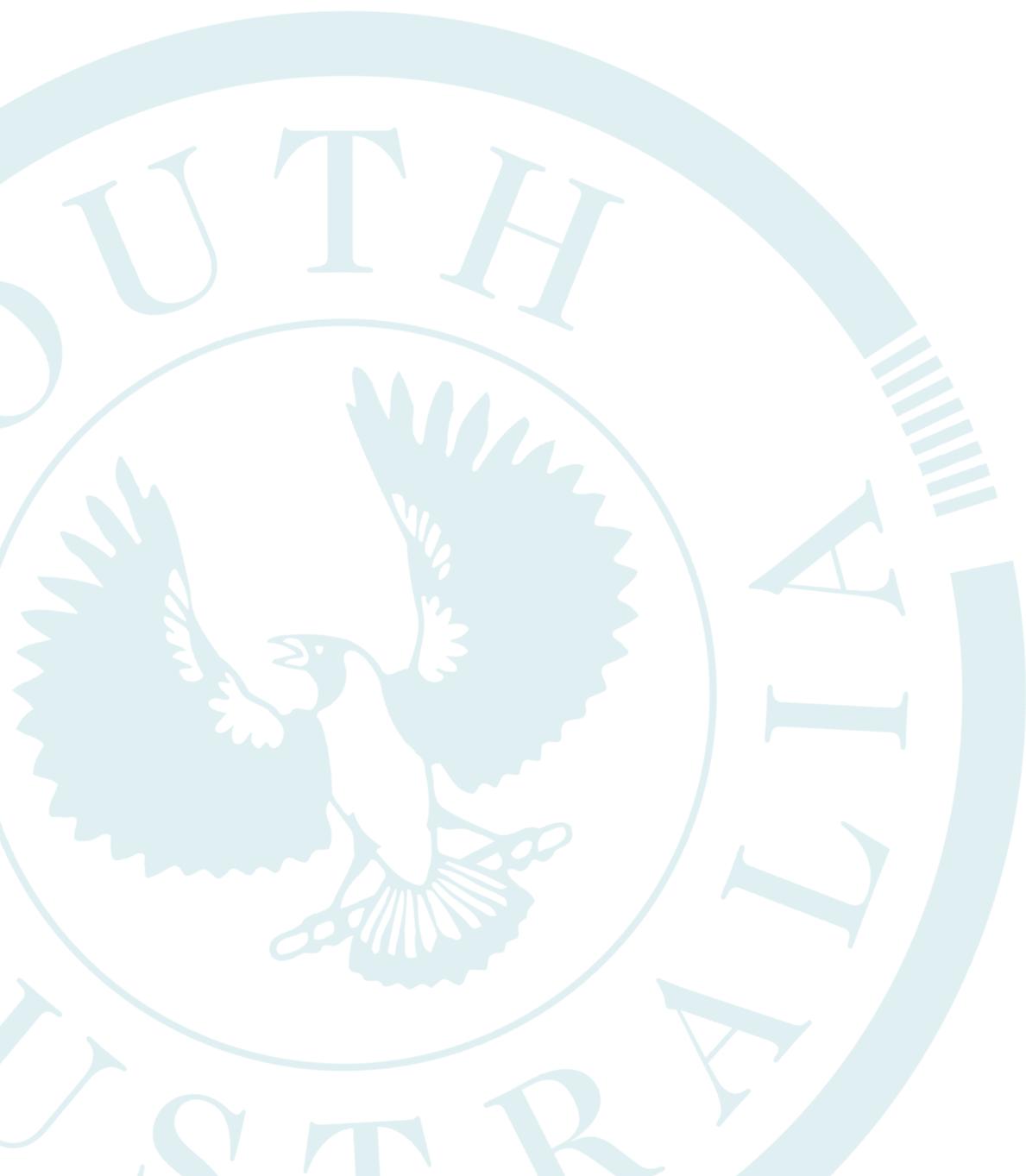




Government
of South Australia

Budget at a Glance 2003–04

BUDGET PAPER 1



Providing for today, preparing for tomorrow.

