2.7 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. As at 30 June 2003, the amount of the liability was \$15.3 million.

Exposure: The total value of loans and liabilities is estimated to be \$356 million.

SGIC life policy guarantee

SGIC provided mortgage insurance to a number of other financial institutions. The underwriting of the mortgage insurance was discontinued in early 1995. The contingent liability relates to a guarantee provided by the Treasurer during the sale of SGIC. The guarantee could be called upon if SGIC and Legal & General (now Colonial Mutual) were unable to fund various life policies. Based on currently available information, the valuation of the contingent liability has been determined at \$268 million. The underlying liabilities will be extinguished by 20 November 2004.

Exposure: \$268 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, amongst other things, a prescribed amount of electricity from OCPL at a fixed price for the term of the Power Purchase Agreement; and

- to sell a prescribed amount of gas to OCPL at a fixed price for the term of the Gas Sale Agreement.

Over the life of the Power Purchase Agreement and Gas Sale Agreement (Osborne Arrangements) it was estimated that ETSA Corporation would incur losses representing, in general terms, the difference between:

- the contracted purchase price under the Power Purchase Agreement and forecast pool prices in the electricity market; and
- the contracted sale price under the Gas Sale Agreement and the estimated wholesale price for gas available in the market.

The Osborne Arrangements, and the underlying exposures, were subsequently transferred to Flinders Power Pty Ltd as part of the former Government's electricity industry reforms. When NRG Energy Inc purchased the operations of Flinders Power Pty Ltd (Flinders Power) as part of the former Government's program for privatisation of the State's electricity assets, the Osborne Arrangements (together with the underlying exposures) were transferred to NRG Energy Inc's subsidiary Flinders Osborne Trading Pty Ltd (FOT).

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.

Following NRG Energy Inc's exit from US Chapter 11 bankruptcy proceedings in December 2003, the likelihood of the Treasurer's guarantee being called upon by OCPL has significantly reduced.

The forecast as at 30 June 2003 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 Business, Manufacturing and Trade

As at 30 June 2003, the Department of Business, Manufacturing and Trade 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 2003, total financial obligations were equal to \$86.8 million.

SAAMC - put option

A property put option was entered into in 1993-94 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) (as head lessee) entered into a 15 year lease 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 current purchaser's option, if the value of the building at the time is 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 FPD Savills on 30 June 2003.

Exposure: If the building is not leased or is partly leased, the building's value could be lower than \$39.5 million. The current estimate of the building's value if it is untenanted at the time the put option is exercised is in the order of \$14.5 million. As a consequence, the market value of the building could be around \$25 million lower than the put option purchase price.

Land Agent's Act 1994 and Conveyancers Act 1994

The Member for Davenport has lodged a Bill seeking to amend the *Land Agents Act 1994*, in relation to the provisions establishing the Agents Indemnity Fund. One of the central amendments proposed is to change 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.

Exposure: If the Bill is approved and implemented, it is estimated that it could cost the Fund approximately \$17 million.

South Australian Housing Trust (SAHT)

Under the SAHT's bond guarantee scheme, a guarantee for the bond is given to the landlord. In the event of a claim by a landlord, the Residential Tenancies Branch makes a payment. The SAHT then reimburses the Residential Tenancies Branch and the private rental customer becomes liable to the SAHT for the amount.

The SAHT pays interest at an agreed market determined rate to the Residential Tenancies Branch based on the daily outstanding balance of the bond guarantees issued.

Exposure: \$11 million

Under the Progressive Purchase Scheme, the SAHT owns portions of properties as tenant in common with other persons. Where the SAHT has signed agreements with lending institutions advancing persons mortgage monies, the SAHT can be called upon in cases of default to purchase the defaulter's interest at current market value. Approximately 177 of the properties included in the scheme are subject to mortgages with a collective loan balance of \$3.2 million. The collective value of the properties subject to mortgage is estimated to be \$13.9 million, based on the Valuer-General's overall capital value.

Exposure: \$3.2 million

The rental purchase and sale under agreement portfolio was transferred to HomeStart Finance on 10 December 1993 and due to conditions in some of the agreements, the SAHT remains responsible to make good for loss or damage to the subject properties for specific events. The SAHT remains the legal owner of these properties until they are transferred to the purchasers upon completion of their agreement. The properties included in the scheme

that are subject to indemnity clauses have a collective estimated replacement value of \$8.1 million. These properties together with the SAHT's and the South Australian Aboriginal Housing Authority's (AHA) rental properties are subject to an agency agreement with South Australian Government Captive Insurance Corporation and in the event of a claim will be indemnified by the Treasurer so as to limit the combined exposure of the SAHT and the AHA.

Exposure: Combined exposure of the SAHT and the AHA is limited to \$1 million.

Indemnities arising from joint venture land development initiatives

The Land Management Corporation (LMC) has a 50 per cent interest in the Golden Grove Development joint venture, involving the development of land at Golden Grove by LMC and Delfin Lend Lease Ltd (formerly Delfin Property Group Limited). The joint venture was established pursuant to the *Golden Grove (Indenture Ratification) Act 1984* and operates under the Indenture and associated joint venture and management agreements. Land was to remain in the ownership of LMC and was made available in stages to the joint venture. LMC progressively received an agreed payment for the land (as specified in the Joint Venture Agreement) and shared profits and losses equally with Delfin Lend Lease Ltd. Settlement of the sale of the final allotment occurred in August 2003. This has triggered the termination of the joint venture under the Project Completion Arrangements Deed.

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, the Government of South Australia and Telstra 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 \$8.0 million.

Deed of Guarantee by the Treasurer for the South Australian Soccer Federation's loan in respect of Hindmarsh Soccer Stadium

In 1996 and 1997, the Government of South Australia entered into formal arrangements with the South Australian Soccer Federation, regarding the capital redevelopments and fit out works associated with stage one construction of the Hindmarsh Stadium. The arrangements resulted in the South Australian Soccer Federation securing two loans from an external banking institution. As part of the arrangements, the loans of the South Australian Soccer Federation are underwritten by the Government. At 30 June 2003, the outstanding balance of the respective loans were \$3.5 million and \$1.7 million.

Over the term of the loan, the Department for Administrative and Information Services has met repayments for the loans totalling \$3.093 million. These amounts have been included in receivables, along with additional interest accruals of \$0.862 million in accordance with the loan underwriting arrangements.

Exposure: \$5.2 million

Police – Information relating to a crime

As at 30 June 2003, 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 regarding the construction of a netball stadium at Mile End. The arrangements resulted in the South Australian Netball Association securing a loan of \$3.5 million from an external banking institution to be applied with Government funding toward the stadium's construction.

As part of the arrangements, the loan to South Australian Netball Association is underwritten by the Government. At 30 June 2003, the outstanding balance of the loan was \$3.2 million.

Exposure: \$3.2 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

In the unlikely event that Generation Lessor Corporation (GLC) defaults under the leases with respect to limited specified undertakings resulting in the termination of the leases by the lessor, 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 lessees. The likelihood of these indemnities arising is considered remote.

GLC has entered into a cross border leasing arrangement over generation assets located at Port Augusta, South Australia with unrelated overseas based investors. As part of these arrangements, GLC has provided limited indemnities to third parties.

Exposure: The agreed rent refund as at 1 June 2004 was \$694.5 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 indemnities arising is considered 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 “geographic 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. Geographic 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. Geographic 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 agreed rent refund as at 1 June 2004 was \$3 billion.

Transmission Lessor Corporation

In the unlikely event that Transmission Lessor Corporation (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 indemnities arising is considered remote.

TLC has guaranteed certain payments and other obligations to third parties in relation to a cross border leasing arrangement in respect of the transmission network. As part of these arrangements, TLC has provided limited indemnities to third parties.

Exposure: The agreed rent refund as at 1 June 2004 was \$1.04 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 (BOOT) 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 its 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. 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.

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, certain guarantees and indemnities have been provided by the Minister for Industry, Trade and Regional Development as part of various Industry Assistance packages.

Provision of indemnities and undertakings by TransAdelaide and its subsidiaries

TransAdelaide has entered into a financial arrangement in respect of railcar assets with unrelated overseas based investors for which it received a facilitation fee. 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. No amount has been recognised because it is considered unlikely that any liability will arise.

TransAdelaide has a contingent liability in relation to the warranty of AUSTRICS' products and provision of their annual support. 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. Rehabilitation in the extractive industries is presently funded from contributions to the Extractive Areas Rehabilitation Fund (EARF) from a royalty on production. In effect this means that the Government is liable for all rehabilitation of extractive mining sites which have operated since 1972. It is anticipated that there is a significant level of unfunded liability resulting from the failure to increase the rate of contributions to the EARF over the years. The level of unfunded liability is difficult to estimate. A review of funding arrangements in the extractive industries to address this issue is presently in progress and this should result in a reduction of any unfunded liability.

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 the compliance activity referred to above, means the liability risks to Government are minimised.

Some work is being done by the Department of Primary Industries and Resources to determine the liabilities for Government but reliable estimates of financial impacts are difficult to make.

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.

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.

CHAPTER 8: SOUTH AUSTRALIAN ECONOMY

Overview

The South Australian economy continued to experience solid demand growth during the first half of 2003-04 albeit slowing from the very strong growth rates recorded during 2002-03. Consumer spending and business and dwelling investment continued to drive strong demand growth in the South Australian economy during 2003 while the recovery in farm output following the 2002-03 drought has boosted production.

Strong employment growth in South Australia through late 2002 and the first half of 2003 reduced the trend unemployment rate to 6.1 per cent — its lowest level for over 25 years. While employment declines were recorded in the ABS household survey through the second half of 2003 and early 2004, the employment trends were much more positive in March and April and more consistent with other labour market indicators such as the ANZ Bank job advertisements series and payroll tax revenues which have shown continued strength.

Partial economic indicators point toward a moderation in demand growth through the coming 12 to 18 months. Residential construction activity is expected to be maintained in the first half of 2004 while work in the pipeline is completed, but is then expected to decline in 2004-05. Business investment is expected to fall from what are historically very high levels. Consumer spending is expected to continue to grow, supported by continued employment and income growth, and relatively low interest rates.

Weaker domestic demand growth is anticipated to be partly offset by a recovery in overseas exports as world growth strengthens through 2004 and 2005, while interstate exports are expected to be supported by continued solid growth in the Australian economy. Overall growth in the South Australian economy is forecast to slow in 2004-05 following a strong result in 2003-04 driven in part by the farm sector recovery. Activity in the non-farm sector of the economy is anticipated to slow modestly in 2004-05 predominantly in the labour intensive housing construction sector.

Recent economic performance and outlook

During calendar 2003, South Australian State Final Demand (SFD) grew by a strong 6.0 per cent in real terms. Following a very strong result in 2002, business investment was the largest contributor to demand growth in 2003, growing by 20 per cent and contributing 2.5 percentage points to growth in SFD. Household consumption spending (which increased by 3.9 per cent) contributed 2.4 percentage points to growth. The housing construction sector continued to grow with real private dwelling investment increasing by 16 per cent and contributing 0.7 percentage points to SFD growth. Growth in housing construction was supported by continued low interest rates. Similarly, consumer spending was buoyed by factors such as relatively cheap credit, lower prices for imported items as a result of a higher Australian dollar, and flow-on demand for household goods from dwelling construction.

Farm output has rebounded strongly in 2003-04 after a weak result affected by drought in the previous year. The Australian Bureau of Agricultural and Resource Economics (ABARE) estimates that South Australia's winter crop production for 2003-04 will be 85 per cent higher than in 2002-03 — the third highest crop on record.

Growth in SFD moderated, however, through the course of 2003. A 9 per cent decline in business investment contributed to a small 0.2 per cent fall in SFD in the December quarter 2003. However, household consumer spending showed considerable strength toward the end of 2003, growing by 2.1 per cent during the December quarter 2003 after a fall of 0.5 per cent in the September quarter. Recent data on retail sales indicates this strength continued in the March quarter 2004 with real growth in retail sales of 0.6 per cent. Motor vehicle sales have also remained at strong levels. Forward looking indicators of the housing market, such as building approvals and housing finance, suggest a downturn in construction activity is in prospect although work in the pipeline is expected to maintain activity through the first half of 2004.

In 2003-04, the Department of Treasury and Finance expects South Australia's Gross State Product (GSP) to grow by around 4 per cent. This strong growth expectation includes the estimated impact of recovery in the farm sector.

South Australian employment growth is estimated to be 1½ per cent for 2003-04 — around half the rapid growth rate recorded in 2002-03. The Adelaide Consumer Price Index (CPI) is estimated to grow by 3 per cent in 2003-04 (in comparison with the Commonwealth Treasury's national estimate of 2¼ per cent).

International economic trends are likely to provide a positive environment for economic growth nationally and in South Australia over the coming year. World economic growth improved to 3.9 per cent in 2003 (from 3.0 per cent in 2002) according to International Monetary Fund (IMF) estimates. The advanced economies grew by only 2.1 per cent, but the emerging and developing countries grew by 6.1 per cent.

Major export markets are forecast by the IMF to experience solid to strong economic growth in 2004, with world GDP growth forecast to accelerate to 4.6 per cent. Output is expected to rise by 4.6 per cent in the United States, 3.4 per cent in Japan, 5.3 per cent in the newly industrialised Asian economies, 4.1 per cent in the Middle East, and 3.0 per cent in New Zealand. The United Kingdom is expected to grow by 3.5 per cent but the Euro Area remains a soft spot, with the IMF expecting growth of just 1.7 per cent.

The outlook for the Australian economy for the coming 12 to 18 months is one of moderating but still solid economic growth with continued low inflation. The Commonwealth Treasury's forecast for national GDP growth of 3½ per cent in 2004-05 represents a slight moderation from the expected 3¾ per cent growth in 2003-04. Non-farm GDP growth is expected to strengthen slightly from 3¼ per cent in 2003-04 to 3½ per cent in 2004-05. The Commonwealth Treasury expects exports to strengthen further in 2004-05, supported by the ongoing recovery in both global demand and farm production, offsetting the impact of the anticipated slowing in domestic demand growth. The Commonwealth's outlook for employment growth is 1¾ per cent in 2004-05 (matching the estimated 2003-04 growth rate) but is expected to ease to 1½ per cent growth through the year to the June quarter 2005 reflecting the slight moderation in forecast economic growth for 2004-05.

In 2004-05, South Australia's real GSP growth is expected to slow to 2½ per cent, from an estimated 4 per cent in 2003-04. This slowing largely reflects the fact that in 2003-04

production growth received a one-off boost from the recovery in the farm sector. SFD growth in South Australia is forecast to slow significantly to 2 per cent from an estimated 3¼ per cent in 2003-04. While business investment expenditure and housing construction activity are expected to slow, they should remain at relatively high levels. The impact on production growth of expected slower demand growth within the State is expected to be partly offset by stronger overseas exports reflecting the upturn in farm production and a strengthening international economic growth environment.

