



**Government
of South Australia**

MID YEAR BUDGET REVIEW

2003-04

Presented by the

Honourable Kevin Foley MP

Deputy Premier and Treasurer of South Australia

CONTENTS

1. 2003-04 BUDGET POSITION AND FISCAL OUTLOOK.....	1
2. ECONOMIC OUTLOOK	11
3. UNIFORM PRESENTATION FRAMEWORK.....	13
4. GENERAL GOVERNMENT TIME SERIES	24

1. 2003-04 BUDGET POSITION AND FISCAL OUTLOOK

Overview

The budget outlook has strengthened since the 2003-04 Budget was presented in May. A surplus of \$4 million is now forecast for 2003-04, compared with an estimated \$20 million deficit at Budget time. Significant improvements in general government net lending are also evident across forward estimates.

The improved general government sector net lending position for 2003-04 is due to a significant upward revision to revenue estimates. The impact of policy decisions, the carryover of expenditure from 2002-03 and recognition of some significant cost pressures has partly offset these improvements.

The stronger than previously anticipated revenue collections are mainly due to property related taxes. However, the forward estimates assume that the recent very strong growth will not be sustained, with the property market now expected to turn down in 2004. Previously, it had been expected that this would occur in 2003, but the national property market has been buoyant for most of this year, with the early signs of slowing only now becoming apparent.

Commonwealth general purpose grants have also been revised upwards significantly across the forward estimates period. Part of this increase is due to the expected redistribution of strong property related revenue growth in other States through the Commonwealth Grants Commission's equalisation process. Another significant component is due to upward revisions in forecast GST revenue grant payments following the publication of the Commonwealth's *Mid-Year Economic and Fiscal Outlook* (MYEFO).

The stronger revenue outlook has provided the capacity for the Government to deliver increased spending in key priority areas. Major policy decisions since the 2003-04 Budget include substantial additional funding for community services - including a major boost to funding for supported residential facilities, additional services for older and disabled South Australians through the HACC program, and increased resources for Family and Youth Services. Substantial funding has also been directed to deliver increased electricity concessions for pensioners and seniors. In addition, the Government has provided for a major expansion in police services.

As always, there are risks to the budget and they need to be considered when assessing the fiscal outlook. For example, the property market could slow more sharply than expected in the future, and the Commonwealth Government could seek to shift greater spending onto the State Government. These risks emphasise the need for continued sound budget management.

Table 1.1: Fiscal Outlook: Budget and Mid-Year Budget Review (MYBR)

Net lending	2003-04	2004-05	2005-06	2006-07
	\$m	\$m	\$m	\$m
Budget	-20	77	109	133
MYBR	4	138	147	243
Improvement	24	61	38	110

Table 1.2 provides a summary of the key general government sector budget aggregates for 2003-04 and the forward years. Detailed financial statements presented in accordance with the *Uniform Presentation Framework Agreement* are provided in Chapter 3.

Table 1.2: General Government Sector Aggregates

	2003-04 Budget ^(a)	2003-04 Estimated Result	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m
Revenue	9 161	9 403	9 627	9 858	10 169
Expenses	9 103	9 316	9 435	9 685	9 771
Gross fixed capital formation	486	486	465	452	583
Depreciation	410	405	411	426	428
Change in inventories	2	2	–	–	–
Accrual net lending	- 20	4	138	147	243
<i>Memorandum items:</i>					
Cash surplus	83	116	211	286	365
Net Debt	719	577	385	116	- 213
Unfunded Superannuation	4 611	5 980	6 091	6 196	6 296

(a) The 2003-04 Budget revenue and expenses estimates in the MYBR are based on Table A.1 Appendix A of the 2003-04 Budget Statement

Table 1.3 provides a summary reconciliation between the estimates published in the 2003-04 Budget and those presented in the MYBR. It is important to note that operating expenses have increased by around \$200 million per annum since the 2003-04 Budget. This has, on this occasion, been more than offset by revenue increases. The Government believes it would be very unwise to assume that revenue will continue to be so favourable over the longer term. Further details on major parameter and other variations are provided in Table 1.4, while Table 1.5 at the end of this section lists all policy decisions since the Budget.