Budget
at a Glance
2003–04



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Table of contents

2003-04 Budget overview	4
Managing our liabilities	6
Expenditure and savings strategies	7
More funding for priority services and programs	9
Budget priorities	
A strong health system and social inclusion	10
A commitment to education	11
Ensuring safe communities	12
Building on the State's economic strengths	13
Saving the River Murray	14
Regional initiatives	15
Other revenue measures	16
Budget aggregates: revenue and expenses	17
Managing our superannuation obligations	18
Economic highlights	19
Economic forecasts	20

Budget at a Glance 2003–04



2003-04 Budget overview

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

Overview of the 2003-04 Budget

- After a small accrual deficit in 2003-04, this budget delivers growing accrual surpluses across the forward years. The net lending outcomes mean that revenues are expected to more than meet general government operating expenses as well as funding all capital expenditure – without adding to the State’s debt.
- The budget outcome is consistent with the Government’s fiscal strategy, including its primary fiscal target: to achieve, on average, balanced accrual budgets in the general government sector.

- Liabilities are contained, with net debt estimated to fall by over \$1 billion between 30 June 2002 and 30 June 2007.
- Substantial cash surpluses are forecast in 2003-04 and across the forward years.
- South Australia’s financial position is not as strong as the average for other States, although projected surpluses will narrow this gap. Relative revenue and spending levels are higher in South Australia and our credit rating is lower than most other States.
- The forecast accrual surpluses should be viewed in the context of risks to the budget and the State’s overall financial position. These factors reinforce the need for continued financial discipline and constraint.

2003-04 general government sector aggregates (\$ million)

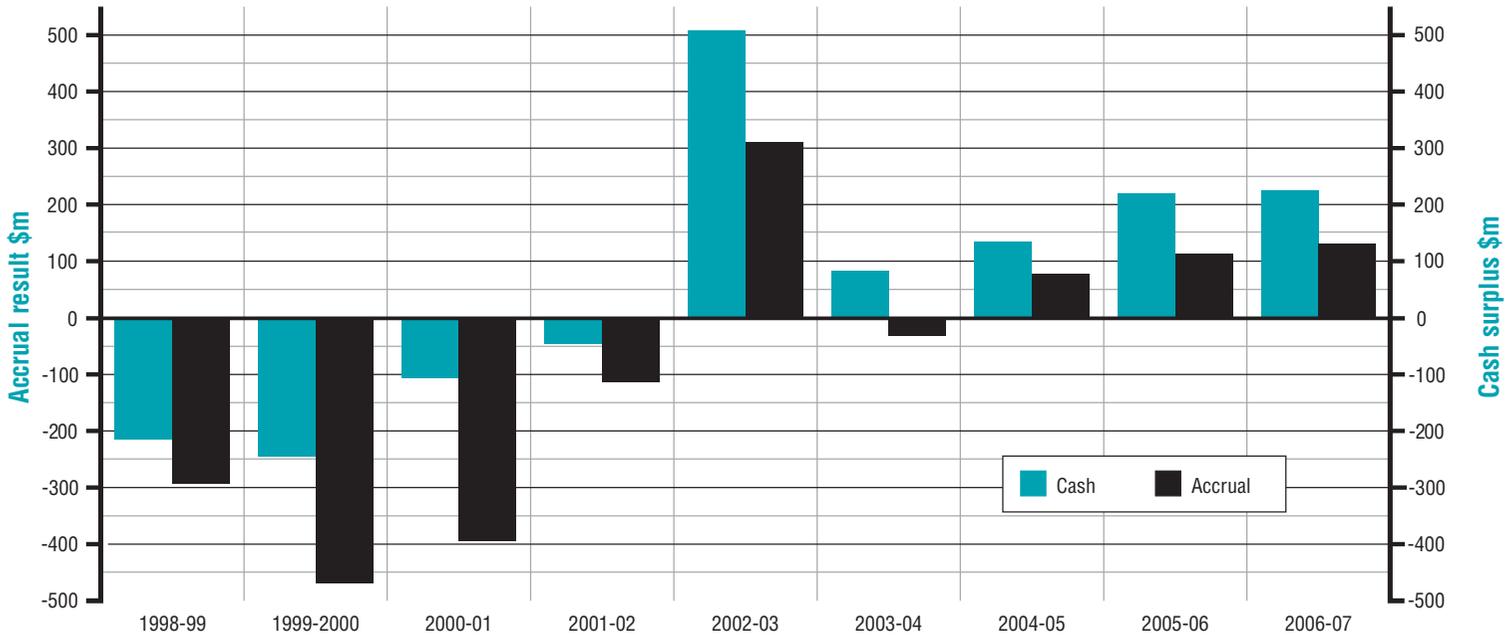
	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
Accrual net lending	312	-20	77	109	133
Cash surplus	509	83	133	219	224

2003-04 Budget overview

Budget at a Glance 2003-04

- A key feature of the 2003-04 Budget is that the Government’s budget measures have been largely financed from savings. Revenue growth has been used to structurally improve the budget.
- The budget surplus in 2002-03 has been used to reduce debt. Lower debt means the Government has greater capacity for funding services rather than paying interest.