The forecast for South Australian employment growth in 2004-05 is ¾ per cent reflecting the slowing in demand growth. Projections for 2005-06 onwards are for continued employment growth of 1 per cent per annum.

Table 8.1 shows estimates, forecasts and projections of economic growth for South Australia and nationally. In the forward estimate years 2005-06 to 2007-08 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. Initiatives outlined in the Government's State Strategic Plan are designed to improve economic performance relative to these trends.

Table 8.1: Key economic indicators — Australia and South Australia real growth rates (% per annum)

	2002-03 Actual	2003-04 Estimate	2004-05 Forecast	2005-06 Projection	2006-07 Projection	2007-08 Projection
Australia^(a)						
GDP	2.9	3¼	3½	3½	3½	3½
DFD	6.2	5¾	4	n.a.	n.a.	n.a.
Employment	2.5	1¾	1¾	1½	1½	1½
CPI	3.1	2¼	2	2½	2½	2½
Non-farm GDP deflator	2.6	4	2½	2	2	2
South Australia^(b)						
GSP	0.1	4	2½	2¾	2¾	2¾
SFD	7.8	3¾	2	2¾	2¾	2¾
Employment	2.8	1½	¾	1	1	1
CPI	4.0	3	2	2½	2½	2½

(a) Commonwealth Treasury Budget Paper No 1, 2004-05

(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

The South Australian economy is highly reliant on both interstate and overseas trade. It is estimated that over half of South Australia's GSP is exported either to other Australian States and Territories or overseas markets. Unpublished interstate trade data, although of somewhat questionable statistical quality, is nonetheless indicative of the importance of interstate exports for the South Australian economy. As a share of GSP, South Australia's interstate exports are estimated to rank second behind Tasmania. This is not surprising as regional economies are more likely to depend on the trade of goods and services than larger States. In addition, South Australia's economy has a higher representation of manufactured and other traded goods industries than other States.

Strong national economic growth during 2003 would have supported growth in South Australia's interstate exports but the lack of reliable interstate trade data makes this difficult to verify. It is expected that demand growth in interstate export markets will remain relatively strong over the coming 12 months.

Despite improved global economic conditions South Australian overseas goods exports volumes fell in 2003 by 11 per cent. This compared with a decline of 2.1 per cent in the volume of national exports of goods and services. The decline largely reflects the negative impacts of drought, the impact of Severe Acute Respiratory Syndrome (SARS) on Asian markets, the Iraq war and the significant appreciation of the Australian dollar.

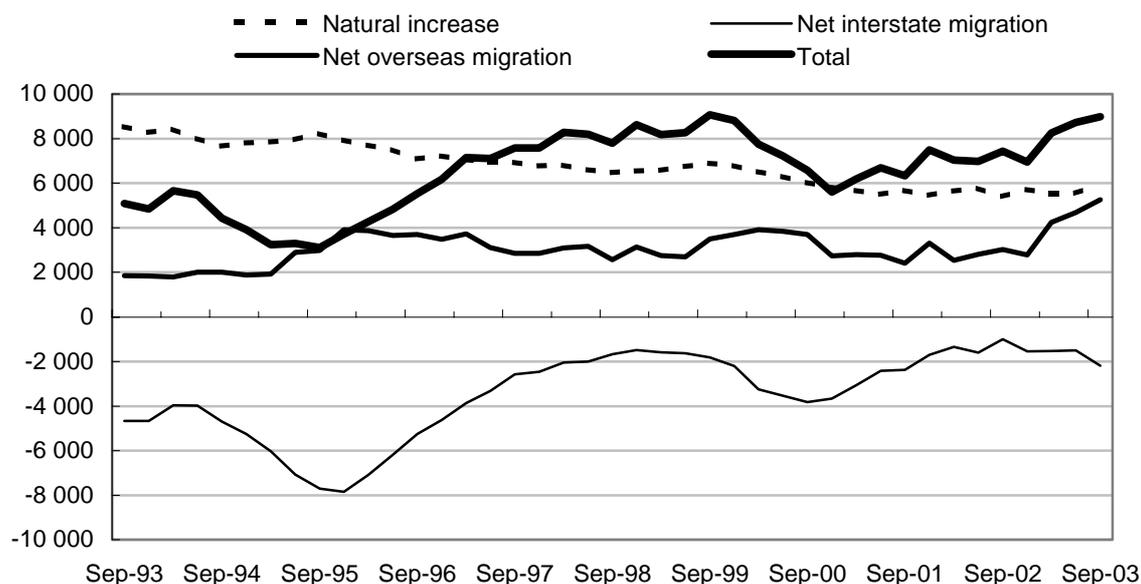
The currency appreciation led to goods export values falling even more than volumes (down 18 per cent in the year to March 2004 compared to a decrease of 11 per cent nationally). The value of South Australia's road vehicle and vehicle parts exports fell 24 per cent, wheat exports dropped 31 per cent, exports of metal and metal manufactures fell 17 per cent, and wine exports declined 6.0 per cent.

Overseas export volumes did, however, begin to recover during the second half of 2003 with the breaking of the drought. By the December quarter 2003 overseas export volumes were nearing pre-drought levels, and this recovery is expected to continue during 2004.

Population

South Australia's Estimated Resident Population grew 0.6 per cent (8984 persons) through the year to the September quarter 2003. This is the highest through the year growth since the September quarter 1999 and has been supported by a significant improvement in the level of net overseas migration. The net interstate migration outflow from South Australia, however, deteriorated slightly over the year to the September quarter 2003. South Australia's population growth rate remains well below the national growth rate (1.3 per cent), and is the lowest of all States.

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 2003, natural increase (births less deaths) remained the largest contributor to population growth in South Australia adding 5916 persons (up 9.5 per cent from the previous year). This was followed by overseas migration which recorded an inflow to the State of 5256 persons (up 74 per cent on the previous year and at the highest level since the year to September 1990). In the year to September 2003, net interstate migration accounted for a loss of 2188 persons (up from the loss of 992 persons in the previous year). The loss was, however, low compared to those of the mid 1990s.

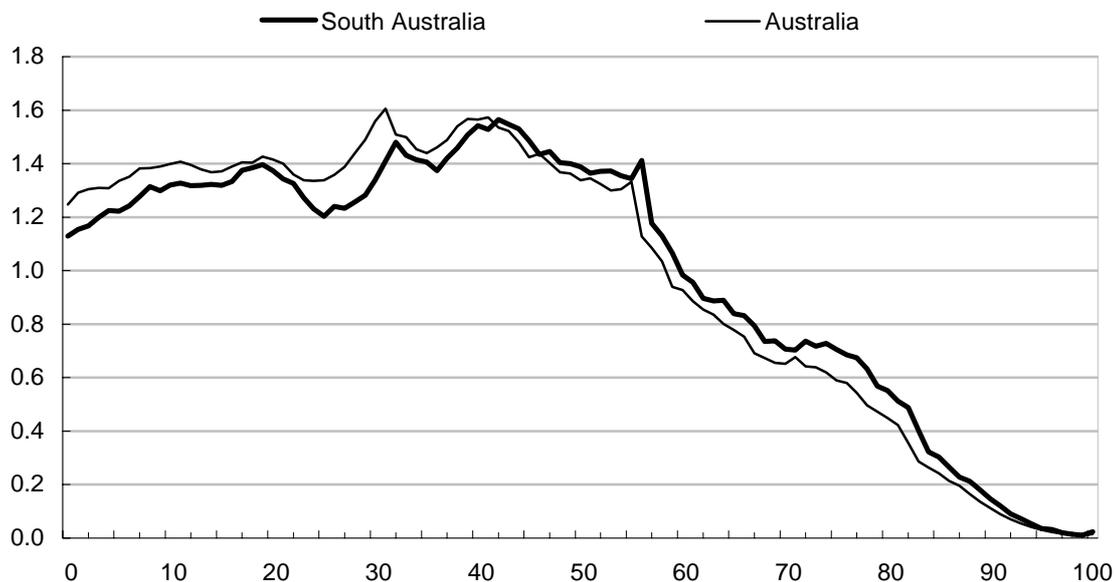
Table 8.2: Percentage point contributions to population growth – year to September 2003

	NSW	VIC	QLD	WA	SA	TAS	AUS
Natural increase	0.61	0.58	0.65	0.62	0.39	0.37	0.60
Total migration	0.21	0.74	1.66	0.91	0.21	0.74	0.67
<i>Overseas migration</i>	<i>0.69</i>	<i>0.74</i>	<i>0.63</i>	<i>0.99</i>	<i>0.35</i>	<i>0.17</i>	<i>0.67</i>
<i>Interstate migration</i>	<i>-0.48</i>	<i>0.00</i>	<i>1.03</i>	<i>-0.08</i>	<i>-0.14</i>	<i>0.57</i>	<i>0.00</i>
Total increase	0.81	1.33	2.31	1.53	0.59	1.11	1.27

Source: ABS, Australian Demographic Statistics, Catalogue No. 3101.0

South Australia currently has an older population structure than for Australia as a whole. At June 2003 the median age of South Australia's resident population was 38.2 years, the highest median age among the States. Australia-wide, the median age of the population was 36.1 years. People aged between 15 and 64 years accounted for 66.3 per cent of South Australia's population, above only Tasmania with 65.4 per cent, and below the national figure of 67.1 per cent.

Figure 8.2: Population age structure as at June 2003 (% of estimated resident population)



Source: ABS, Australian Demographic Statistics, Catalogue No. 3201.0

The South Australian Government has recognised the need for responsible population growth and in March 2004 unveiled a State Population Policy. The objectives of the Policy are to foster healthy ageing, encourage active social, cultural and economic participation for all, promote social integration of new arrivals, and ensure the long-term sustainability of the economy and the community.

To this end, South Australia will increasingly rely on migration to support population and labour force growth, augment skill development, and counter our continuing low fertility level. In this regard, South Australia will take full advantage of more favourable regional visa categories that have been negotiated with the Commonwealth and other State Governments. These new visas will be introduced in the second half of 2004.

Labour market trends

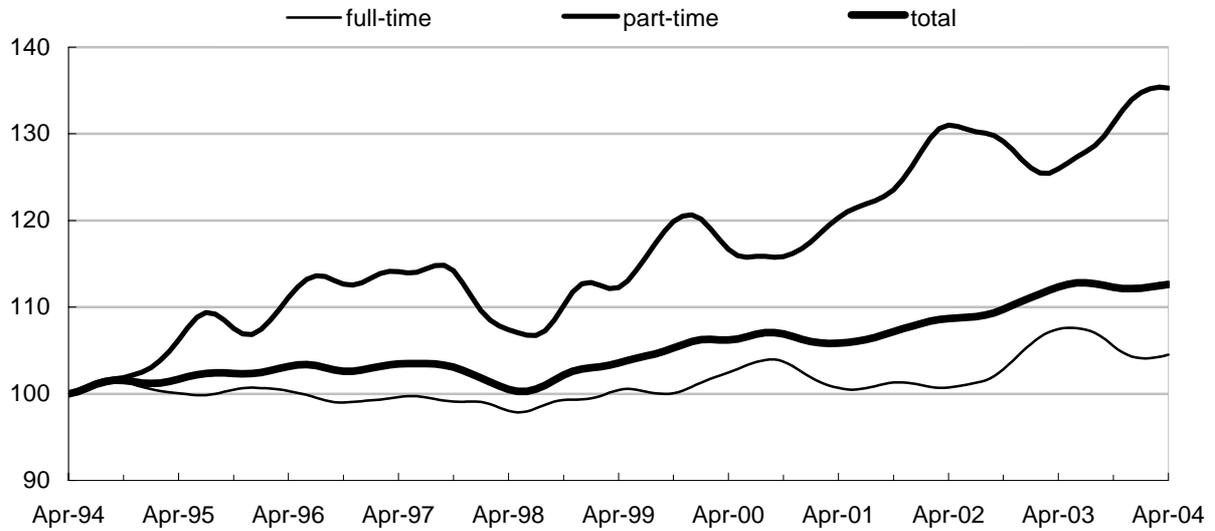
Australian Bureau of Statistics (ABS) household survey data suggest that total South Australian employment grew 0.2 per cent (or 1800 jobs) in trend terms during the year to April 2004. Strong growth in part-time employment (an increase of 7.4 per cent or 15 700 jobs) was partly offset by a decline in full-time employment (a decrease of 2.8 per cent or 13 900 jobs). The overall number of hours South Australians spent at work during March was, in original terms, 1.5 per cent lower than at the same time a year earlier.

This subdued employment growth performance was preceded by strong growth of 3.4 per cent in the previous year. Also, recent declines in full-time employment followed very strong growth in the preceding 12 months. Average annual employment growth over the two years to April 2004 was a very solid 1.8 per cent.

There are questions, however, about the veracity of recent Labour Force statistics. Weakness in South Australian labour force estimates through the second half of 2003 may be, at least in part, a statistical correction from the very strong employment growth reported in 2002-03. The March and April 2004 estimates tend to support this interpretation, as they indicated that employment rebounded by 6800 (in seasonally adjusted terms) over these two months, offsetting most of the decline reported over the previous seven months.

Furthermore, other measures of South Australian economic performance indicate solid performance and are inconsistent with the Labour Force Survey results reported through the first half of 2003-04. The ANZ Job Advertisement series remains at high levels suggesting continued strength in employers' hiring intentions. Consumer spending, housing construction and non-residential construction continue to show strength and crop production has recovered from the drought. Payroll tax revenues are also indicative of a stronger employment performance than suggested by official Labour Force Survey data.