Table 1.3: Reconciliation Statement – General Government Net Lending^(a)

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Estimate at 2003-04 Budget	-20	77	109	133
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
Parameter and other variations				
Revenue - taxation	191	129	108	115
Revenue - other	51	152	172	210
Operating expenses	-147	-142	-158	-151
Net capital investment expenditure	-8	-8	–	-4
Net effect of parameter and other variations	87	131	122	170
Estimate at 2003-04 Mid Year Budget Review	4	138	147	243

(a) Individual items in the table are expressed in terms of variations that impact on the budget balance (accrual net lending).

Table 1.4: Major revenue and expense variations (parameter and other) since 2003-04 Budget

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Revenue-Taxation				
Payroll tax	16	15	16	17
Property related taxes	159	98	71	76
Insurance taxes	2	7	7	8
Gambling tax	6	3	7	8
Motor vehicle taxes	8	6	6	6
Total taxation revenue	191	129	108	115
Revenue-Other				
General purpose grants	15	92	93	144
Competition grants	-8	-2	4	4
Specific purpose grants	6	31	47	38
Royalties	-5	-4	-5	-6
Agency revenue	34	35	33	31
PNFC distributions-SA Water	9	-1	-1	-1
Total other revenue	51	152	172	210
Operating Expenses				
Superannuation-nominal interest expense	-14	-14	-14	-12
Superannuation-increased defined benefits contributions	-7	-7	-7	-7
Carryovers from 2002-03	-54	—	—	—
Provision for major DHS cost pressures	-49	-53	-54	-54
DHS accrual correction	2	-26	-27	-27
Other variations	-25	-42	-56	-51
Total expenses	-147	-142	-158	-151

Operating revenue

Taxation receipts

Since the 2003-04 Budget, there have been significant upward revisions to forecast taxation revenue mainly reflecting continuing strength in the property market.

The 2003-04 Budget assumed that sustained buoyancy in the property market over a four year period commencing in 1999-2000 would abate. Provision was made for a downturn in activity commencing in 2003-04. However, continued strength in activity levels, and further growth in property prices since March 2003, have resulted in taxation revenue collections exceeding forecasts in the opening months of 2003-04.

A downturn in the property market is still anticipated in 2003-04 but is now not expected to occur until later in the financial year. The uplift in property prices is expected to deliver ongoing revenue gains over the forward estimate period, compared to the outlook at Budget time.

Growth in property prices has also caused an upward revision to projected land tax collections. The impact of the property value increases experienced to date will not be fully reflected in land tax assessments until 2004-05. As a result, upward revisions since the 2003-04 Budget to forecast land tax revenue step up again in 2004-05 before settling at that higher level. This is also the case for revenue forecasts for the fixed property component of the Emergency Services Levy.

Payroll tax receipts have been revised up over the forward estimates period reflecting underlying strength in the South Australian economy which has lifted the payroll tax base.

Forecast stamp duty on insurance premiums has been revised up reflecting a slightly stronger outcome in 2002-03 than anticipated at the time of the 2003-04 Budget. Growth in premiums has also been revised up in 2004-05 consistent with industry forecasts.

Upward revisions to forecast stamp duty on motor vehicle registrations and transfers reflect recent strong growth in new motor vehicle sales. Provision has been made for some flattening in growth from 2004-05 resulting in smaller increases against budget in 2004-05 and beyond.

Gaming machine tax estimates have been revised up reflecting stronger than budgeted expenditure on gaming in the opening months of 2003-04. This flows through as a base effect to subsequent years.

Commonwealth grants

Since the 2003-04 Budget, Commonwealth general purpose grants (excluding Competition grants) have been revised up significantly across the forward estimate period reflecting:

- revised Commonwealth estimates of GST revenues released in the Commonwealth's Mid-Year Economic and Fiscal Outlook (MYEFO). These revised estimates show that South Australia is now projected to receive grants in excess of the Guaranteed Minimum Amount as from 2003-04;
- a reduction in the provision made for revenue losses arising from the Commonwealth Grants Commission's 2004 Methodology Review, based on revised preliminary results; and
- upward revisions to revenue gains from the Commission's annual relativity updates. This mainly reflects the redistribution of stronger than previously expected revenue growth in other states.