General government accrual result/cash surplus 1998-99 to 2006-07



- Revenue measures in the budget include a River Murray Levy to fund specific measures aimed at improving the health of the River Murray and securing the State’s future water supplies.
- Expenditure measures contained in the budget are largely met from savings, revenue measures or provisions set aside in the 2002-03 Budget.



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Managing our liabilities

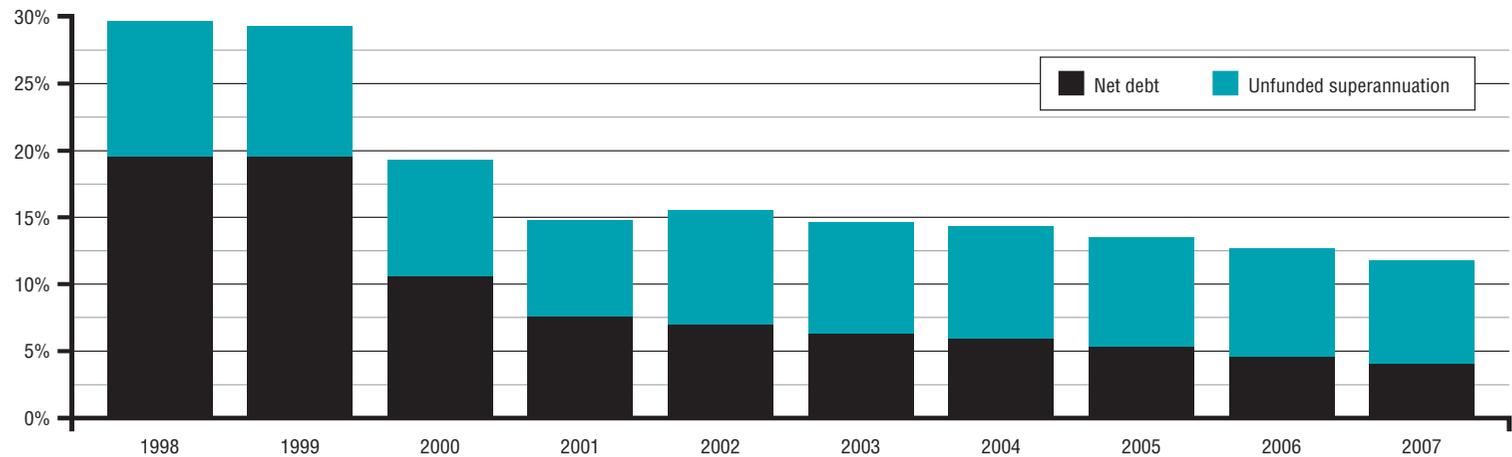
Non financial public sector net debt and unfunded superannuation liabilities as a proportion of Gross State Product (GSP) is estimated to decline to 11.8% at June 2007

Unfunded superannuation liabilities increased in 2002-03 primarily due to negative earnings by

Funds SA. This is consistent with the experience of other superannuation funds in a very difficult investment climate.

General government net financial worth will improve slightly across the forward estimates – due primarily to accrual surpluses.

Non financial public sector net debt and unfunded superannuation as % of GSP



Net debt (\$ million)

	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
General government	766	719	604	409	232
Non-financial public sector	2 824	2 905	2 741	2 525	2 217

Expenditure and savings strategies

Budget at a Glance 2003–04

Expenditures

The budget includes operating and investing initiatives in the general government sector totalling \$860.0 million over the next four years.

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

Savings

To assist in delivering spending to areas of highest priority, the budget includes agency savings and additional agency based revenue measures totalling \$538.2 million over four years. These measures represent the outcome of difficult choices by the Government between competing priorities.

The savings measures included in the budget are sustainable and primarily reflect agency administrative savings, more efficient use of resources and the redirection of funding from low priority initiatives to high priority areas.