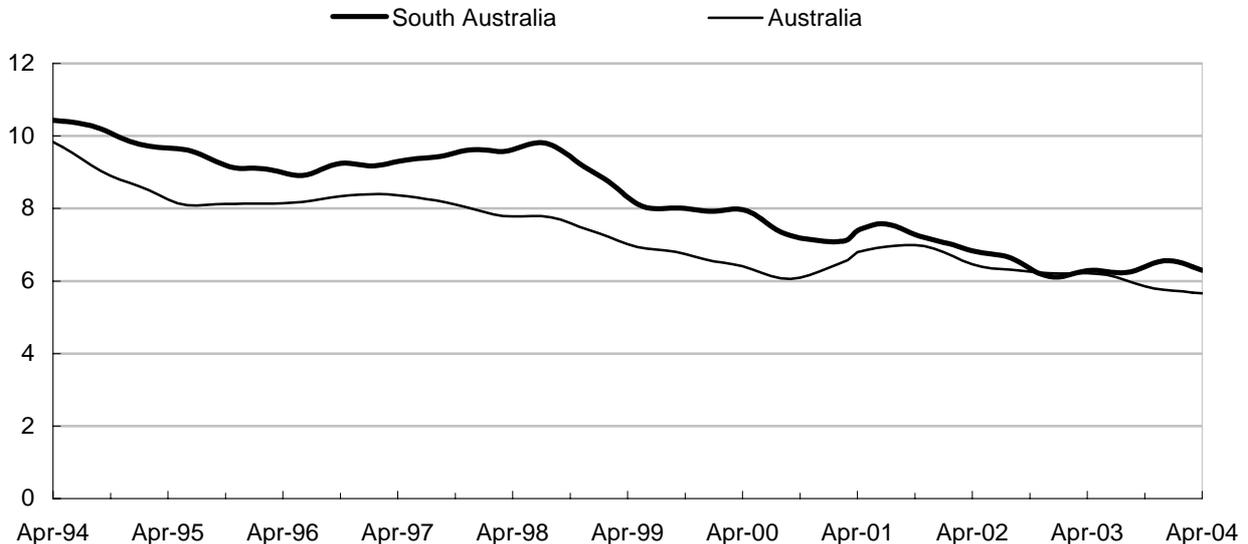
Figure 8.3: South Australian employment – trend (index numbers) (April 1994 = 100)



Source: ABS, Labour Force Australia, Catalogue No. 6202.0

The South Australian trend unemployment rate was 6.3 per cent in April 2004 — the same as a year earlier, and is 0.6 of a percentage point higher than the national trend unemployment rate of 5.7 per cent. The trend unemployment rate for South Australia had declined to 6.1 per cent in December 2002 and January 2003 — its lowest for more than 25 years.

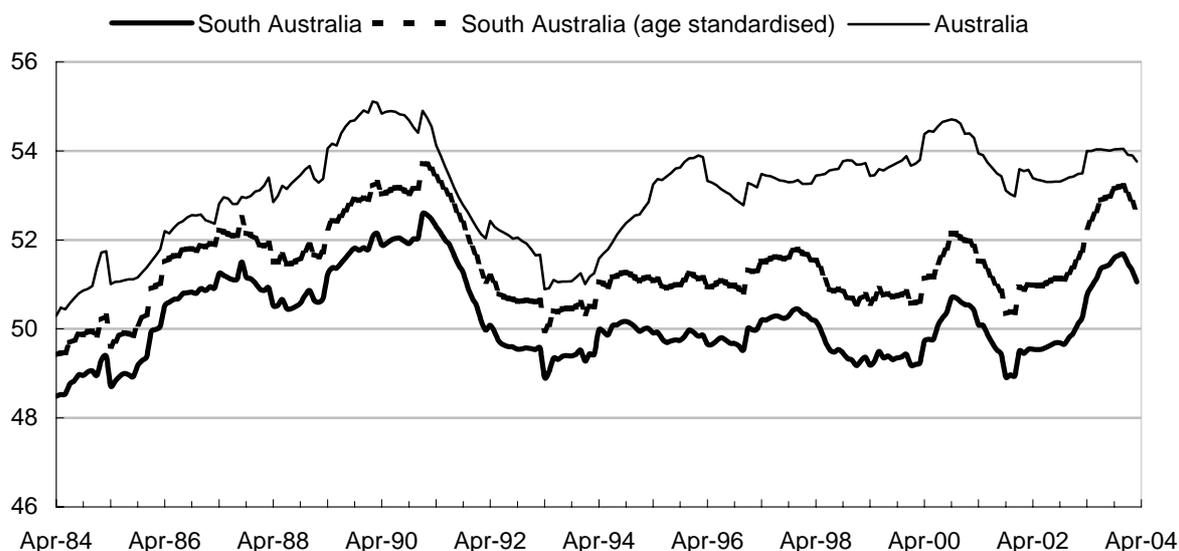
Figure 8.4: Unemployment rates for South Australia and Australia – trend per cent



Source: ABS, Labour Force Australia, Catalogue No. 6202.0

The proportion of working age South Australians who are employed is lower than the national average. South Australia has historically had a higher unemployment rate than the national average, although the differential was quite small over the course of 2002-03. The current differential is less than the historical average over the last 20 years.

Given that employment numbers may mask compositional issues in terms of the mix of full and part-time work, Figure 8.5 shows a full-time equivalent (FTE) to working age population ratio to enable a truer comparison of employment participation.

Figure 8.5: Ratio of FTE to civilian population aged 15 and over – moving annual averages per cent

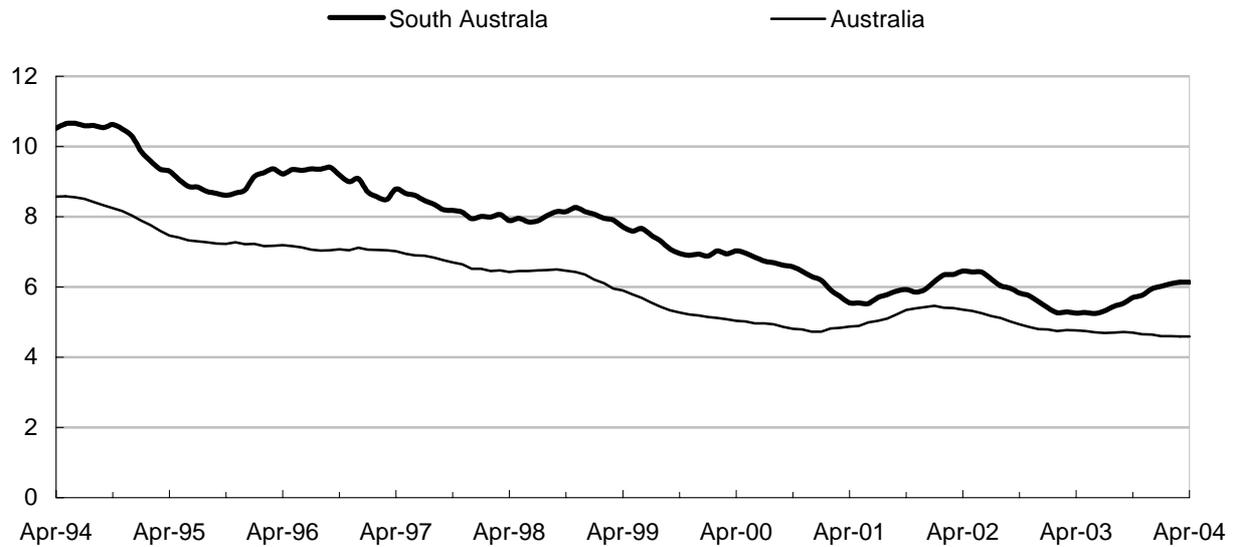
Source: ABS, Labour Force Australia, Catalogue No. 6202.0 & Treasury and Finance

In South Australia, this employment performance measure barely increased for a decade between the severe recession of the 1990s and the beginning of the 2000s. However, a significant improvement has occurred since late 2002 notwithstanding the recent downturn. When compared with Australia, South Australia has a much lower employment rate when measured by the unadjusted ratio of FTE to civilian population aged 15 and over. However, this is partly the result of South Australia's relatively older age structure. Standardising for South Australia's relatively older age structure (that is imposing Australia's age structure on South Australia's employment ratio) reduces the difference between the national and the South Australian measure but there remains a difference in employment participation in South Australia relative to the national average which is not explained by demographic factors.

In the 12 months to April 2004, an average 12 700 South Australians were estimated to be long-term unemployed (that is unemployed for 12 months or more), an 8.3 per cent decline from the previous 12 months. The long-term unemployed remain 26 per cent of total unemployed (compared with 23 per cent nationally).

Similar to overall trends in total employment, South Australia's youth employment market showed improvement through late 2002 and the first half of 2003. However, the youth full-time unemployment rate averaged 26 per cent in the year to April 2004 — 2.4 percentage points higher than it averaged in the previous 12 months. This measure reflects the unemployed youth looking for full-time work as a proportion of all youth in the full-time labour force (that is employed and unemployed). While the youth full-time unemployment rate draws significant media attention, it only reports on the labour market activities of approximately 23 per cent of the youth population. The youth full-time unemployment to population ratio therefore provides a better reflection of unemployment rates among the youth demographic as it reflects the unemployed youth looking for full-time work as a proportion of all 15-19 year olds. This measure averaged 6.1 per cent in the year to April, up 0.9 percentage points from the previous 12 months.

Figure 8.6: Ratio of youth full-time unemployment to youth population – moving annual average per cent

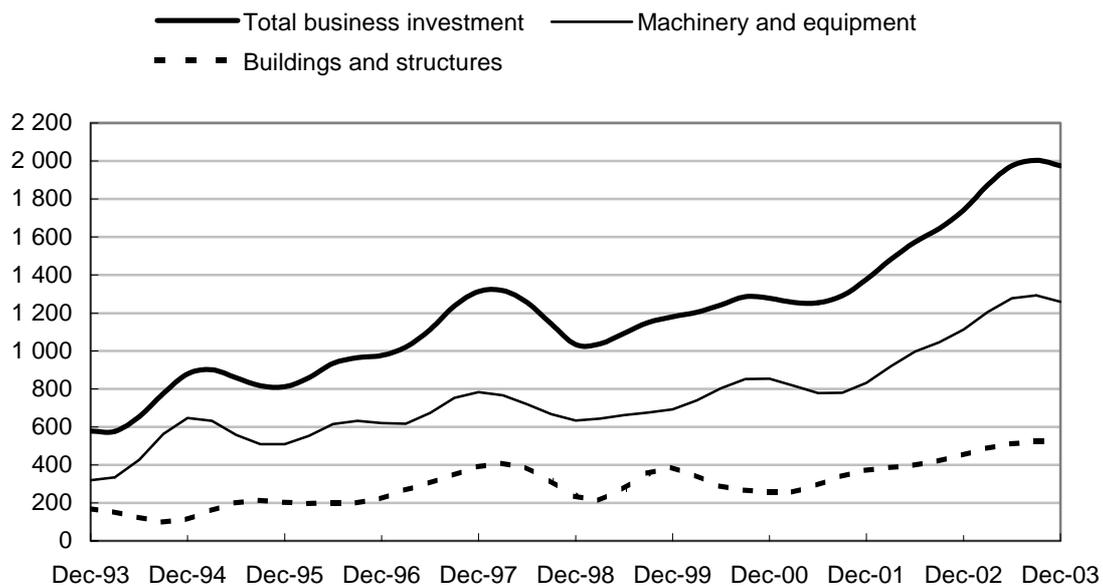


Source: ABS, Labour Force Australia, Catalogue No. 6202.0

Business investment

Although moderating in the second half of the year, business investment was a key driver of South Australian demand during calendar 2003. In real terms business investment increased by 20 per cent and contributed 2.5 percentage points to growth in State Final Demand (SFD). Investment in non-dwelling construction rose 24 per cent, while machinery and equipment investment increased 21 per cent. Investment in livestock declined 7.4 per cent during 2003 due largely to weak results in the first two quarters, reflecting the impact of the drought.

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 2003-04 were:

- Holden's \$1 billion dollar investment program to allow the expansion of car production at Elizabeth;
- Mitsubishi's \$450 million new generation sedan project;
- Kimberly Clark's \$220 million expansion of their tissue and paper towel mill in Millicent;
- Amcor's \$125 million wine-bottle manufacturing plant expansion;
- \$130 million redevelopment of Elizabeth City shopping centre by the CFS Gandel Retail Group;
- \$240 million upgrade of the Adelaide Airport undertaken by Adelaide Airport Ltd;
- Beringer Blass Wine Estate's \$70 million expansion of the Wolf Blass winery; and
- a \$62 million expansion of West Lakes Mall by AXA Australia.

While business investment has previously been a key driver of growth it is expected to moderate from previous high levels during 2003-04 and into 2004-05. Based on the ABS capital expenditure expectations survey conducted in January and February this year, capital expenditure plans for 2004-05 were lower than at the same time a year earlier for expenditure during 2003-04. A decline in machinery and equipment investment plans for 2004-05 is only partly offset by higher planned expenditure on non-residential construction. While some moderation is expected, it is anticipated that business investment will remain at historically high levels. ABS data suggests that the value of private non-residential work yet to be done was 221 per cent higher in the December quarter 2003 than a year earlier, although private engineering work yet to be done was 73 per cent lower through the year.

In the March quarter 2004 issue of *Investment Monitor*, Access Economics reported a \$603 million fall in the value of South Australian projects listed as committed or under consideration — 14 per cent lower than in the December quarter 2003 and 8.9 per cent lower than in the March quarter 2003.

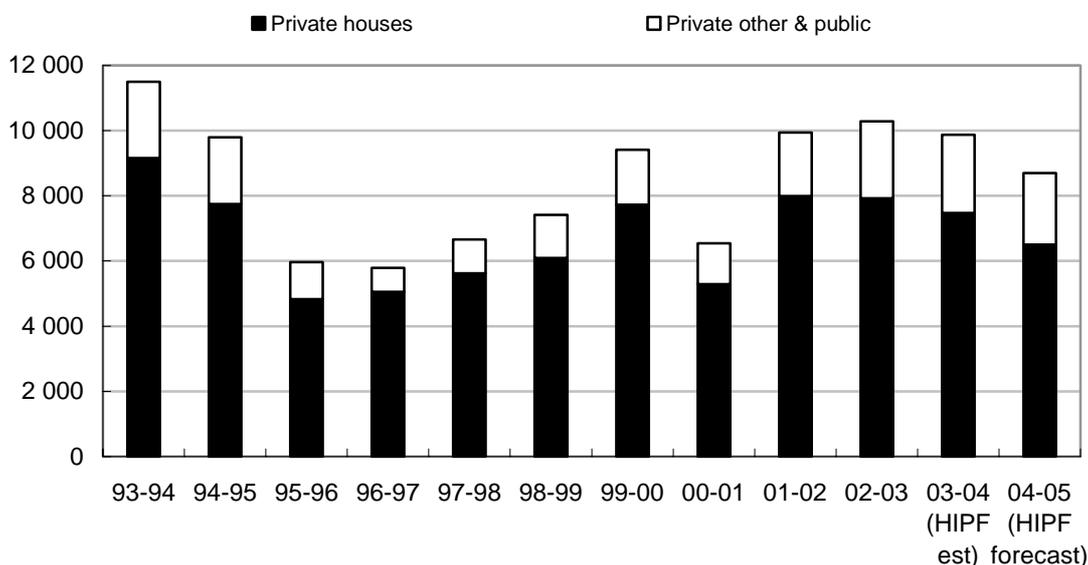
Housing sector

Housing construction remained an important contributor to economic activity during 2003. Dwelling investment grew by 16 per cent in real terms during the year to the December quarter 2003.

While recent declines in building approvals and housing finance commitments point to a slowdown in residential building activity, anecdotal evidence suggests a sufficient amount of work remains in the pipeline to sustain activity through the remainder of 2003-04. The Housing Industry Prospects Forum (HIPF) anticipates 9870 new dwelling commencements in 2003-04, down only 4.0 per cent from 2002-03, which was the strongest level of commencements for 9 years. As the backlog of activity declines, a slowdown in construction activity is expected. The HIPF is forecasting total dwelling commencements to fall by

12 per cent to 8700 in 2004-05, with private house commencements forecast to decline by 13 per cent to 6500.