The revisions since Budget also incorporate the effect of revised parameters (eg population growth rates) impacting on State shares of GST revenues.

Competition grants have been revised down, reflecting that South Australia will be penalised to a larger extent than expected, at least in the short term, following the National Competition Council's assessment of the State's progress in meeting National Competition Policy obligations.

Specific purpose grants have been revised up across the forward estimates period following the finalisation of the latest 5 year Australian Health Care Agreements (AHCA) in August 2003. Conservative estimates for Commonwealth AHCA revenue were incorporated in the 2003-04 Budget pending finalisation of the agreements. All of the AHCA funding will be allocated to address major health cost pressures. Provision for this expenditure is fully factored into the MYBR estimates. The change in Commonwealth SPP grants also includes the impact of slippage in capital grants for schools that were previously expected to be received in 2002-03 and a number of minor variations to estimated receipts in 2003-04.

Sales of goods and services

Revenue from sales of goods and services has been revised up across the forward estimates period. These revisions are spread across a number of agencies and include the impact of the revised property market outlook on property-related fees and charges.

Other State revenues

Royalty revenue has been revised down in 2003-04, largely as a result of a recently announced reduction in copper production by Western Mining Corporation. Negative revenue impacts from the appreciation of the Australian dollar are partly offset by higher commodity prices for petroleum liquids and base metals.

Downward revisions to royalty revenue over the remainder of the forward estimates period are mainly due to revised \$A/\$US exchange rate assumptions.

PNFC Distributions

The 2003-04 Mid Year Review includes a special SA Water dividend of \$10 million in 2003-04. This dividend is accrued in 2003-04 but paid in 2004-05. Riverland Water is to provide water quality enhancements at its Riverland filtration plants as compensation for certain economic development obligations that have not been met by Riverland Water. The benefits will be recognised by SA Water as net income, providing the capacity for increased dividends in 2003-04. SA Water distributions have also been slightly revised to account for the expected impact of water restrictions.

Operating Expenses

Since the 2003-04 Budget, Cabinet decisions have resulted in upward revisions to expenses across the forward estimates. Significant policy decisions include:

- the provision of enhanced electricity concessions for pensioners and seniors who hold a Commonwealth Seniors Health Card, at a cost of \$20 million in 2003-04;
- a \$10 million annual support package to assist supported residential facilities in providing accommodation to people with disabilities and other special needs;
- additional funding of \$19 million in 2003-04 to finalise the new enterprise agreement for salaried medical officers employed in public hospitals;
- a major expansion in resources for the SA Police to be phased in from 2003-04, with an ongoing cost when fully implemented of almost \$20 million per annum from 2006-07;
- an expansion of the number of child protection workers employed by Family and Youth Services at a full year cost of \$3.6 million; and
- additional funding support of \$1.9 million per annum for Home and Community Care (HACC) services.

A full list of policy decisions since the 2003-04 Budget is provided in Table 1.5 at the end of this section.

Further increases in estimated expenses in 2003-04 and the forward years arise from expenses carried over from 2002-03 into 2003-04 and later years.

The Government has made provision for a number of cost pressures that are considered to be unavoidable. The most significant variations relate to the Department of Human Services.

Firstly, the MYBR incorporates a correction of an understatement of expenses of \$26 million per annum from 2004-05 onwards by the Department of Human Services. These items relate to payables for the supply of goods and services (and accounts payable), employee entitlements and provisions, and certain other items. These errors first occurred in 2000 when the 2004-05 forward estimates were originally created and have been perpetuated in establishing succeeding years' forward estimates.

In addition, the Department of Human Services has reported a significant gap in its funding requirements across a range of functions. This includes a gap between the budget allocation for Family and Youth Services (FAYS) and the actual costs of operating current services. This gap has been identified in preliminary analysis undertaken as part of an audit of FAYS established by the Minister for Social Justice in June 2003. There are also significant cost pressures in the public hospital system.

The precise magnitude of the funding gaps have not yet been determined and will require further analysis before the 2004-05 Budget. In the meantime, provision has been made for a significant increase in funding of around \$50 million per annum to sustain services.