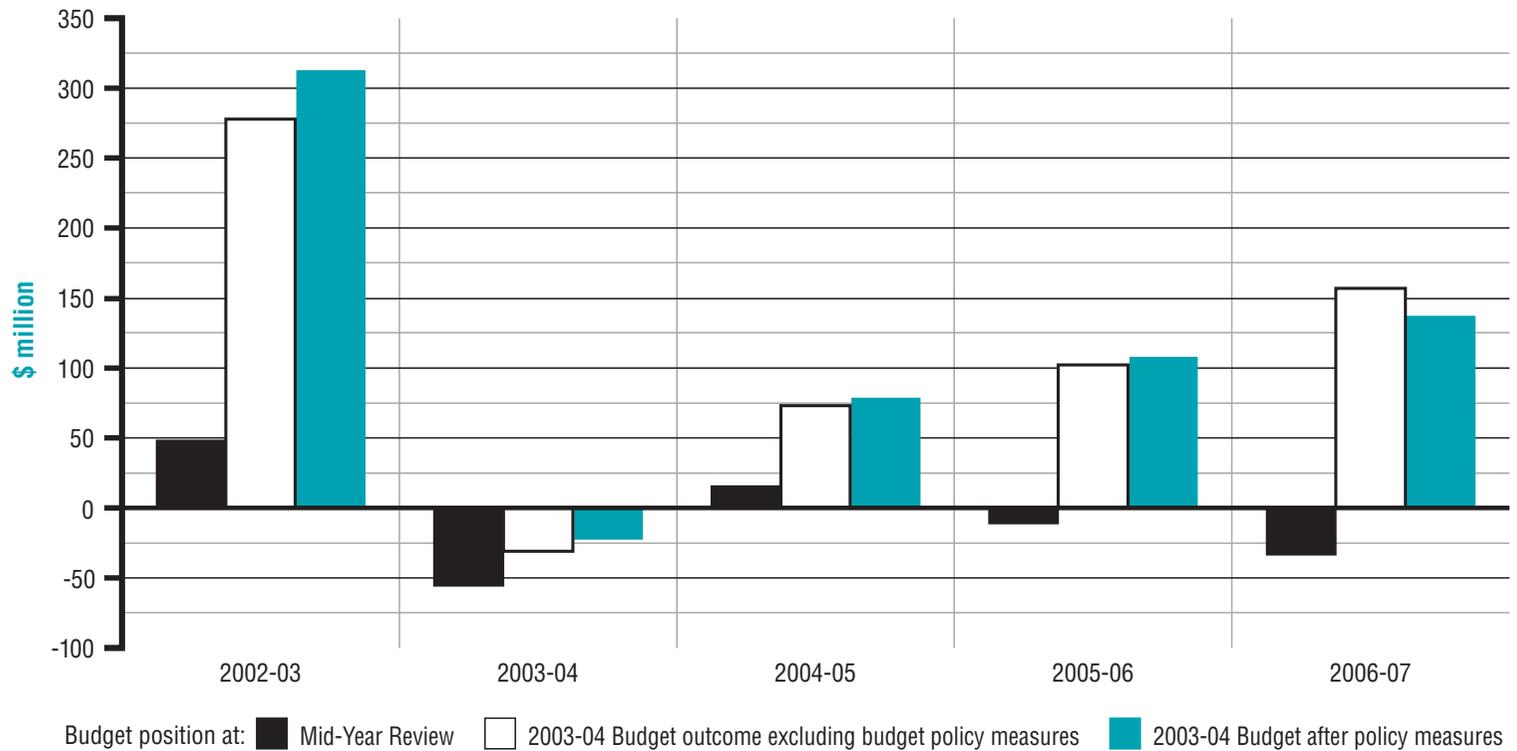
To complement its expenditure strategy, the Government has also refocused industry and economic development policy with fewer, more targeted initiatives.



Expenditure and savings strategies

The chart below compares the forward estimates before policy measures taken in this budget, and after policy measures taken in the budget with the Mid-Year Review.