Figure 8.8: Annual new dwelling commencements — South Australia



Source: ABS, New Dwelling Commencements, Catalogue No. 8750.0 and Housing Industry Prospect Forum forecasts

A combination of high demand for real estate and low official interest rates has seen the price of houses increase significantly over the year. According to the Real Estate Institute of Australia/AMP Home Loan Affordability Report, median established house prices in Adelaide increased 26 per cent through the year to the December quarter 2003, to \$240 000.

Costs and prices

Through the year to the March quarter 2004, the Adelaide Consumer Price Index (CPI) increased by 2.1 per cent. In the same period, the national CPI increase was 2.0 per cent. The major items contributing to the marginally above national average increase in the Adelaide CPI were above average increases in utility costs, hospital and medical services and lower than average declines in the cost of motor vehicles. The contribution of house prices and household furnishings, supplies and services was lower for Adelaide than nationally.

After official interest rates reached a low of 4.25 per cent in December 2001, the Reserve Bank of Australia announced two consecutive 25 basis point increases in May and June 2002. A further two increases were announced in November and December 2003 and the official cash rate now stands at 5.25 per cent. In its latest *Statement On Monetary Policy* (May 2004), the Reserve Bank suggested that a turning point in the housing market appeared to have been reached after the overheated levels of late last year. The Reserve Bank also said that this suggested a lessening of the main risks to the Australian economy and improved the prospects for more balanced growth in the period ahead.

Through the year to the March quarter 2004, South Australia's Wage Cost Index (WCI) grew by 4.0 per cent, the highest of all States. National growth was 3.6 per cent. In the previous 12 months to March 2003, South Australia's WCI had grown 3.7 per cent indicating a modest increase in underlying wages growth over the past 12 months.

South Australian wages growth of 4.0 per cent through the year to the March quarter 2004 was higher than the 2.1 per cent increase in Adelaide's Consumer Price Index, indicating solid growth in real wages over this period.

Electricity and gas

Electricity prices for small customers increased by 23.7 per cent on 1 January 2003 followed by a CPI increase of 1.7 per cent on 1 July 2003. On 31 December 2003 the Essential Services Commission of South Australia (ESCOSA) released the final report to their 2004 Electricity Standing Contract Price Review, which resulted in no further change to electricity retail standing offer prices. A small reduction in wholesale costs had been offset by increases in other charges.

The Government has recently appointed former State Treasurer and Energy Minister, Mr Stephen Baker, and former Energy Consumers' Council Chairman, Professor Richard Blandy, as part time Commissioners of ESCOSA. The Government subsequently announced the appointment of the Director of the National Institute of Labour Studies, Professor Sue Richardson, as a fourth Commissioner to the ESCOSA. The move away from a single-person regulator is in line with practices in other states.

Following the review of ESCOSA's pricing methodology by the Chair of the NSW Independent Pricing and Regulatory Tribunal, the Government has asked the expanded ESCOSA to undertake a 6-month review of electricity prices for small customers in South Australia and determine a medium term retail price path of not less than three years.

On 27 March 2004, the Government announced that up to \$64.5 million would be paid to specific gas entities to help shield energy customers from further price increases resulting from the introduction of gas full retail competition in South Australia.

Gas retail prices will be subject to intense scrutiny. The Government is confident that with this scrutiny, and the Government's direct intervention, retail gas prices will remain reasonable.

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 with their budget papers, and in a mid-year budget update and in budget outcome reporting. The tables in this Appendix present South Australian budget information on the UPF basis, reflecting the scope and presentation outlined below. The Australian Bureau of Statistics (ABS) also publishes annual government financial information for all Australian government jurisdictions on this basis each year.

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 ABS Government Financial Statistics (GFS) framework. ABS format and standards are in turn derived from international GFS frameworks such as the International Monetary Fund draft manual of *Government Financial Statistics* and the *United Nations System of National Accounts 1993* (SNA93).

The 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.

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 deficit in the cash GFS framework. However, the two measures are unlikely to coincide because of the differences arising when transactions are recorded in cash and accrual terms.

Cash surplus

The GFS cash surplus/deficit is a flow measure reported in the cash flow statement.

The cash surplus has four components. The first is net cash received from operating activities (comprising tax revenue plus grants and subsidies received plus revenue from sales of goods and services, less payments for goods and services, interest costs, and grants and subsidies paid). The second component is net cash inflow from sales and purchases of non-financial assets. The third component (in the case of public non financial corporations and public financial corporations) is the level of distributions paid. And the fourth component removes the value of imputed purchases of non-financial assets acquired under finance leases and similar arrangements, which is included in the second component.

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 can be obtained from 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 groups the Australian public sector into three institutional subsectors: the general government sector, the public non-financial corporations sector; and the public financial corporations sector.

General government comprises all government departments, offices and other entities engaged in providing services free of charge or at prices significantly below their cost of production.

Public non-financial corporations are entities mainly engaged in the production of goods and services for sale in the marketplace at prices that aim to recover most of the costs involved. 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 actuals

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 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 GFS by 30 June 2005; and
- adoption of the International Financial Reporting Standards (IFRS) by 2005.

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. In addition, governments must meet the Australian Loan Council's requirement to present budgets and outcomes using the ABS 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.

Adoption of IFRS

IFRS 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 new IFRS will be for the financial year commencing 1 July 2005. Requirements to provide one-year comparatives will effectively bring forward the application of IFRS to opening balances at 1 July 2004.

It is proposed there will be four statements for reporting:

- statement of financial performance/income statement (name to be determined);
- statement of financial position/balance sheet (name to be determined);
- cash flow statement; and
- statement of equity.

It is proposed in Exposure Draft 129 *Disclosing the Impact of Adopting AASB Equivalents to IASB Standards* that a narrative of the expected key differences in accounting policies as a result of the adoption of IFRS be disclosed in the notes to the 30 June 2004 annual financial reports. An explanation of how the entity is managing the transition to IFRS is also to be

APPENDIX A

included. The proposed disclosure requirements for 30 June 2005 will require an additional disclosure of a dollar value impact on the 30 June 2005 reports where it is known or can be reliably estimated.

UNIFORM PRESENTATION FRAMEWORK TABLES

Table A.1 General government sector operating statement

	2003-04 Estimated result \$m	2004-05 Budget \$m	2005-06 Estimate \$m	2006-07 Estimate \$m	2007-08 Estimate \$m
GFS revenue					
Taxation revenue	2 783	2 780	2 798	2 917	3 009
Current grants	4 916	5 051	5 222	5 439	5 685
Capital grants	165	177	137	131	151
Sales of goods and services	1 049	1 101	1 120	1 131	1 163
Interest income	159	161	162	171	186
Other	722	727	730	652	657
Total revenue	9 793	9 997	10 169	10 441	10 851
<i>less</i>					
GFS expenses					
Gross operating expenses					
Employee expenses	4 271	4 406	4 528	4 652	4 800
Depreciation	427	452	448	457	465
Other operating expenses	2 310	2 491	2 508	2 541	2 675
Nominal superannuation interest expense	354	338	343	347	351
Other interest expenses	269	263	249	226	213
Other property expenses	—	—	—	—	—
Current transfers	1 868	1 914	1 962	2 023	2 076
Capital transfers	29	17	15	19	17
Total expenses	9 528	9 881	10 051	10 265	10 596
<i>equals</i>					
GFS net operating balance	264	116	118	176	255
<i>less</i>					
Net acquisition of non-financial assets					
Purchases of non-financial assets	563	627	560	599	655
less Sales of non-financial assets	138	111	120	103	100
less Depreciation	427	452	448	457	465
plus Change in inventories	2	—	—	—	—
plus Other movements in non-financial assets	—	—	—	—	—
<i>equals</i> Total net acquisition of non-financial assets	—	64	-8	39	90
<i>equals</i>					
GFS net lending	264	52	126	137	165

Table A.2 Public non-financial corporations (public trading enterprises) sector operating statement

	2003-04 Estimated result \$m	2004-05 Budget \$m	2005-06 Estimate \$m	2006-07 Estimate \$m	2007-08 Estimate \$m
GFS revenue					
Taxation revenue	—	—	—	—	—
Current grants and subsidies	541	572	517	530	539
Capital grants	17	31	19	19	19
Sales of goods and services	1 314	1 310	1 261	1 229	1 260
Interest income	16	17	18	18	19
Other	70	91	92	90	91
Total revenue	1 959	2 020	1 907	1 886	1 928
<i>less</i>					
GFS expenses					
Gross operating expenses					
Employee expenses	199	211	216	221	227
Depreciation	208	217	222	227	230
Other operating expenses	1 051	1 027	1 010	973	990
Nominal superannuation interest expense	—	—	—	—	—
Other interest expenses	143	144	154	147	145
Other property expenses	361	298	291	290	300
Current transfers	27	43	27	25	26
Capital transfers	6	6	3	3	3
Total expenses	1 994	1 946	1 922	1 884	1 921
<i>equals</i>					
GFS net operating balance	-35	75	-16	1	8
<i>less</i>					
Net acquisition of non-financial assets					
Purchases of non-financial assets	399	358	356	343	258
less Sales of non-financial assets	104	103	100	117	109
less Depreciation	208	217	222	227	230
plus Change in inventories	—	—	—	—	—
plus Other movements in non-financial assets	—	—	—	—	—
equals Total net acquisition of non-financial assets	88	38	34	—	-82
<i>equals</i>					
GFS net lending	-123	37	-50	2	89

Table A.3 Non-financial public sector operating statement

	2003-04 Estimated result \$m	2004-05 Budget \$m	2005-06 Estimate \$m	2006-07 Estimate \$m	2007-08 Estimate \$m
GFS revenue					
Taxation revenue	2 609	2 586	2 600	2 717	2 805
Current grants	4 917	5 031	5 219	5 439	5 685
Capital grants	182	208	156	149	169
Sales of goods and services	2 224	2 252	2 225	2 216	2 272
Interest income	117	122	126	136	153
Other	430	518	525	445	446
Total revenue	10 478	10 716	10 849	11 102	11 531
<i>less</i>					
GFS expenses					
Gross operating expenses					
Employee expenses	4 432	4 577	4 703	4 831	4 984
Depreciation	635	669	669	684	696
Other operating expenses	3 079	3 194	3 196	3 203	3 346
Nominal superannuation interest expense	354	338	343	347	351
Other interest expenses	353	350	347	320	305
Other property expenses	6	10	2	2	6
Current transfers	1 355	1 364	1 468	1 516	1 561
Capital transfers	35	23	18	22	19
Total expenses	10 248	10 525	10 747	10 925	11 268
<i>equals</i>					
GFS net operating balance	230	191	102	177	263
<i>less</i>					
Net acquisition of non-financial assets					
Purchases of non-financial assets	952	983	916	942	913
less Sales of non-financial assets	231	212	220	220	209
less Depreciation	635	669	669	684	696
plus Change in inventories	2	—	—	—	—
plus Other movements in non-financial assets	—	—	—	—	—
equals Total net acquisition of non-financial assets	88	102	26	38	8
<i>equals</i>					
GFS net lending	142	89	76	139	255

Table A.4 General government sector balance sheet

	2003-04 Estimated result \$m	2004-05 Budget \$m	2005-06 Estimate \$m	2006-07 Estimate \$m	2007-08 Estimate \$m
Assets					
Financial assets					
Cash and deposits	2 247	2 127	2 234	2 367	2 611
Advances paid	1 142	1 117	1 063	1 045	1 021
Investments, loans and placements	98	100	102	104	107
Other non-equity assets	287	287	270	268	262
Equity	11 457	11 695	11 852	12 110	12 341
Total financial assets	15 231	15 327	15 521	15 895	16 342
Non-financial assets					
Land and fixed assets	11 747	11 784	11 817	11 892	12 019
Other non-financial assets	87	90	93	96	98
Total non-financial assets	11 834	11 873	11 910	11 988	12 117
Total assets	27 065	27 200	27 431	27 883	28 459
Liabilities					
Deposits held	356	413	364	375	399
Advances received	734	720	677	662	647
Borrowing	2 780	2 526	2 422	2 324	2 264
Unfunded superannuation liability	5 756	5 837	5 911	5 978	6 036
Other employee entitlements and provisions	1 413	1 394	1 426	1 452	1 485
Other non-equity liabilities	800	781	797	809	823
Total liabilities	11 838	11 670	11 597	11 601	11 655
Net worth					
Net financial worth (a)	3 393	3 656	3 923	4 294	4 687
Net debt (b)	382	314	64	-155	-429

(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.

**Table A.5 Public non-financial corporations (public trading enterprises) sector
balance sheet**

	2003-04 Estimated result \$m	2004-05 Budget \$m	2005-06 Estimate \$m	2006-07 Estimate \$m	2007-08 Estimate \$m
Assets					
Financial assets					
Cash and deposits	224	280	229	237	267
Advances paid	19	24	21	5	1
Investments, loans and placements	12	14	16	17	18
Other non-equity assets	186	182	186	192	192
Equity	21	19	17	14	11
Total financial assets	463	519	469	464	489
Non-financial assets					
Land and fixed assets	13 255	13 381	13 498	13 576	13 572
Other non-financial assets	44	44	44	46	48
Total non-financial assets	13 299	13 425	13 543	13 622	13 621
Total assets	13 761	13 944	14 011	14 086	14 109
Liabilities					
Deposits held	9	8	9	9	10
Advances received	965	939	911	897	876
Borrowing	1 422	1 475	1 510	1 497	1 443
Unfunded superannuation liability	—	—	—	—	—
Other employee entitlements and provisions	69	71	74	77	79
Other non-equity liabilities	344	357	356	364	382
Total liabilities	2 809	2 851	2 859	2 843	2 789
Net worth	10 952	11 093	11 152	11 243	11 320
Net financial worth (a)	-2 347	-2 332	-2 390	-2 379	-2 301
Net debt (b)	2 140	2 105	2 163	2 145	2 042

(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.

Table A.6 Non-financial public sector balance sheet

	2003-04 Estimated result \$m	2004-05 Budget \$m	2005-06 Estimate \$m	2006-07 Estimate \$m	2007-08 Estimate \$m
Assets					
Financial assets					
Cash and deposits	2 317	2 196	2 300	2 430	2 681
Advances paid	196	202	173	153	146
Investments, loans and placements	111	114	118	122	124
Other non-equity assets	279	273	274	277	269
Equity	526	621	716	882	1 032
Total financial assets	3 429	3 406	3 582	3 863	4 252
Non-financial assets					
Land and fixed assets	25 002	25 164	25 315	25 468	25 591
Other non-financial assets	31	31	33	34	36
Total non-financial assets	25 032	25 195	25 348	25 503	25 627
Total assets	28 461	28 601	28 930	29 365	29 879
Liabilities					
Deposits held	211	210	210	211	211
Advances received	734	720	677	662	647
Borrowing	4 202	4 001	3 932	3 821	3 707
Unfunded superannuation liability	5 756	5 837	5 911	5 978	6 036
Other employee entitlements and provisions	1 482	1 464	1 499	1 528	1 563
Other non-equity liabilities	850	840	867	884	912
Total liabilities	13 234	13 072	13 096	13 083	13 076
Net worth					
Net financial worth (a)	-9 806	-9 666	-9 514	-9 221	-8 824
Net debt (b)	2 522	2 418	2 227	1 990	1 613

(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.