The Government is concerned about the quality of financial management practices in the Department of Human Services (DHS). It appears that for some years DHS has shifted funding across different programs to meet budget targets without transparently reporting those transfers. In order to ensure that future funding decisions are based on sound information, a thorough review of DHS funding needs and financial management systems will be conducted. This task is not anticipated to be completed until at least the 2004-05 Budget. However, the Government is committed to ensuring that DHS receives the funding it needs to deliver hospital and community services and will provide necessary funding supplementation in the interim.

Superannuation expense variations

Superannuation expenses have been revised upwards since the 2003-04 Budget in anticipation of a new Australian Accounting Standard for employee benefits. This standard is currently in draft form but is anticipated to be implemented within the next 18 months. It requires superannuation liabilities to be valued using the national government bond rate (or similar rate).

The most substantial impact is on the value of the Government's superannuation liability (see discussion of balance sheet indicators below). However, there is a consequent impact on annual expenses. In addition, the assumed long-term earnings rate on superannuation assets has been revised downwards, increasing the superannuation payments that agencies must make to fund to their superannuation obligations.

Previously the net present value (NPV) of future superannuation liabilities was calculated using the expected earnings rate of 7.5 per cent per annum. Under the proposed new

accounting standard the NPV must be calculated using an estimate of the risk-free rate. For the South Australian government this is currently around 6.0 per cent per annum.

Using the lower discount rate produces a higher NPV estimate of unfunded liabilities. The impact on the budget in accrual terms is the imputed interest on this NPV and will result in an increase in expense of around \$16.5 million per annum. Other minor variations have partially offset this impact resulting in a net increase in the nominal superannuation interest expense since the budget of \$14 million in 2003-04.

Forecast new service employee superannuation expenses have risen by around \$7 million per annum. This increase is required because the long-term earnings rate assumption has been reduced from 7.5% per annum (5.0% real plus 2.5% inflation), to 7%. This means government agencies must make higher payments to fund their employees' superannuation. The long-term earnings rate assumption now aligns with Funds SA's target rate of return for its defined benefit asset portfolio.

Balance sheet indicators

Unfunded superannuation

The estimates of unfunded superannuation liability levels have increased since the 2003-04 Budget, primarily reflecting the adoption of a revised long-term discount rate assumption. As noted above, this change has been made in anticipation of a 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% has therefore been adopted in the MYBR to value the unfunded superannuation liability – previously 7.5% was used.

In addition, the assumed earnings rate on superannuation assets has been revised to 7.0% per annum from 7.5% per annum. As noted earlier this will ensure consistency with Funds SA's target rate of return.

The adoption of the 6.0% discount rate has increased the estimated unfunded superannuation liability by around \$1.4 billion.

Other movements in the superannuation liability include:

- a \$53 million increase in the liability reflecting changes to actuarial assumptions for the Police Superannuation Scheme following the most recent triennial review of the scheme; and
- a reduction in the unfunded superannuation liability of around \$100 million as a result of the final earnings rate by Funds SA for 2002-03 being negative 0.6% compared with the negative 3.7% return projection used at budget time.

The Government remains committed to ensuring that all superannuation liabilities are fully funded by 2034. To ensure the target is met, the Government has increased scheduled cash payments for future years.

Net debt

General government net debt is forecast to further improve in 2003-04 and across the forward estimates. Net debt is forecast to fall by \$879 million from \$666 million at June 2003 to a net financial asset position of \$213 million at June 2007.

The improvement in net debt primarily reflects improvements in the general government cash surpluses. The forecast cash surpluses in 2003-04 and across the forward years gives rise to an improvement in the Government's balance sheet. However, this improvement is not sufficient to outweigh the impact of the very large increase in estimated superannuation liabilities.

The public non-financial corporations' component of the non-financial public sector net debt of \$2 129 million at June 2004 is expected to be \$57 million lower than forecast in the 2003-04 Budget.

With the improvement in general government sector and public non-financial corporations net debt, non-financial public sector net debt at June 2004 is expected to fall by \$198 million from the estimate at the 2003-04 Budget to \$2 707 million.