Budget Position after Policy Measures



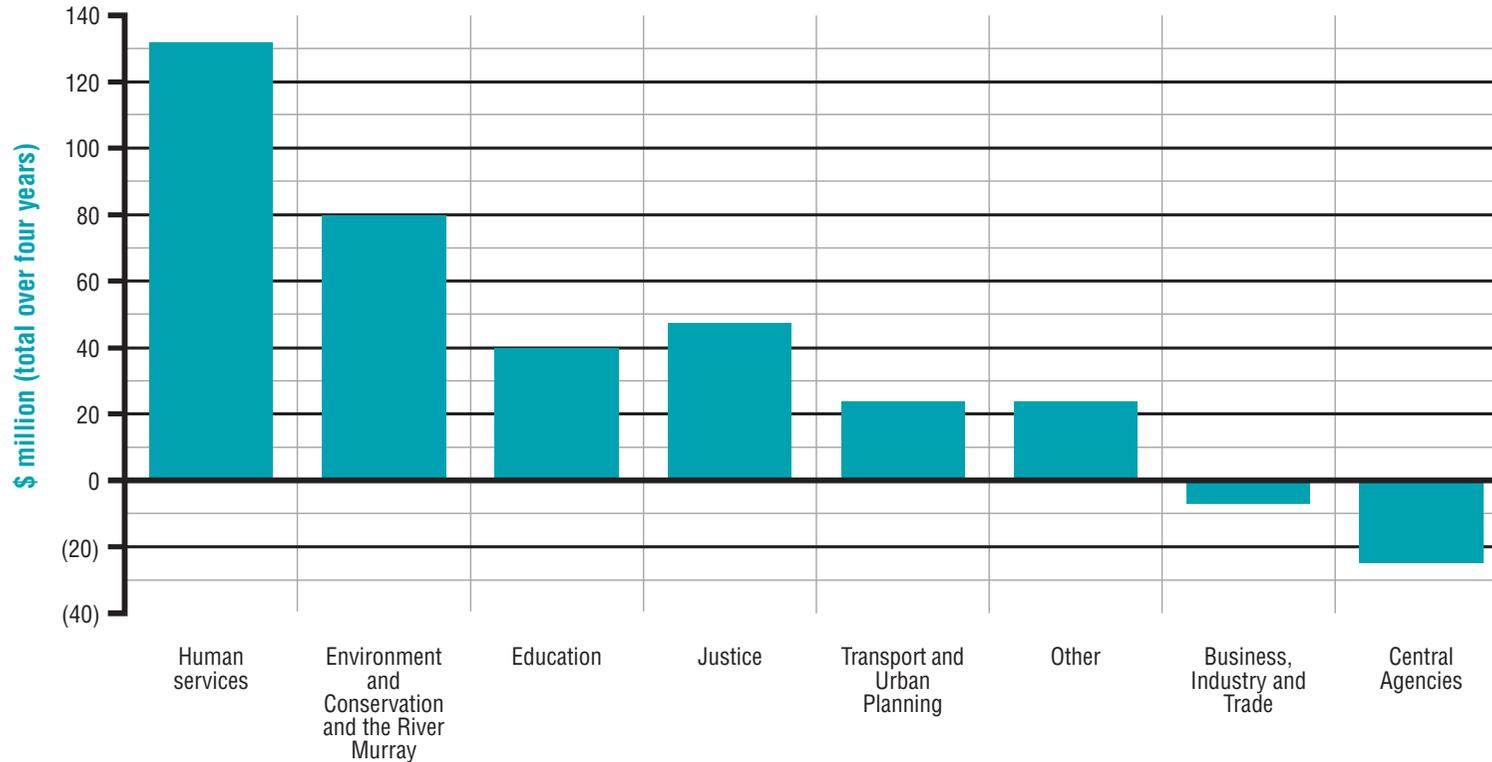
The chart shows that policy measures taken in this budget maintain improvements in finances experienced since the Mid-Year Review.

Revenue growth since the Mid-Year Review has been used by the Government to structurally improve the budget.

More funding for priority services and programs

Budget at a Glance 2003–04

Budget Impacts by Portfolio ^(a)



(a) Budget impacts funded by revenue measures and provisions set aside in the 2002-03 Budget.



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Budget priority

A stronger health system and social inclusion

In 2003-04 \$3 330.8 million will be directed to support the delivery of human services (including housing services provided by the South Australian Housing Trust). There is an increase in the Human Services portfolio budget of \$125.6 million over 2002-03.

Across government, new health and social inclusion initiatives that have received funding in the 2003-04 Budget include:

- \$66.4 million over four years – additional nursing costs (\$6.7 million per annum), increased Intensive Care Unit activity (\$7.5 million per annum) and the protection of vital blood supplies (\$2.4 million per annum)
- \$20.9 million over four years for services to disabled South Australians
- \$12.0 million over four years to address homelessness in South Australia
- \$12.0 million over four years for Anangu Pitjantjatjara Lands Strategies
- \$16.6 million over four years for additional support to alternative care systems
- \$12.0 million over four years for child protection initiatives.