Table A.7 General government sector cash flow statement

	2003-04 Estimated result \$m	2004-05 Budget \$m	2005-06 Estimate \$m	2006-07 Estimate \$m	2007-08 Estimate \$m
Cash receipts from operating activities					
Taxes received	2 783	2 780	2 798	2 917	3 009
Receipts from sales of goods and services	1 046	1 092	1 116	1 124	1 161
Grants received	5 043	5 192	5 367	5 568	5 833
Other receipts	863	889	886	815	834
Total receipts	9 736	9 953	10 166	10 424	10 836
Cash payments for operating activities					
Payment for goods and services	-6 746	-7 137	-7 224	-7 399	-7 680
Grants and subsidies paid	-1 861	-1 804	-1 783	-1 800	-1 816
Interest paid	-268	-262	-248	-226	-212
Other payments	-57	-144	-217	-266	-303
Total payments	-8 932	-9 348	-9 473	-9 690	-10 011
Net cash flows from operating activities	804	605	694	734	825
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	138	111	120	103	100
Purchases of non-financial assets (a)	-560	-625	-558	-597	-653
Net cash flows from investments in non-financial assets	-423	-514	-438	-494	-553
Net cash flows from investments in financial assets for policy purposes (b)	29	25	55	—	25
Net cash flows from investments in financial assets for liquidity purposes	-10	-28	-12	-9	-6
Net cash flows from financing activities					
Advances received (net)	-46	-14	-43	-15	-15
Borrowing (net)	-208	-256	-105	-99	-60
Deposits received (net)	-38	58	-49	11	23
Dividends paid	—	—	—	—	—
Other financing (net)	—	—	—	—	—
Net cash flows from financing activities	-292	-213	-197	-102	-52
Net increase in cash held	108	-123	102	129	239
Net cash from operating activities and investments in non-financial assets	381	92	256	240	273
Distributions paid	—	—	—	—	—
Finance leases and similar arrangements (c)	—	—	—	—	—
Surplus	381	92	256	240	273

(a) The ABS disaggregates this item into new and secondhand non-financial assets.

(b) Includes equity acquisitions, disposals and privatisations (net).

(c) Finance leases are shown as a negative as they are deducted in compiling the surplus/deficit.

**Table A.8 Public non-financial corporations (public trading enterprises) sector
cash flow statement**

	2003-04 Estimated result \$m	2004-05 Budget \$m	2005-06 Estimate \$m	2006-07 Estimate \$m	2007-08 Estimate \$m
Cash receipts from operating activities					
Taxes received	—	—	—	—	—
Receipts from sales of goods and services	1 369	1 375	1 320	1 289	1 324
Grants/subsidies received	542	572	517	531	540
Other receipts	50	62	64	60	62
Total receipts	1 961	2 009	1 901	1 879	1 926
Cash payments for operating activities					
Payment for goods and services	-1 091	-1 056	-1 020	-986	-1 001
Grants and subsidies paid	-55	-59	-64	-52	-52
Interest paid	-149	-149	-154	-153	-151
Other payments	-169	-193	-194	-197	-200
Total payments	-1 463	-1 457	-1 432	-1 388	-1 404
Net cash flows from operating activities	498	552	469	492	522
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	104	123	124	117	109
Purchases of non-financial assets (a)	-382	-328	-337	-324	-239
Net cash flows from investments in non-financial assets	-278	-204	-212	-208	-130
Net cash flows from investments in financial assets for policy purposes (b)	-5	-4	10	15	15
Net cash flows from investments in financial assets for liquidity purposes	-3	-2	-2	-1	-1
Net cash flows from financing activities					
Advances received (net)	-24	-26	-28	5	-21
Borrowing (net)	111	33	1	-11	-65
Deposits received (net)	—	—	—	—	—
Dividends paid	-336	-292	-289	-284	-289
Other financing (net)	—	—	—	—	—
Net cash flows from financing activities	-249	-285	-316	-290	-374
Net increase in cash held	-37	57	-52	8	31
Net cash from operating activities and investments in non-financial assets					
Distributions paid	336	292	289	284	289
Finance leases and similar arrangements (c)	—	-20	-25	—	—
Surplus	-116	36	-57	—	103

(a) The ABS disaggregates this item into new and secondhand non-financial assets.

(b) Includes equity acquisitions, disposals and privatisations (net).

(c) Finance leases are shown as a negative as they are deducted in compiling the surplus/deficit.

Table A.9 Non-financial public sector cash flow statement

	2003-04 Estimated result \$m	2004-05 Budget \$m	2005-06 Estimate \$m	2006-07 Estimate \$m	2007-08 Estimate \$m
Cash receipts from operating activities					
Taxes received	2 609	2 586	2 600	2 717	2 805
Receipts from sales of goods and services	2 277	2 307	2 280	2 268	2 332
Grants received	5 045	5 184	5 353	5 568	5 833
Other receipts	511	590	595	527	545
Total receipts	10 441	10 666	10 827	11 080	11 515
Cash payments for operating activities					
Payment for goods and services	-7 703	-8 037	-8 092	-8 244	-8 531
Grants and subsidies paid	-1 376	-1 283	-1 317	-1 321	-1 329
Interest paid	-359	-355	-347	-326	-312
Other payments	-38	-125	-198	-248	-286
Total payments	-9 475	-9 801	-9 954	-10 139	-10 458
Net cash flows from operating activities	966	866	873	941	1 058
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	231	232	245	220	209
Purchases of non-financial assets (a)	-932	-950	-895	-921	-892
Net cash flows from investments in non-financial assets	-701	-718	-650	-701	-683
Net cash flows from investments in financial assets for policy purposes (b)	-1	-5	37	20	18
Net cash flows from investments in financial assets for liquidity purposes	-13	-29	-14	-10	-7
Net cash flows from financing activities					
Advances received (net)	-46	-14	-43	-15	-15
Borrowing (net)	-98	-223	-103	-110	-125
Deposits received (net)	-1	—	—	—	—
Dividends paid	—	—	—	—	—
Other financing (net)	—	—	—	—	—
Net cash flows from financing activities	-144	-238	-146	-125	-140
Net increase in cash held	107	-125	100	125	247
Net cash from operating activities and investments in non-financial assets	265	147	223	240	375
Distributions paid	—	—	—	—	—
Finance leases and similar arrangements (c)	—	-20	-25	—	—
Surplus	265	127	199	240	375

(a) The ABS disaggregates this item into new and secondhand non-financial assets.

(b) Includes equity acquisitions, disposals and privatisations (net).

(c) Finance leases are shown as a negative as they are deducted in compiling the surplus/deficit.

Table A.10 General government sector taxes

	2003-04 Estimated result \$m	2004-05 Budget \$m	2005-06 Estimate \$m	2006-07 Estimate \$m	2007-08 Estimate \$m
Taxes on employers' payroll and labour force	712	720	755	793	833
Taxes on property					
Land taxes	203	267	264	271	281
Stamp duties on financial and capital transactions	670	528	520	550	583
Financial institutions' transaction taxes	60	60	5	—	—
Other (a)	114	123	125	127	130
Total	1 046	979	914	948	993
Taxes on the provision of goods and services					
Excises and levies	5	5	5	5	5
Taxes on gambling	377	405	431	454	437
Taxes on insurance	273	287	296	304	314
Total	655	697	732	763	755
Taxes on use of goods and performance of activities					
Motor vehicle taxes	369	384	397	412	427
Total	369	384	397	412	427
Total GFS taxation revenue	2 783	2 780	2 798	2 917	3 009

(a) Excludes taxes paid by general government units.

Table A.11 General government sector expenses by function (\$million)^(a)

	2003-04 Budget ^(b)	2003-04 Estimated result	2004-05 Estimate
General Public Services	278	298	312
Government superannuation benefits	—	8	—
Other general public services	278	290	312
Defence	—	—	—
Public order and safety	886	894	950
Police and fire protection services	502	512	546
Law courts and legal services	215	212	226
Prisons and corrective services	138	138	147
Other public order and safety	31	32	32
Education	2 350	2 422	2 477
Primary and secondary education	1 870	1 944	1 984
Tertiary education	351	346	362
Pre-school education and education not definable by level	107	109	111
Transportation of students	17	18	18
Education n.e.c.	5	5	2
Health	2 374	2 512	2 659
Acute care institutions	1 899	1 975	2 098
Mental health institutions	na	na	na
Nursing homes for the aged	na	na	na
Community health services	220	273	288
Public health services	245	255	261
Pharmaceuticals, medical aids and appliances	na	na	na
Health research	na	na	na
Health administration n.e.c.	11	10	13
Social security and welfare	470	526	542
Social security	102	126	117
Welfare services	322	353	376
Social security and welfare services n.e.c.	46	48	49
Housing and community amenities	692	706	725
Housing and community development	372	396	387
Water supply	122	122	111
Sanitation and protection of the environment	183	173	213
Other community amenities	16	16	15
Recreation and culture	229	241	252
Recreation facilities and services	103	109	107
Cultural facilities and services	113	119	131
Broadcasting and film production	6	6	6
Recreation and culture n.e.c.	8	7	8

Table A.11 General government sector expenses by function ^(a)(continued)

	2003-04 Budget ^(b)	2003-04 Estimated result	2004-05 Estimate
Fuel and energy	33	105	41
Fuel affairs and services	17	82	20
Electricity and other energy	2	2	3
Fuel and energy n.e.c.	15	21	18
Agriculture, forestry, fishing and hunting	152	155	163
Agriculture	148	151	159
Forestry, fishing and hunting	4	4	4
Mining and mineral resources other than fuels; manufacturing; and construction	119	111	153
Mining and mineral resources other than fuels	28	16	49
Manufacturing	4	6	6
Construction	87	89	98
Transport and communications	617	613	714
Road transport	298	296	377
Water transport	29	29	29
Rail transport	8	8	12
Air transport	—	—	—
Pipelines	na	na	na
Other transport	238	241	239
Communications	44	38	57
Other economic affairs	241	244	205
Storage, saleyards and markets	na	na	na
Tourism and area promotion	34	37	36
Labour and employment affairs	41	42	43
Other economic affairs	166	165	126
Other purposes	662	701	688
Public debt transactions	214	235	217
General purpose inter-government transactions	—	—	—
Natural disaster relief	—	—	—
Nominal superannuation interest expense	337	354	338
Other purposes n.e.c.	111	112	133
Total GFS expenses	9 103	9 528	9 881

- (a) 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).
- (b) Consistent with ABS standards, funded superannuation expenses have been allocated to the relevant functional category (for example, the accruing superannuation for teachers is included as part of total education expenses). However in the 2003-04 Budget Statement all superannuation expenses were recorded as part of the general public services function. The original 2003-04 Budget estimates have been recast on this basis to ensure consistency.

Table A.12 General government sector capital by function (\$million)

	2003-04 Estimated result	2004-05 Budget
General public services	137	139
Defence	—	—
Public order and safety	71	67
Education	49	58
Health	94	115
Social security and welfare	5	6
Housing and community amenities	21	23
Recreation and culture	18	4
Fuel and energy	—	1
Agriculture, forestry, fishing and hunting	6	9
Mining and mineral resources other than fuels; manufacturing; and construction	1	1
Transport and communications	156	200
Other economic affairs	—	—
Other purposes	1	—
Total capital	560	625

Table A.13 Reconciliation of general government net worth

	2003-04 Estimated Result	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Net worth at beginning of year	15 288	15 227	15 529	15 834	16 282
Change in net worth from operating transactions:					
Net operating balance	264	116	118	176	255
Change in net worth from other economic flows:					
Movement in retained earnings of PFCs	132	71	82	155	139
Movement in retained earning of PNFCs	764	141	59	71	77
Revaluation of superannuation liability and other superannuation items	-1193	16	17	19	21
Inclusion of SA Ambulance Service net worth for the first time	38	—	—	—	—
Other revaluation adjustments	-66	-42	29	27	31
<i>Subtotal</i>					
Total other economic flows	-325	186	187	272	267
Net worth at year end	15 227	15 529	15 834	16 282	16 804

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 2004-05, for all jurisdictions and in aggregate, were reviewed and endorsed by the 143rd meeting of the Australian Loan Council on 26 March 2004.

South Australia's nomination, budget and estimated outcome LCAs for 2003-04 are shown in Table A.14, with nomination and budget-time LCAs for 2004-05 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 \$602 million for 2003-04. This is significantly higher than the 2003-04 Budget (May 2003) estimated surplus of \$197 million, and is due primarily to higher than anticipated general government revenue receipts and better than anticipated returns from Funds SA (which impact on the superannuation memorandum item). On the basis of these estimates, South Australia's 2003-04 LCA outcome will exceed the 2 per cent of total revenue tolerance limit applied to the May 2003 budget-time LCA.

South Australia's 2004-05 Budget LCA, detailed in Table A.15, is an estimated \$339 million surplus. This is a considerable decrease from the \$481 million surplus nominated in March of this year for the Treasurers' conference, but is within the LCA Nomination tolerance limit of \$205 million. The change stems primarily from increases in expenditure in both the general government and non-financial public corporations sectors since the Mid-Year Budget Review, upon which the LCA nomination was based.

Table A.14 Loan Council allocation 2003-04 ^(a) (\$million)

	Nomination (March 2003)	Budget (May 2003)	Estimated result (May 2004)
General government sector cash deficit/surplus	-81	-83	-381
PNFC sector cash deficit/surplus	-40	112	116
Total non financial public sector cash deficit/surplus ^(b)	-121	29	-265
Net cash flows from investments in financial assets for policy purposes ^(c)	-2	7	1
Adjusted total non financial public sector deficit/surplus	-123	36	-265
Memorandum items ^(d)			
Operating leases ^(e)	-34	-33	-34
Recourse asset sales	0	0	0
Superannuation ^(f)	-225	-238	-410
Local government	18	18	28
Home finance schemes	27	20	79
Total memorandum items	-214	-233	-337
LCA deficit/surplus ^{(g)(h)}	-337	-197	-602

(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 2003-04 LCA is \$191 million.

(h) South Australia has no infrastructure projects with private sector involvement that meet the recognition criteria for 2003-04.