Risks

Key risks that were identified in the 2003-04 Budget included future growth in wages being above budget provisions; demand pressures in the Health portfolio; the impact on gaming machine revenue from the implementation of smoking bans in clubs and hotels; and the impact of the Commonwealth Grants Commission 5 yearly methodology review.

In relation to future growth in wages, an extra 0.5 per cent growth above current budget provisions would result in additional wages expense of around \$50 million per annum by 2006-07. A number of major public sector agreements are expected to be determined in 2004.

Since the 2003-04 Budget, the Government has announced that the full smoking ban will apply in gaming venues from 31 October 2007. This will have an estimated \$41 million negative impact on gaming revenue in 2007-08, and a full year impact of \$70 million per annum thereafter.

In addition, it appears that the Commonwealth Grants Commission's methodology review will result in a smaller reduction in South Australia's revenue share than previously anticipated; however, the final outcome will not be known until March 2004.

Finally taxation revenues remain at risk due to uncertainty about the property market outlook in the short term. The strength in the property market over a sustained period has exceeded the expectations of most market commentators. The unusual dimensions of the cyclical uplift cast additional uncertainty over future market adjustments in terms of severity and timing. Uncertainty about the state of the property market and its response to interest rate changes by the Reserve Bank remains a risk to Budget formulation given the potential for market sentiment to change suddenly.

Table 1.5: Policy measures since 2003-04 Budget

Portfolio	2003-04	2004-05	2005-06	2006-07
	\$m	\$m	\$m	\$m
Premier and Cabinet				
Final termination payment for former chief executive of Department of the Premier and Cabinet	-0.9	—	—	—
Installation of solar panels at Parliament House	-0.2	—	—	—
	-1.1	0.0	0.0	0.0
Business, Investment and Trade				
Safety Improvements - Adelaide Street Circuit	-1.0	—	—	—
	-1.0	0.0	0.0	0.0
Treasury and Finance				
Provision of allowances for members of the Independent Gambling Authority	-0.1	-0.1	-0.1	-0.1
Additional staff resources for the House of Assembly Whips	-0.1	-0.1	-0.1	-0.1
	-0.2	-0.2	-0.2	-0.2
Justice				
Additional resourcing to support the "Bodies-in-the-Barrels" Murders Case	-4.6	-1.1	—	—
Contribution to the National Aerial Firefighting Strategy	-0.5	-0.5	-0.5	-0.5
Additional resourcing to support the Commonwealth gun buy back program	-0.4	—	—	—
Extension of a temporary magistrate appointment	-0.1	—	—	—
Expansion of CFS Safety Awareness Programs	-0.1	—	—	—
Additional resourcing for country police and courts facilities	-0.2	0.9	-0.8	-0.9
Additional resourcing for SA Police	-1.5	-9.0	-16.8	-18.8
Additional resourcing for Director of Public Prosecutions	-0.5	-0.5	-0.5	-0.5
	-7.9	-10.2	-18.6	-20.7
Primary Industries and Resources				
Energy Efficiency Program for low-income households	-1.0	-1.0	—	—
SA Water Drought Strategy - rebate scheme	-2.2	—	—	—
Restructure of the commercial river fishery - ex-gratia payments	-2.7	—	—	—
National Livestock Identification Programs in South Australia: revised assistance package	2.2	1.4	1.5	-1.2
	-3.7	0.4	1.5	-1.2
Administrative and Information Services				
Resources to implement minimum standards code of practice within public call centres	-0.1	-0.1	-0.1	-0.1
Placement of an executive returning from the asset sales team	—	-0.2	-0.2	-0.2
	-0.1	-0.3	-0.3	-0.3
Human Services				
Public Sector Visiting Medical Specialists - enterprise agreement	-2.9	-1.1	-1.5	-1.5
Additional Home and Community Care (HACC) resourcing	-1.9	-1.9	-1.9	-1.9
Public Sector Salaried Medical Officers - enterprise agreement	-19.3	-7.0	-4.7	-4.7
Additional resourcing for Family and Youth Services	-2.1	-3.6	-3.6	-3.6
Response to critical issues in Supported Residential Facilities	-9.9	-10.2	-10.5	-10.8
Enhanced electricity concessions for pensioners and seniors	-19.5	-12.6	-12.9	-13.3
Resourcing to support increased pensioner remissions associated with increased water rates	—	-0.7	-0.7	-0.7
Kapunda Hospital and Homes Development: revised budget funding	-1.0	-0.5	—	—
Women's and Children's Hospital Emergency Department Redevelopment: revised budget funding	1.0	-1.9	-0.6	—
	-55.6	-39.5	-36.4	-36.5