Budget priority

A commitment to education

The Government has increased spending in the schools sector by \$66.0 million (or \$71.9 million including growth in State grants to non-government schools) between 2002-03 and 2003-04. This is a 1.9% increase in real terms. Expenditure per public student will rise by at least 2.9% in real terms between 2002-03 and 2003-04. New education and training initiatives that have received funding in the 2003-04 Budget include:

- \$2.0 million in 2003-04 for system-wide facilities maintenance in schools
- \$4.0 million over four years in response to recommendations from the Kirby Report for enhanced financial management capacity and infrastructure in TAFE institutes
- \$18.6 million over four years for various new initiatives and cost pressures in the TAFE system
- \$16.7 million over the next three years for essential maintenance and capital improvements in TAFE infrastructure
- \$8.0 million over four years for the employment of school counsellors.
- \$4.5 million in 2003-04 for additional employee housing for regional teachers

Budget at a Glance 2003–04



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Budget priority

Ensuring safer communities

Expenditure within the Justice portfolio amounts to \$865.1 million in 2003-04, and represents an increase of \$61.9 million between 2002-03 and 2003-04 or 5.3% in real terms. Police and Emergency Services initiatives that have received funding in the 2003-04 Budget include:

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

Budget priority

Building on the State's economic strengths

The Government has refocused industry and economic development policy with fewer, more targeted initiatives.

The former Department of Industry and Trade has been abolished. The Office of Economic Development has been established to support the Economic Development Board (EDB) and implement the State's Economic Development Framework. The Department for Business, Manufacturing and Trade has been created to provide business with advice and assistance on development opportunities, accessing export markets, training and business plans.

Economic development initiatives that have received funding in the 2003-04 Budget include:

- Defence Industry Advisory Board – \$3.4 million over four years to provide high level leadership of the State's effort to further develop the defence sector
- Establishment of a Venture Capital Board and Venture Capital Fund to develop the venture capital sector in South Australia at a cost of \$11.4 million over four years
- \$14.2 million over four years on Innovation, Science and Technology initiatives, including \$1.0 million per annum to establish the Premier's Research and Innovation Fund and \$3.1 million in 2003-04 to develop High Performance Computing facilities in South Australia (including education, expertise and industry diffusion programs)
- \$8.4 million over four years for the establishment of a Broadband Telecommunications Task Force and an infrastructure fund to develop the State's broadband telecommunications
- Additional funding to commission new works for the Adelaide Film Festival of \$2.0 million over four years.

Budget at a Glance 2003–04



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Budget priority

Saving the River Murray

River Murray Improvement Program

The 2003-04 Budget includes a number of initiatives to improve the River Murray totalling \$79.2 million over the next four years. These initiatives will be funded by a new River Murray Levy.

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

River Murray Levy

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

SA Water customers will pay a flat rate levy:

\$30 per annum for residential customers.

\$135 per annum for non residential customers.

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

The levy will be collected with SA Water bills commencing 1 October 2003.

All funds will be spent on the River Murray, pursuant to a legislative obligation.

Full year net revenue: \$20.0 million.

Budget priority

Budget at a Glance 2003–04

Regional initiatives

The Government is committed to supporting the growth of rural and regional South Australia.

The Government has established a regional development framework that includes the following initiatives:

- 13 Regional Development Boards
- establishment of an Office of Regional Affairs
- two regional offices
- Regional Communities Consultative Committee

Initiatives with a specific regional focus funded in the 2003-04 Budget include:

- \$4.5 million in 2003-04 for additional employee housing for regional teachers
- \$250,000 in 2004-05 for the upgrade of the Old Town Hall civic centre facilities at Mt Gambier
- \$500,000 in 2003-04 for maintenance work in regional theatres
- \$12.0 million over four years for initiatives in the Anangu Pitjantjatjara Lands
- \$6.1 million over four years for the accelerated implementation of the National Livestock Identification Scheme

- \$4.2 million over four years for tourism infrastructure
- \$1.3 million over three years for regional skilled migration initiatives
- \$2.0 million over four years to support intrastate tourism marketing activity
- \$1.7 million over four years for the appointment of six Country Fire Service regional management officers
- \$10.0 million over four years for essential fire management works
- \$15.6 million over four years for the State's increased contribution to the Murray Darling Basin Commission
- \$1.5 million over four years for environmental flows and wetland management
- \$900,000 over four years for water quality improvement initiatives
- \$3.4 million over four years for research into environmental flows, salinity management and sustainable irrigation
- \$57.8 million over four years for initiatives to help save the River Murray.



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Other revenue measures

Mining Royalty Rate

- Increase standard royalty rate under the *Mining Act* from 2.5% to 3.5%.
- New rate to apply by 31 December 2005.

Increased Compliance Effort

- Provision of additional funding to RevenueSA for new compliance initiatives across a range of taxes.
- New initiatives to take effect from 2003-04 with an ongoing benefit in future years.

Full year revenue gain: \$10.5 million per annum.