Table A.15 Loan Council allocation 2004-05^(a) (\$million)

	Nomination (March 2004)	Budget (May 2004)
General government sector cash deficit/surplus	-211	-92
PNFC sector cash deficit/surplus	-65	-36
Total non financial public sector cash deficit/surplus ^(b)	-275	-127
Net cash flows from investments in financial assets for policy purposes ^(c)	-5	5
Adjusted total non financial public sector deficit/surplus	-280	-122
Memorandum items ^(d)		
Operating leases ^(e)	-42	-42
Recourse asset sales	0	0
Superannuation ^(f)	-270	-290
Local government	29	29
Home finance schemes	83	86
Total memorandum items	-200	-217
LCA deficit/surplus ^{(g)(h)}	-481	-339

(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.

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 2004-05 Budget. Data provided is sourced for 1998-99 from Australian Bureau of Statistics Government Financial Estimates 2002-03 (catalogue number 5501.4.5.001) and 1999-2000 to 2002-03 from Budget Outcome publications for South Australia. The estimates for 2003-04 onwards are contained in the 2004-05 Budget papers.

Data is 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.

Table B.1: General government key operating statement aggregates

	Revenue			Expenses			Net acquisition of non financial assets	Net lending	
	\$m	% real growth	% GSP	\$m	% real growth	% GSP	\$m	\$m	% Rev
1998-99	7 218		15.9	7 505		16.5	19	-306	-4.2
1999-2000	7 644	4.0	16.8	7 974	4.4	17.5	140	-471	-6.2
2000-01	8 108	1.3	17.2	8 406	0.7	17.8	102	-399	-4.9
2001-02	8 538	3.4	17.5	8 713	1.7	17.8	-50	-124	-1.5
2002-03	9 346	6.7	19.1	8 898	-0.4	18.2	34	414	4.4
2003-04	9 793	0.7	19.3	9 528	3.0	18.7	—	264	2.7
2004-05	9 997	-0.4	19.2	9 881	1.2	19.0	64	52	0.5
2005-06	10 169	-0.2	19.0	10 051	-0.2	18.8	- 8	126	1.2
2006-07	10 441	0.6	19.0	10 265	0.1	18.7	39	137	1.3
2007-08	10 851	1.9	19.2	10 596	1.2	18.7	90	165	1.5

APPENDIX B**Table B.2: General government key balance sheet and cash aggregates (\$ million) ^(a)**

As at 30 June	Net debt	Unfunded superannuation	Net financial worth	Net worth	Cash surplus
1999	4 780	3 909	1 892	10 622	-212
2000	1 920	3 543	2 986	12 447	-239
2001	1 246	3 249	4 091	14 788	-108
2002	1 303	3 998	3 559	14 706	-50
2003	666	4 445	3 500	15 288	658
2004	382	5 756	3 393	15 227	381
2005	314	5 837	3 656	15 529	92
2006	64	5 911	3 923	15 834	256
2007	- 155	5 978	4 294	16 282	240
2008	- 429	6 036	4 687	16 804	273

(a) Unfunded superannuation data from 1998-99 data is sourced from the 1998-99 Budget Outcome publication for South Australia.

Table B.3: 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
GFS revenue										
Taxation revenue	2 433	2 748	2 197	2 193	2 431	2 783	2 780	2 798	2 917	3 009
Current grants	2 875	3 098	3 992	4 485	4 638	4 916	5 051	5 222	5 439	5 685
Capital grants ^(a)	—	—	—	—	209	165	177	137	131	151
Sales of goods and services	733	696	982	902	997	1 049	1 101	1 120	1 131	1 163
Interest income	143	215	169	131	146	159	161	162	171	186
Other	1 034	888	768	827	925	722	727	730	652	657
<i>Total revenue</i>	7 218	7 644	8 108	8 538	9 346	9 793	9 997	10 169	10 441	10 851
<i>less</i>										
GFS expenses										
Gross operating expenses	5 296	5 694	6 216	6 489	6 524	7 008	7 349	7 483	7 650	7 940
Nominal superannuation interest expense	277	274	248	244	299	354	338	343	347	351
Other interest expenses	643	601	353	272	297	269	263	249	226	213
Other property expenses	—	—	—	—	—	—	—	—	—	—
Current transfers	1 213	1 345	1 545	1 663	1 724	1 868	1 914	1 962	2 023	2 076
Capital transfers	76	59	43	44	54	29	17	15	19	17
<i>Total expenses</i>	7 505	7 974	8 406	8 713	8 898	9 528	9 881	10 051	10 265	10 596
<i>equals</i>										
GFS net operating balance	-287	-330	-297	-174	448	264	116	118	176	255
<i>less</i>										
Net acquisition of non-financial assets										
Gross fixed capital formation	364	478	427	337	433	425	516	440	496	555
less Depreciation	323	337	322	390	401	427	452	448	457	465
plus Change in inventories	-2	—	-3	3	2	2	—	—	—	—
plus Other movements in non-financial assets	-21	—	—	—	—	—	—	—	—	—
<i>equals Total net acquisition of non-financial assets</i>	19	140	102	-50	34	—	64	-8	39	90
<i>equals</i>										
GFS net lending	-306	-471	-399	-124	414	264	52	126	137	165

(a) Prior to 2002-03, capital grants were not reported separately.

Table B.4: 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
Assets										
Financial assets										
Cash and deposits	1 884	3 187	1 806	1 844	2 052	2 247	2 127	2 234	2 367	2 611
Advances paid	1 304	—	1 258	1 233	1 167	1 142	1 117	1 063	1 045	1 021
Investments, loans and placements	12	1 608	127	170	170	98	100	102	104	107
Other non-equity assets	409	360	325	311	289	287	287	270	268	262
Equity	11 661	9 914	10 158	10 454	10 479	11 457	11 695	11 852	12 110	12 341
Total financial assets	15 270	15 068	13 673	14 012	14 157	15 231	15 327	15 521	15 895	16 342
Non-financial assets										
Land and fixed assets	8 674	9 270	10 636	11 076	11 710	11 747	11 784	11 817	11 892	12 019
Other non-financial assets	56	191	62	71	78	87	90	93	96	98
Total non-financial assets	8 730	9 461	10 697	11 146	11 788	11 834	11 873	11 910	11 988	12 117
Total assets	24 000	24 529	24 371	25 158	25 945	27 065	27 200	27 431	27 883	28 459
Liabilities										
Deposits held	522	639	470	401	329	356	413	364	375	399
Advances received	1 099	935	844	790	780	734	720	677	662	647
Borrowing	6 359	5 140	3 123	3 359	2 947	2 780	2 526	2 422	2 324	2 264
Unfunded Superannuation liability	3 909	3 543	3 249	3 998	4 445	5 756	5 837	5 911	5 978	6 036
Other employee entitlements and provisions	612	840	976	1 057	1 352	1 413	1 394	1 426	1 452	1 485
Other non-equity liabilities	877	985	920	847	806	800	781	797	809	823
Total liabilities	13 378	12 082	9 583	10 453	10 658	11 838	11 670	11 597	11 601	11 655
Net worth	10 622	12 447	14 788	14 706	15 288	15 227	15 529	15 834	16 282	16 804
Net financial worth	1 892	2 986	4 091	3 559	3 500	3 393	3 656	3 923	4 294	4 687
Net debt	4 780	1 920	1 246	1 303	666	382	314	64	- 155	- 429

APPENDIX B

Table B.5 General government expenses by function (\$ million)

	2002-03 Outcome	2003-04 Estimated result ^(a)	2004-05 Budget
General public services	260	298	312
Defence	—	—	—
Public order and safety	911	894	950
Education	2 239	2 422	2 477
Health	2 295	2 512	2 659
Social security and welfare	415	526	542
Housing and community amenities	694	706	725
Recreation and culture	251	241	252
Fuel and energy	35	105	41
Agriculture, forestry, fishing and hunting	161	155	163
Mining and mineral resources (other than fuels); manufacturing and construction	98	111	153
Transport and communication	589	613	714
Other economic affairs	256	244	205
Other purposes	693	701	688
Total expenses	8 897	9 528	9 881

- (a) Consistent with ABS standards, funded superannuation expenses have been allocated to the relevant functional category (for example, the accruing superannuation for teachers is included as part of total education expenses). However in the 2003-04 Budget Statement all superannuation expenses were recorded as part of the general public services function. The original 2003-04 Budget estimates have been recast on this basis to ensure consistency.

Non-Financial Public Sector

Table B.6: Non-financial public sector key operating statement aggregates

	Revenue			Expenses			Net acquisition non financial assets	Net lending	
	\$m	% real growth	% GSP	\$m	% real growth	% GSP	\$m	\$m	% Rev
1998-99	9 395		20.6	9 617		21.1	-115	-107	-1.1
1999-2000	9 206	-3.7	20.2	9 552	-2.4	20.9	-3 508	3 161	34.3
2000-01	9 051	-6.1	19.2	9 279	-7.2	19.6	-1 111	883	9.8
2001-02	9 367	1.6	19.2	9 487	0.3	19.4	- 124	5	0.1
2002-03	10 172	5.9	20.8	9 696	-0.4	19.8	72	405	4.0
2003-04	10 478	-1.0	20.6	10 248	1.6	20.2	88	142	1.4
2004-05	10 716	-0.2	20.6	10 525	0.2	20.2	102	89	0.8
2005-06	10 849	-0.7	20.3	10 747	0.1	20.1	26	76	0.7
2006-07	11 102	0.3	20.2	10 925	-0.4	19.9	38	139	1.3
2007-08	11 531	1.8	20.4	11 268	1.1	19.9	8	255	2.2

Table B.7: Non-financial public sector key balance sheet and cash aggregates (\$ million) ^(a)

As at 30 June	Net debt	Unfunded superannuation	Net financial worth	Net worth	Cash surplus
1999	7 658	3 909	-12 258	10 622	13
2000	4 355	3 543	-8 986	12 445	3 513
2001	3 223	3 249	-7 109	14 816	1 158
2002	3 317	3 998	-7 902	14 721	4
2003	2 696	4 445	-8 811	15 288	634
2004	2 522	5 756	-9 806	15 227	265
2005	2 418	5 837	-9 666	15 529	127
2006	2 227	5 911	-9 514	15 834	199
2007	1 990	5 978	-9 221	16 282	240
2008	1 613	6 036	-8 824	16 804	375

(a) Unfunded superannuation data from 1998-99 data is sourced from the 1998-99 Budget Outcome publication for South Australia.

Table B.8: 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
GFS revenue										
Taxation revenue	2 237	2 527	2 024	2 027	2 272	2 609	2 586	2 600	2 717	2 805
Current grants	2 875	3 106	3 995	4 488	4 641	4 917	5 031	5 219	5 439	5 685
Capital grants ^(a)	—	—	—	—	237	182	208	156	149	169
Sales of goods and services	3 606	2 869	2 401	2 107	2 272	2 224	2 252	2 225	2 216	2 272
Interest income	81	176	121	85	103	117	122	126	136	153
Other	597	528	510	660	648	430	518	525	445	446
<i>Total revenue</i>	9 395	9 206	9 051	9 367	10 172	10 478	10 716	10 849	11 102	11 531
<i>less</i>										
GFS expenses										
Gross operating expenses	7 672	7 585	7 461	7 625	7 689	8 146	8 440	8 569	8 718	9 025
Nominal superannuation interest expense	277	274	248	244	299	354	338	343	347	351
Other interest expenses	834	782	447	354	374	353	350	347	320	305
Other property expenses	5	3	—	—	3	6	10	2	2	6
Current transfers	770	860	1 080	1 220	1 276	1 355	1 364	1 468	1 516	1 561
Capital transfers	58	48	43	44	54	35	23	18	22	19
<i>Total expenses</i>	9 617	9 552	9 279	9 487	9 696	10 248	10 525	10 747	10 925	11 268
<i>equals</i>										
GFS net operating balance	-221	-346	-228	-120	476	230	191	102	177	263
<i>less</i>										
Net acquisition of non-financial assets										
Gross fixed capital formation	670	-2280	-594	479	666	721	771	696	722	704
less Depreciation	658	607	512	588	603	635	669	669	684	696
plus Change in inventories	-101	10	-5	-15	9	2	0	0	0	0
plus Other movements in non-financial assets	-26	-630	—	—	—	—	—	—	—	—
<i>equals</i> Total net acquisition of non-financial assets	-115	-3508	-1111	-124	72	88	102	26	38	8
<i>equals</i>										
GFS net lending	-107	3 161	883	5	405	142	89	76	139	255

(a) Prior to 2002-03, capital grants were not reported separately.

Table B.9: 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
Assets										
Financial assets										
Cash and deposits	2 016	3 303	1 932	1 915	2 124	2 317	2 196	2 300	2 430	2 681
Advances paid	198	—	184	189	192	196	202	173	153	146
Investments, loans and placements	11	385	143	182	182	111	114	118	122	124
Other non-equity assets	610	358	332	337	294	279	273	274	277	269
Equity	894	966	1 076	1 098	309	526	621	716	882	1 032
Total financial assets	3 729	5 012	3 666	3 720	3 100	3 429	3 406	3 582	3 863	4 252
Non-financial assets										
Land and fixed assets	22 822	21 209	21 914	22 605	24 074	25 002	25 164	25 315	25 468	25 591
Other non-financial assets	58	222	11	17	24	31	31	33	34	36
Total non-financial assets	22 880	21 431	21 925	22 622	24 098	25 032	25 195	25 348	25 503	25 627
Total assets	26 609	26 444	25 592	26 342	27 199	28 461	28 601	28 930	29 365	29 879
Liabilities										
Deposits held	407	440	252	190	148	211	210	210	211	211
Advances received	1 099	935	844	790	780	734	720	677	662	647
Borrowing	8 377	6 668	4 386	4 623	4 267	4 202	4 001	3 932	3 821	3 707
Unfunded Superannuation liability	3 909	3 543	3 249	3 998	4 445	5 756	5 837	5 911	5 978	6 036
Other employee entitlements and provisions	1 024	987	1 068	1 137	1 419	1 482	1 464	1 499	1 528	1 563
Other non-equity liabilities	1 171	1 425	977	884	853	850	840	867	884	912
Total liabilities	15 987	13 998	10 776	11 622	11 911	13 234	13 072	13 096	13 083	13 076
Net worth	10 622	12 445	14 816	14 721	15 288	15 227	15 529	15 834	16 282	16 804
Net financial worth	-12 258	-8 986	-7 109	-7 902	-8 811	-9 806	-9 666	-9 514	-9 221	-8 824
Net debt	7 658	4 355	3 223	3 317	2 696	2 522	2 418	2 227	1 990	1 613