Portfolio	2003-04	2004-05	2005-06	2006-07
	\$m	\$m	\$m	\$m
Education and Children's Services				
Indexation supplementation for the material services charge at government schools	-0.2	-0.3	-0.3	-0.3
Reopen Swallowcliffe Village Children's centre: revised timing	-0.3	0.1	0.2	—
Additional funding to support the 2004 Global Budget for Schools	-1.0	-2.0	-2.0	-2.0
	-1.5	-2.2	-2.1	-2.3
Environment and Conservation and the River Murray				
River Murray Environmental Flows Fund: revised timing	-0.6	-3.4	4.0	—
Additional support for the Botanic Wine and Rose Development	-0.2	—	—	—
Reversal of savings initiative - "Reducing the level of assessments including hydrogeological assessments"	-0.3	-0.3	-0.3	-0.3
Payroll tax subsidies provided to Catchment Water Boards	-0.2	—	—	—
	-1.3	-3.7	3.7	-0.3
Transport and Urban Planning				
Additional public transport safety and security initiatives	-1.6	—	—	—
Port River Expressway: revised costings	5.0	-0.5	-15.0	-0.4
Adelaide Light Rail Project: conversion from lease to direct ownership	-3.2	-6.4	-15.8	3.1
Procurement of new plant fleet: revised timing	5.7	-5.7	—	—
Investment in energy efficient measures at Transport SA's Walkerville site	-0.8	0.2	0.4	0.2
	5.1	-12.4	-30.8	2.7
Tourism				
Assistance for public liability insurance for the heritage rail and tram sector	-0.1	—	—	—
	-0.1	0.0	0.0	0.0
Other				
Sale of land for the Port Waterfront Redevelopment	1.9	0.1	0.1	0.1
Sale of ex Ports Corporation land	2.5	—	—	—
Reduction in SA Water contribution due to water conservation measures	-1.4	-1.4	-1.4	-1.4
Sale of former railway land at Mile End	1.0	—	—	—
	4.0	-1.3	-1.3	-1.3
TOTAL	-63.4	-69.4	-84.5	-60.1

2. THE ECONOMIC CONTEXT

Recent economic data suggests continued strong growth in the South Australian economy during the first half of 2003-04. Despite a weakening in consumer spending and employment in the September quarter, housing construction and business investment remained strong. It is expected that strengthening international economic conditions and the breaking of the drought will generate a recovery in overseas exports from South Australia during 2003-04.

Growth forecasts for 2003-04 have been revised upwards since the Budget in May 2003. Real growth in GSP is now expected to be 4 per cent in 2003-04, reflecting the impact of the recovery in the farm sector.

State Final Demand (SFD) growth is expected to be 3½ per cent for 2003-04, slower than in 2002-03 but still very strong. South Australian employment growth has also been revised upward slightly from Budget by ¼ of a percentage point to 1¼ per cent. The Adelaide Consumer Price Index (CPI) is estimated to increase by 2¾ per cent in 2003-04, reduced from the Budget time estimate of 3 per cent.

In 2004-05, South Australia's underlying GSP growth rate is anticipated to slow slightly to 2½ per cent in real terms. Growth in State Final Demand is forecast to slow to 2 per cent in 2004-05, reflecting a likely downturn in residential building construction and a more general slowing in domestic demand in response to the recent increases in official interest rates. With an improved global outlook and slower domestic demand growth, South Australia's net export position is anticipated to improve in 2004-05. State employment growth in 2004-05 is expected to slow to ¾ per cent. In line with the Commonwealth Mid-Year Economic and Fiscal Outlook, CPI inflation in 2004-05 is expected to fall to 2 per cent before returning to the mid-point of the Reserve Bank of Australia's target range at 2½ per cent per annum from 2005-06 onwards.