Modification of 2002-03 Budget measure: Rental and Mortgage Duty

- Reduce rental duty rate from 1.8% to 0.75% for commercial hire purchase and other equipment finance agreements for terms of not less than 9 months.
- Increase mortgage duty rate from 35 cents per \$100 to 45 cents per \$100 for mortgages except for
home mortgages for owner occupation – rate unchanged at 35 cents per \$100.
- New rates to apply from 1 October 2003.

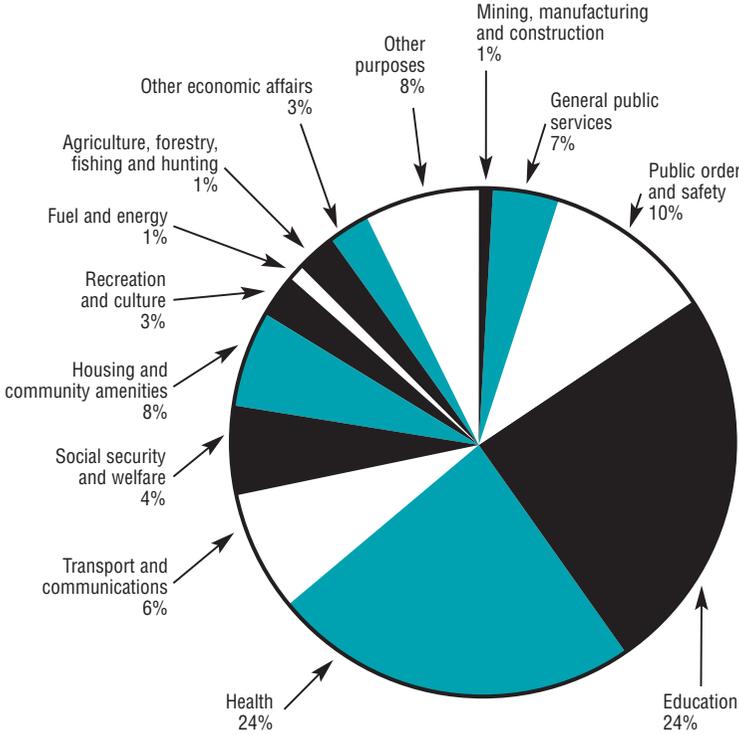
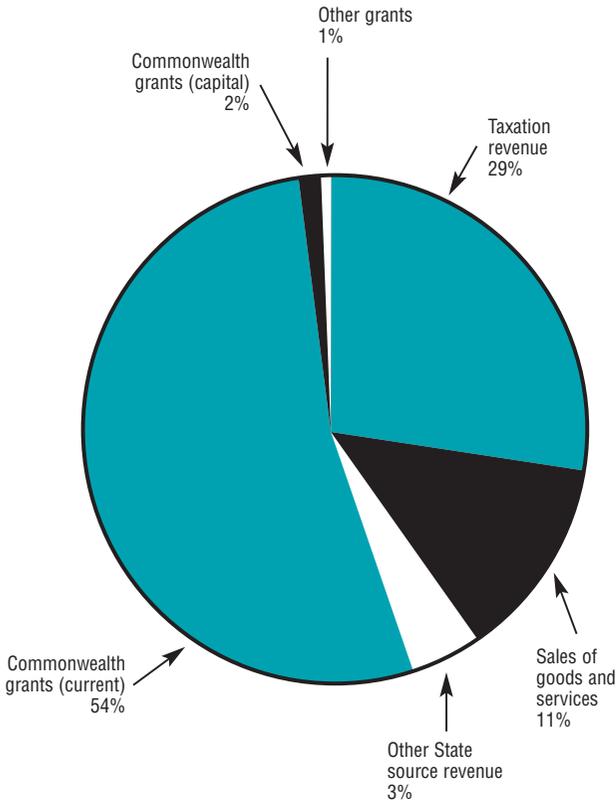
Full year revenue reduction as compared with 2002-03 measure: \$3 million per annum.

Budget aggregates: revenue & expenses

Budget at a Glance 2003–04

General government operating revenue by source (excludes distributions from government entities)

General government expenses by purpose





Managing our superannuation obligations

The Government is committed to ensuring all superannuation liabilities are funded by 2034. This commitment is maintained despite a significant increase in the unfunded superannuation liability in 2002-03.