CONSOLIDATED ACCOUNT

Table C.1 Summary of receipts and payments

	2004-05 Budget	2003-04 Estimated Result	2003-04 Budget
	\$000	\$000	\$000
Receipts			
Taxation	2 609 161	2 622 412	2 305 710
Commonwealth general purpose grants	3 267 800	3 159 700	3 047 100
Commonwealth specific purpose grants	56 414	45 215	47 742
Contributions from State undertakings	534 604	511 298	491 436
Fees and charges	69 036	61 912	72 752
Recoveries	280 236	92 809	32 117
Royalties	84 000	76 100	74 400
Other receipts	360 634	182 509	208 915
Total receipts	7 261 885	6 751 955	6 280 172
Payments			
Appropriation Act	6 894 107	6 419 849	6 216 996
Specific appropriation authorised in various Acts	111 101	101 123	97 492
Total payments	7 005 208	6 520 972	6 314 488
Consolidated Account financing requirement	- 256 677	- 230 983	34 316
Borrowing from/payment to South Australian Government Financing Authority	- 256 677	- 230 983	34 316

APPENDIX C

Table C.2 Estimates of payments

	2004-2005 Budget \$000	2003-04 Estimated Result \$000	2003-04 Budget \$000
Premier and Cabinet			
Department of the Premier and Cabinet	42 252	47 400	46 278
Administered items for the Department of the Premier and Cabinet	19 209	6 611	6 361
State Governor's Establishment	2 498	2 503	2 503
Arts SA	91 984	89 866	89 337
Tourism			
South Australian Tourism Commission	41 121	45 278	43 159
Minister for Tourism	4 511	4 862	4 862
Auditor-General			
Auditor-General's Department	10 112	9 782	9 682
Administered items for the Auditor-General's Department	851	768	766
Treasury and Finance			
Department of Treasury and Finance	41 708	38 975	38 639
Administered items for the Department of Treasury and Finance	1 088 661	1 108 384	954 498
Independent Gambling Authority	1 362	1 439	1 386
Trade and Economic Development ^(a)			
Department of Trade and Economic Development	82 710	120 415	120 402
Administered items for Trade and Economic Development	601	4098	3050
Office of Venture Capital Board	11 493	—	—
Primary Industries and Resources			
Department of Primary Industries and Resources	113 809	108 512	112 043
Administered items for the Department of Primary Industries and Resources	92 335	90 819	88 619
Justice			
Department for Correctional Services	125 271	119 698	117 694
South Australia Police	361 606	344 229	342 648
Administered Items for Police and Emergency Services	6 655	48 324	49 151
Courts Administration Authority	63 679	62 764	62 789
Administered Items for Courts Administered Authority	30	—	—
State Electoral Office	2 076	1 959	2 065
Attorney-General's Department	63 278	60 820	49 996
Administered items for the Attorney-General's Department	43 868	51 513	53 887
Human Services			
Department of Human Services and Department for Families and Communities	1 838 751	1 645 767	1 584 149
Administered items for the Department of Human Services and Communities	166 349	113 983	107 680
Education and Children's Services			
Department of Education and Children's Services	1 458 237	1 410 461	1 419 931
Administered items for the Department of Education and Children's Services	137 400	130 141	129 443
Further Education, Employment, Science and Technology			
Department of Further Education, Employment, Science and Technology	232 684	220 714	220 331

APPENDIX C

Table C.2 Estimates of payments (continued)

	2004-05 Budget \$000	2003-04 Estimated Result \$000	2003-04 Budget \$000
Environment and Conservation and the River Murray			
Department for Environment and Heritage	113 196	93 493	92 651
Administered items for the Department for Environment and Heritage	3 589	4 338	3 838
Environment Protection Authority	8 692	8 775	8 775
Department of Water, Land and Biodiversity Conservation	65 278	56 165	51 151
Administered items for the Department of Water, Land and Biodiversity Conservation	37 854	36 595	38 878
Transport and Urban Planning			
Planning SA	14 723	14 969	16 861
Administered Items for Planning SA	844	1 140	958
Transport Services	51 892	11 253	9 913
Administered items for Transport Services	67 600	66 580	13 180
Transport Planning	2 467	2 314	2 304
Office of Public Transport ^(b)	173 263	168 825	167 646
TransAdelaide	2 791	5 350	5 350
Office for Sustainable Social, Environmental and Economic Development	1 335	869	869
Administrative and Information Services			
Department for Administrative and Information Services	182 172	24 480	119 469
Administered Items for the Department for Administrative and Information Services	5 680	15 254	5 254
Legislature			
House of Assembly	6 470	6 507	6 092
Joint Parliamentary Services	7 184	8 784	8 672
Legislative Council	3 976	4 073	3 786
Total payments appropriated for administrative units, statutory authorities and Ministers	6 894 107	6 419 849	6 216 996
Payments for which specific appropriation is authorised in various Acts	111 101	101 123	97 492
Total Consolidated Account payments	7 005 208	6 520 972	6 314 488

(a) Trade and Economic Development was previously known as Business, Investment and Trade. The new Department for Trade and Economic Development incorporates both the former Department for Business, Manufacturing and Trade and the Office of Economic Development. The Office of Local Government has been transferred to the Department from Transport and Urban Planning.

(b) The Office for Public Transport was previously known as the Passenger Transport Board.

APPENDIX C

Table C.2 Estimates of payments (continued)

	2004-05 Budget \$000	2003-04 Estimated Result \$000	2003-04 Budget \$000
Payments for which specific appropriation is authorised in various Acts			
Salaries and allowances			
Agent-General — <i>Pursuant to Agent-General Act 1901</i>	280	267	267
Auditor-General — <i>Pursuant to Public Finance and Audit Act 1987</i>	220	216	209
Commissioner of Police — <i>Pursuant to Police Act 1998</i>	236	231	231
Electoral Commissioner and Deputy Electoral Commissioner — <i>Pursuant to Electoral Act 1985</i>	302	292	292
Employee Ombudsman — <i>Pursuant to Industrial and Employee Relations Act 1994</i>	91	89	89
Governor — <i>Pursuant to Constitution Act 1934</i>	201	192	192
Judges — <i>Pursuant to Remuneration Act 1990</i>			
Chief Justice	430	412	384
Judges	14 396	13 429	12 728
Magistrates — <i>Pursuant to Remuneration Act 1990</i>	9 295	9 093	8 192
Members of Various Standing Committees — <i>Pursuant to Parliamentary Remuneration Act 1990 and Parliamentary Committees (Miscellaneous) Act 1991</i>	549	465	612
Ombudsman — <i>Pursuant to Ombudsman Act 1972</i>	215	215	215
Parliamentary Salaries and Electorate and Expense Allowances — Ministers, Officers and Members of Parliament — <i>Pursuant to Parliamentary Remuneration Act 1990</i>	10 430	10 254	10 313
Senior Judge and Judges of the Industrial Relations Commission — <i>Pursuant to Remuneration Act 1990</i>	1 397	1 212	1 212
Solicitor-General — <i>Pursuant to Solicitor-General Act 1972</i>	254	254	254
Valuer-General — <i>Pursuant to Valuation of Land Act 1971</i>	105	102	102
Total salaries and allowances	38 401	36 723	35 292
Other			
Compensation for Injuries Resulting from Criminal Acts — <i>Pursuant to Criminal Injuries Compensation Act 1978</i>	6 200	6 200	6 200
First Home Owner Grant — <i>Pursuant to First Home Owner Grant Act 2000</i>	66 500	58 200	56 000
Total other	72 700	64 400	62 200
Total payments authorised by various Acts	111 101	101 123	97 492

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Table C.3 Estimates of receipts

	2004-05 Budget \$000	2003-04 Estimated Result \$000	2003-04 Budget \$000
Taxation			
Payroll tax	862 000	849 100	818 700
Commonwealth places mirror payroll tax	15 100	14 900	14 300
Stamp duties	974 200	1 098 900	833 500
Commonwealth places mirror stamp duties	1 100	1 200	1 100
Land tax	268 800	204 700	187 700
Commonwealth places mirror land tax	1 100	800	700
Debits tax	59 900	59 400	59 400
Commonwealth places mirror debits tax	400	400	400
Other taxes on property	10	10	10
River Murray Levy	19 000	13 400	15 900
Gaming machines tax	302 400	280 000	274 900
Contribution from Lotteries Commission	76 213	73 702	71 900
Contribution from Casino operations	17 500	17 000	18 400
Contribution from South Australian Totalizator Agency Board	8 300	6 300	6 400
Contribution from on-course totalizators, bookmakers and small lotteries	2 938	2 400	2 200
Recoup from Recreation and Sport Fund	200	200	200
Total taxation receipts	2 609 161	2 622 412	2 305 710
Commonwealth general purpose payments			
Competition grants	46 900	40 100	48 100
GST revenue grants	3 242 900	3 154 300	3 004 100
Transitional assistance	—	—	51 700
Transitional Grant Overpayment/Recovery	- 22 000	- 34 700	- 56 800
Total Commonwealth general purpose payments	3 267 800	3 159 700	3 047 100
Commonwealth specific purpose payments^(c)			
Additional First Home Owner Grants	—	200	—
Companies code — fees	11 965	11 673	10 900
Concessions to pensioners and others	18 862	18 297	18 297
SA Infrastructure Corporation	10 300	—	3 500
Debt redemption assistance	3 743	3 770	3 770
Legal Aid	11 071	10 802	10 802
Native Title Legislation — administration	473	473	473
Total Commonwealth specific purpose payments	56 414	45 215	47 742

APPENDIX C

Table C.3 Estimates of receipts (continued)

	2004-05 Budget	2003-04 Estimated Result	2003-04 Budget
	\$000	\$000	\$000
Contributions from State undertakings			
Administrative and Information Services			
Dividend	101 895	65 081	50 805
Income tax equivalent	3 551	3 460	1 189
Local government rate equivalent	608	593	709
Department of Trade and Economic Development			
Dividend	927	901	901
Forestry SA			
Dividend	20 375	22 738	20 873
Income tax equivalent	10 925	11 691	9 871
Local government rate equivalent	1	1	1
Funds SA			
Local government rate equivalent	165	160	137
HomeStart Finance			
Income tax equivalent	1 168	2 580	1 600
Industrial and Commercial Premises Corporation ^(d)			
Dividend	—	—	415
Income tax equivalent	—	—	23
Land Management Corporation			
Dividend	2 867	53 026	51 479
Income tax equivalent	1 643	2 319	1 893
Local government rate equivalent	105	105	105
Lotteries Commission			
Additional lotteries dividend	3 479	—	3 479
Income tax equivalent	7 249	6 863	6 100
Local government rate equivalent	12	12	—
Motor Accident Commission			
Dividend	—	5 000	5 000
Police Security Services			
Income tax equivalent	200	152	97
Public Trustee Office			
Dividend	1 371	1 175	1 215
Income tax equivalent	398	885	311
Local government rate equivalent	27	26	26
SA Water Corporation			
Dividend	173 219	173 873	174 509
Income tax equivalent	73 064	62 313	62 313
Local government rate equivalent	895	873	900
South Australian Asset Management Corporation			
Dividend	73 200	58 500	58 500
South Australian Government Employee Residential Properties			
Dividend	1 156	1 156	1 156
Income tax equivalent	493	493	465
Local government rate equivalent	—	—	938

APPENDIX C

Table C.3 Estimates of receipts (continued)

	2004-05 Budget	2003-04 Estimated Result	2003-04 Budget
	\$000	\$000	\$000
South Australian Government Financing Authority			
Dividend	38 800	19 700	18 252
Income tax equivalent	5 500	6 100	7 500
TransAdelaide			
Dividend	3 954	3 521	3 521
Income tax equivalent	1 185	875	875
Local government rate equivalent	83	83	83
Transport Services			
Dividend	4 113	4 113	4 113
Income tax equivalent	1 490	2 457	1 457
Local government rate equivalent	82	82	82
West Beach Trust			
Income tax equivalent	404	391	543
Total contributions from state undertakings	534 604	511 298	491 436
Fees and charges ^(e)			
Auditor-General's Department — fees for audit and other sundry receipts	8 745	8 533	8 423
Court and probate fees	17 197	16 559	16 559
Court fines	7 832	7 456	7 456
Water Land and Biodiversity Conservation — excess water charges	1 000	1 000	1 000
Guarantee fees	16 558	17 144	17 210
Infringement notice schemes — expiation fees	17 679	11 196	22 080
Sundry fees	25	24	24
Total fees and charges	69 036	61 912	72 752
Recoveries			
Child Abuse Protection program — intrasector grants received	200	200	200
Community Emergency Service Fund	—	—	475
Community Road Safety Fund	60 153	44100	—
Contingency provisions — recoveries	—	35	35
Contribution to the cost of private plated vehicles	10	10	10
Essential Services Commission of SA	4 632	4 621	3 281
Helicopter service — recovery of costs and sponsorships	1 679	1 759	2 246
Rehabilitation Fund	1 850	1 500	1 500
Legislature — sale of publications	564	550	550
Light motor vehicle fleet — rental payments recovery	4 300	4 300	4 300
National Tax Equivalent Program	12	12	12
Receipts from sale of property, plant and equipment	—	2 405	—
Return of cash to Consolidated Account - Cash Alignment Policy	144 212	—	—
Return of cash to Consolidated Account - Cash Alignment Policy - interest	32 590	—	—
Return of Commonwealth places mirror taxes collected	17 700	17 300	16 500
Road Safety Package	9 300	9 300	—
SA Motor Sports Board	—	3 709	—
Sale of evidence/transcripts	1 235	1 235	1 235
Sale of Government Gazette	150	150	150
Sundry recoupment	118	115	115
Unclaimed monies	1 531	1 508	1 508
Total recoveries	280 236	92 809	32 117

APPENDIX C

Table C.3 Estimates of receipts (continued)

	2004-05 Budget	2003-04 Estimated Result	2003-04 Budget
	\$000	\$000	\$000
Royalties			
Department of Primary Industries and Resources	84 000	76 100	74 400
Total royalties	84 000	76 100	74 400
Other receipts			
Interest			
Interest on investments	85 691	80 167	97 000
Interest recoveries from general government	11 204	14 118	14 543
Interest recoveries from non commercial public trading enterprises	44 742	47 553	45 843
Interest recoveries from universities	1 414	1 418	1 418
Interest recoveries from the private sector	89	95	97
Repayment of Advances			
Adelaide Festival Centre Trust	775	160	160
Administrative and Information Services	—	1 730	—
Land Management Corporation	56	30	7 270
Lotteries Commission of South Australia	1 542	1 452	1 452
Minister for Education and Children Services	1 500	1 500	1 500
Minister for Industry, Trade and Regional Development	—	5 223	5 223
Passenger Transport Board	749	1 100	1 100
Primary Industries and Resources	1 017	1 017	1 017
Renmark Irrigation Trust	111	101	101
South Australian Government Employee Residential Properties	1 193	1 193	1 193
SA Country Arts Trust	20	20	—
South Australian Housing Trust	17 745	16 951	16 951
South Australian Tourism Commission	1 026	139	139
TransAdelaide	5 381	5 381	5 381
Transport Services	—	125	125
West Beach Trust	72	—	136
Other	400	271	1 078
Repayment of equity capital contributions			
Administrative and Information Services	84 680	—	—
Human Services	77 672	—	—
South Australia Police Department	15 957	—	—
Other			
Sale of land and buildings	7 581	2 765	7 188
Total other receipts	360 634	182 509	208 915
Total Consolidated Account receipts	7 261 885	6 751 955	6 280 172

(c) Refers only to those Commonwealth Specific Purpose Payments paid to the Consolidated Account and not those directly paid to agencies.

(d) Industrial and Commercial Premises Corporation has been transferred to the Land Management Corporation

(e) Refers to only those fees and charges paid to the Consolidated Account.

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 International Film Festival	*		
Administrative and Information Services, Department for ^(a)	*		
Animal and Plant Control Commission	*		
Arid Areas Catchment Water Management Board	*		
Art Gallery Board, The	*		
Attorney-General's Department	*		
Auditor-General's Department	*		
Adelaide Children's Performing Arts Company (trading as Windmill Performing Arts)		*	
Bio Innovation SA	*		
Board of the Botanic Gardens and State Herbarium.....	*		
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.....	*		
Emergency Services Administrative Unit	*		
Environment and Heritage, Department for	*		
Environment Protection Authority.....	*		
Essential Services Commission.....	*		
Eyre Peninsula Catchment Water Management Board.....	*		
Further Education, Employment, Science and Technology, Department of	*		
Generation Lessor Corporation.....		*	
History Trust of South Australia.....	*		

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	General Govt Sector	Public Non-Financial Corporations Sector	Financial Corporations Sector
HomeStart Finance			*
House of Assembly	*		
Human Services, Department of	*		
Independent Gambling Authority	*		
Information Industries Development Centre (trading as Playford Computer Enterprise Centre)	*		
Joint Parliamentary Services	*		
Justice, Department of	*		
Land Management Corporation		*	
Legislative Council	*		
Libraries Board of South Australia	*		
Lotteries Commission of South Australia		*	
Motor Accident Commission			*
Museum Board	*		
Natural Gas Authority of South Australia		*	
Northern Adelaide and Barossa Catchment Water Management Board	*		
Office for Infrastructure Development	*		
Office of Public Transport		*	
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	*		
Public Trustee		*	
RESI Corporation		*	
River Murray Catchment Water Management Board	*		
Senior Secondary Assessment Board of South Australia	*		
South Australia Police	*		
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 Forestry SA)		*	
South Australian Government Captive Insurance Corporation (trading as SAICORP)	*		
South Australian Government Employee Residential Properties ^(a)		*	
South Australian Government Financing Authority (trading as SAFA)			*

APPENDIX D

	General Govt Sector	Public Non-Financial Corporations Sector	Financial Corporations Sector
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 and Urban Planning, Department of	*		
Treasury and Finance, Department of	*		
Venue Management, Office of	*		
Water, Land and Biodiversity Conservation, Department of.....	*		
West Beach Trust (trading as Adelaide Shores)		*	
WorkCover Corporation South Australia			*
Zero Waste SA	*		

Changes since the previous Budget:

New Organisations created since the previous Budget:

2007 World Police and Fire Games Corporation (established from 30/10/03)		*	
Essential Services Commission (est. from 12/9/02).....	*		
Office for Infrastructure Development (est. from 1/1/04).....	*		
Office of Public Transport (est. from 1/1/04)		*	
South Australian Ambulance Service (change in control)	*		
South Australian Infrastructure Corporation (est. from 15/1/04).....		*	
Zero Waste SA (est. from 7/5/04).....	*		

APPENDIX D

	General Govt Sector	Public Non-Financial Corporations Sector	Financial Corporations Sector
<u>Deleted / Dissolved Organisations since the previous Budget:</u>			
Industrial and Commercial Premises Corporation (abolished from 1/12/03).....		*	
Independent Industry Regulator (abolished from 12/9/02).....	*		
National Wine Centre (abolished from 21/8/03).....	*		
Office of Economic Development (abolished from 1/12/03).....	*		
Passenger Transport Board (abolished from 1/1/04)		*	
<u>Change of Names since the previous Budget:</u>			
Business, Manufacturing and Trade, Department for, now known as Trade and Economic Development, Department of (from 8/4/04) ..	*		
<u>Future Changes of Significance, post Budget:</u>			
Department of Human Services will be separated into two Agencies, viz 'Health' and 'Family and Community Services' (effective 1/7/04)	*		

(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.

TAX EXPENDITURE STATEMENT

Overview

This statement provides a summary of tax expenditures incurred by the South Australian Government in 2002-03 and 2003-04.

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 commercial government businesses have been required to pay taxes and tax 'equivalents' to put them on a more comparable footing with private sector competitors, non commercial government activities tend to be, by and large, exempt from many taxes. While such exemptions are part of the tax expenditure family, their implications are somewhat different from private sector tax concessions. Removal of government tax exemptions would arguably not impact on the net budgetary position, as the additional costs faced by non commercial agencies would need to be matched by additional funding to maintain service levels. Rather, tax expenditures that relate to the non commercial agencies 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.

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.

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.

Previously for land tax, a proportional rate without any threshold has been adopted as the benchmark. The rate had been chosen so as to be revenue neutral with current arrangements in respect of landholdings which are currently taxable. The calculation is now based on the existing marginal tax structure as for other taxes.

Summary

The view has been taken that the extent of tax relief provided through the availability of exemptions, concessions, rebates and allowable deductions is sufficiently important to warrant documentation even if (a) the benchmark against which tax expenditure is assessed could be argued to be imperfectly defined, (b) the measurement of those imperfectly defined expenditures is also subject to qualification and (c) the value of many tax expenditures cannot be quantified.

Some qualifications apply to the estimates contained in this statement. Aside from the absence of assumptions about behavioural responses, the estimates are in many cases approximations, reflecting data limitations and the use of proxy indicators to measure the size of revenue bases relevant to tax concessions.

Many tax expenditures have not been able to be quantified. In particular, there are a large number of exemptions from stamp duties that are not reflected in the estimates due to a lack of information on the size of the affected tax bases. Similarly, a number of exemptions relating to debits tax and some payroll tax exemptions have not been quantified. As such, the aggregate total of the estimates contained in Table E.1 below does not represent the total value of assistance provided by tax expenditures.

The two largest tax expenditures are the payroll tax threshold and land tax concessions which relate to the general threshold and exemptions for the principal place of residence, primary production and a range of other land uses.

The following is a brief summary of the individual tax expenditures quantified.

Payroll tax

Total quantified tax expenditures relating to payroll tax for 2003-04 (\$472 million) represent 57 per cent of total payroll tax revenue collections.

The largest payroll tax expenditure relates to the tax threshold. Payroll tax is levied on wages paid by employers and is applied at a rate of 5.67 per cent (to be reduced to 5.5 per cent from 1 July 2004) 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 \$362 million for 2003-04 in respect of private sector employers. This comprises \$258 million in revenue forgone from small businesses that are not liable for payroll tax, and \$104 million in respect of employers who are liable for payroll tax but benefit from not paying tax on the first \$504 000 wages per annum.

Several other groups of taxpayers are exempted from payroll tax liabilities, many of which have not been able to be quantified in terms of tax expenditures. Of those that have been calculated, the largest tax expenditure relates to the exemption for public hospitals which is estimated to amount to \$56 million in 2003-04. Other expenditures include local government councils (\$19 million), non-profit hospitals and providers of health services (\$7 million), and non-profit schools (\$9 million). The Government also offers schemes whereby businesses can claim payroll tax rebates in respect of trainees (\$4.5 million) and export activity (\$5 million).

Stamp duties

Stamp duties apply to a range of transactions including conveyances, mortgages, leases, insurance and rental transactions. There are a large number of exemptions contained in stamp duty legislation, many of which cannot be quantified. Of those that have been quantified, conveyance duty and stamp duty on the renewal certificate for motor vehicle registration third party have the largest tax expenditures. The total tax expenditure in 2003-04 for stamp duties (\$44 million) is equivalent to seven per cent of stamp duty revenues.

Total tax expenditures for conveyance duty amount to \$11 million in 2003-04. First home owners in 2003-04 are eligible for a full stamp duty concession on home purchases valued up to \$80 000. The maximum concession is \$2130. A partial concession applies for first home purchases valued between \$80 000 and \$130 000. The total cost of this exemption in 2003-04 is estimated to be \$3 million. The stamp duty exemption for family farm transfers is estimated to cost \$5 million in 2003-04.

Approximately \$19 million of stamp duty tax expenditures in 2003-04 relate to concessions given in respect of the \$60 stamp duty fee payable on the combined renewal certificate for vehicle registration and compulsory third party (CTP) insurance. Of this, \$12 million relates to pensioners and State Concession Card holders.

Land tax

Total land tax expenditures are estimated at \$335 million in 2003-04. This represents 165 per cent of total land tax collections.

Land tax is calculated on the aggregate taxable value of all land held by a person as at 30 June of the preceding year for which the tax is levied. No tax is payable if the total taxable value of all land is less than \$50 000. A marginal tax rate structure applies above this threshold, with increasing marginal tax rates applied as the value of landholdings increases.

The quantification of tax expenditures for land tax is now 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 be \$26 million in 2003-04;
- the principal place of residence exemption (provided the land is owned by a natural person as distinct from a corporate body) — estimated to cost \$111 million in 2003-04;
- the primary production exemption (provided it meets certain criteria) — estimated to cost \$141 million in 2003-04; 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 \$58 million in 2003-04.

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 2003-04, the benefit to non-profit venues of the tax differential is estimated to be \$5 million or one per cent of total gambling tax collections.

Debits tax

While debits tax legislation does contain a number of exemptions, these were not able to be quantified.

Emergency services levy

The Emergency Services Levy (ESL) was originally intended to provide a comprehensive method of funding emergency services by raising sufficient funds from property holders to support aggregate expenditure on emergency services. The level of remissions that the Government has since provided has meant that property owners (fixed and mobile) now collectively contribute only half of the total levy proceeds. The remaining levy is funded by

Government in the form of remissions, pensioner concessions and the levy payable on the Government's own property. The tax expenditure costings measure the difference between standard levy rates and post remission levy rates which vary depending on land use code and location (for fixed property) and by class of vehicle (for mobile property).

The ESL is a complex tax with differential rates of levy on land use types and region. The motivation for the differential levy rates appears to lie in a desire to achieve some alignment with relative risk of property types, the value of the service provided (related to property value) and regional variation in service levels. The effect of remissions for the variable property value element of the ESL 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.

Growth in tax expenditures

The cost of tax expenditures has increased in 2003-04 mainly in respect of:

- *land tax* — reflecting the uplift in land values impacting on 2003-04 land tax assessments; and
- *payroll tax* — reflecting the strength in economic conditions in 2003-04 with payroll tax paying firms experiencing stronger growth relative to State-wide employment and earnings indicators.

Tax expenditures associated with stamp duties have exhibited more modest growth. The timing of corporate reconstructions eligible for stamp duty relief can influence growth between years. Conveyance duty relief for corporate reconstructions was higher in 2002-03 while share duty relief was higher in 2003-04. The cost of the first homebuyer stamp duty concession fell in 2003-04 reflecting the impact of growth in property values with fewer first homebuyers purchasing properties in the value range covered by the concession.

Growth in gambling tax expenditures in 2003-04 reflects the full year impact of changes to the gaming machine tax structure together with growth in gambling expenditure in clubs and other non-profit gaming venues.

ESL remission costs increased in 2003-04 reflecting growth in emergency services expenditure with effective levy rates unchanged from their 2002-03 level.

Table E.1: Summary of tax expenditures (\$ million)

Tax expenditures	2002-03	2003-04
PAYROLL TAX ^(a)		
Threshold exemption	340.3	361.5
<i>of which:</i>		
<i>benefit to existing taxpayers with payrolls above the threshold</i>	94.7	103.9
<i>benefit to employers with payrolls below the threshold</i>	245.7	257.6
Export rebates	3.8	5.0
Trainee rebates	5.0	4.5
Firm specific relief	2.3	6.4
Public benevolent institutions	3.2	3.4
Public hospitals exemption	51.9	56.3
Non-profit schools or colleges at or below secondary level	8.2	8.9
Non-profit hospital and health providers exemption	6.1	6.6
Child care centres	0.3	0.3
Local government council exemption	17.6	19.1
Assistance for motion picture production companies	0.5	—
TOTAL FOR PAYROLL TAX	439.2	472.0
STAMP DUTIES		
Conveyance duty		
Family farm exemption	5.2	5.0
First home owner concessions ^(b)	4.5	2.7
Corporate reconstructions	10.3	1.2
Inner city housing rebate	0.4	0.2
General remissions	2.0	1.8
Mortgage duty		
Primary producer loans and rural branch bank closures	0.2	0.2
Differential taxation treatment of mortgages for owner occupation	0.0	4.0
General remissions	0.1	0.1
Stamp duty on renewal certificate for motor vehicle registration and compulsory third party insurance (CTP)		
The Crown and vehicles registered under the Continuous Government Registration Scheme	1.1	1.1
Hire vehicles with greater than 12 seats	0.1	0.1
Councils	0.3	0.4
Conditionally registered vehicles	5.4	5.5
Incapacitated ex-servicemen and other persons	0.2	0.2
Pensioners and State concession card holders	11.9	12.1

Table E.1: Summary of tax expenditures (\$ million) continued

Tax expenditures	2002-03	2003-04
Share duty		
Corporate reconstructions	—	8.3
General remissions	0.2	0.7
Stamp duty on motor vehicle registrations - general remissions	—	<0.1
TOTAL FOR STAMP DUTIES	41.8	43.5
LAND TAX		
Threshold exemption (value of exemption to land holdings below the threshold)	24.2	26.0
Principal place of residence	72.1	110.9
Primary production	116.0	140.8
Other exemptions ^(c)	38.6	57.6
TOTAL FOR LAND TAX	250.9	335.2
GAMBLING TAXES		
Differential taxation treatment of non-profit businesses	4.4	5.2
General remissions	<0.1	<0.1
TOTAL FOR GAMBLING TAXES	4.4	5.2
DEBITS TAX ^(d)	—	—
EMERGENCY SERVICES LEVY		
Pensioner concessions	6.2	6.0
General remissions		
fixed property	59.7	63.6
mobile property	9.0	9.0
TOTAL FOR EMERGENCY SERVICES LEVY ^(e)	74.8	78.6

(a) Costings of specific exemptions for 2002-03 differ from those published in the 2003-04 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.

(d) While debits tax legislation contains a number of exemptions, these could not be quantified.

(e) The increase in general remissions reflects an increase in emergency services expenditure for 2003-04.

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.

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.

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 operating balance: Measures the operating result of a sector under UPF principles. It is the excess of revenue over expenses, plus net transfers.

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 Australian Non-Farm GDP price deflator, 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
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
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
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	intergovernmental agreement
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
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