The unfunded superannuation liability is estimated to have grown by about \$500 million in 2002-03, primarily due to:

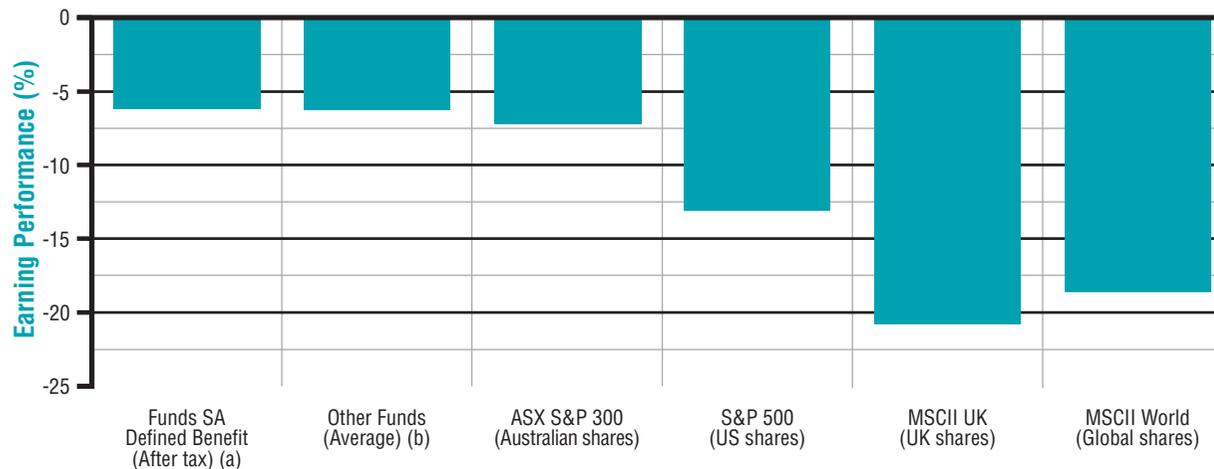
- an earnings rate of minus 3.7% for Funds SA in 2002-03 (compared to an originally budgeted 7.5%)

- the incorporation of updated membership information showing higher liabilities than previously expected.

The Government has increased scheduled cash payments for future years to ensure that all superannuation liabilities are funded by 2034.

Funds SA's earnings performance has been comparable to other "like" fund managers. While investment conditions have been very difficult, Funds SA has outperformed its benchmark for the last 6 and 12 months.

Funds SA earning performance compared with other funds for the nine months to 31 March 2003



(a) Industry surveys of balanced funds report after tax returns. As an exempt fund, Funds SA's investment products do not pay superannuation tax. For comparative purposes, an estimate of tax which would be paid on Funds SA's investment products has been made and subtracted from Funds SA's returns. This analysis is an estimate only for the purpose of comparison.

(b) Average investment return recorded in a survey of 40 funds conducted by William M. Mercer.

Economic highlights

- Economic growth in South Australia is forecast to be 2½% in 2003-04, following estimated growth of 3¼% in 2002-03.
- The sum of the State's expenditure, State Final Demand (SFD), grew by a strong 7.8% during calendar 2002, higher than the national growth in Domestic Final Demand of 6.9%.
- South Australian real household consumption spending grew by 5.8% in the 12 months to December 2002, whilst housing investment grew by 20% and business investment by 24%.
- There has been significant strengthening of the South Australian labour market in the past 2 years, with trend total employment growth through the year to April 2003 of 23 400 or 3.4%. This was higher than the national growth rate of 2.8% over the same period.
- The South Australian trend unemployment rate of 6.2% in April 2003 was 0.6 of a percentage point lower than a year earlier. South Australia's trend unemployment rate is only slightly above the national trend unemployment rate of 6.1%, and at the end of 2002 reached its lowest level for more than 25 years.
- In light of weak international markets, the strengthening of the Australian dollar and the drought, growth in South Australian overseas goods exports have weakened but nonetheless demonstrated some resilience. Export volumes increased by 4.0% in 2002 and, in nominal value terms, increased 0.5% in the 12 months to February 2003.
- As with the national economy, while continued strength in business investment is expected over the coming year, more moderate consumer spending growth and a downturn in housing construction are expected to reduce production and employment growth in the non-farm sector of the South Australian economy during 2003-04.

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Economic forecasts

Key assumptions underlying the budget and forward estimates

		2002-03 Estimated result	2003-04 Forecast	2004-05 Projection	2005-06 Projection	2006-07 Projection
Gross State Product — Real growth	%	3 ¹ / ₄	2 ¹ / ₂	2 ³ / ₄	2 ³ / ₄	2 ³ / ₄
Employment — Growth	%	2 ³ / ₄	1	1	1	1
CPI	%	4 ¹ / ₄	3	2 ¹ / ₂	2 ¹ / ₂	2 ¹ / ₂



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