The projections for 2005-06 onwards take into consideration the expected performance of the national economy over the medium term and relative population growth rates, indicating a 2¾ per cent per annum economic growth rate for South Australia.

Table 2.1 below provides a summary of key economic forecasts and projections for both South Australia and Australia.

Table 2.1: Key Economic Assumptions – Australia and South Australia Real Growth Rates (% per annum)

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	Actual	Budget Forecast	Revised Forecast	Forecast	Projection	Projection
Australia						
GDP	2.8	3¼	3¾	3½	3½	3½
Domestic Final Demand	6.3	3	4½	n.a.	n.a.	n.a.
Employment	2.5	1¾	1½	1¾	1½	1½
CPI	3.1	2¾	2¼	2	2½	2½
South Australia						
GSP	0.1	2½	4	2½	2¾	2¾
State Final Demand	7.9	2	3½	2	2¾	2¾
Employment	2.9	1	1¼	¾	1	1
CPI	4.0	3	2¾	2	2½	2½

Sources: Australian Bureau of Statistics, Commonwealth Mid Year Economic and Fiscal Outlook 2003-04, South Australian Department of Treasury and Finance.

3. UNIFORM PRESENTATION FRAMEWORK TABLES

Table A.1 General Government Sector Operating Statement

	2003-04 Budget	2003-04 Estimated Result	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m
GFS revenue (a)					
Taxation revenue	2 463	2 653	2 687	2 716	2 828
Current grants and subsidies	4 729	4 749	4 938	5 172	5 384
Capital grants	166	168	153	138	145
Sales of goods and services	952	977	1 004	1 031	1 040
Interest income	123	123	130	142	160
Other	729	733	714	659	612
Total revenue	9 161	9 403	9 627	9 858	10 169
<i>less</i>					
GFS expenses (b)					
Gross operating expenses					
Employee expenses	4 087	4 176	4 229	4 374	4 469
Depreciation	410	405	411	426	428
Other operating expenses	2 481	2 570	2 547	2 546	2 556
Nominal superannuation interest expense	337	351	359	365	372
Other interest expenses	249	251	257	265	269
Other property expenses (c)	—	—	—	—	—
Current transfers (c)	1 516	1 541	1 617	1 700	1 669
Capital transfers (c)	23	23	15	8	9
Total expenses	9 103	9 316	9 435	9 685	9 771
<i>equals</i>					
GFS net operating balance	58	87	191	173	397
<i>less</i>					
Net acquisition of non-financial assets					
Purchases of non-financial assets	535	541	500	476	600
less Sales of non-financial assets	49	55	36	23	18
less Depreciation	410	405	411	426	428
plus Change in inventories	2	2	—	—	—
plus Other movements in non-financial assets	—	—	—	—	—
equals Total net acquisition of non-financial assets	78	83	53	26	154
<i>equals</i>					
GFS net lending / borrowing (d)	-20	4	138	147	243

(a) GFS revenue is not equal to AAS31 revenue. GFS revenue includes all (mutually agreed) transactions that increase net worth. Revaluations are not considered mutually agreed transactions, and so are excluded from GFS revenue.

(b) GFS expenses are not equal to AAS31 expenses. AAS31 expenses include all transactions that decrease net worth, whereas GFS expenses exclude revaluations and other transactions not mutually agreed.

(c) These line items are disaggregated further in ABS GFS reporting.

(d) GFS net lending also equals net transactions in financial assets less net transactions in liabilities.

**Table A.2 Public Non-financial Corporations (Public Trading Enterprises) Sector
Operating Statement**

	2003-04 Budget	2003-04 Estimated Result
	\$m	\$m
GFS revenue (a)		
Taxation revenue	—	—
Current grants and subsidies	475	469
Capital grants	—	17
Sales of goods and services	1 307	1 306
Interest income	16	16
Other	87	70
Total revenue	1 884	1 878
<i>less</i>		
GFS expenses (b)		
Gross operating expenses		
Employee expenses	210	209
Depreciation	204	203
Other operating expenses	1 011	1 015
Nominal superannuation interest expense	—	—
Other interest expenses	142	130
Other property expenses (c)	346	356
Current transfers (c)	13	13
Capital transfers (c)	6	5
Total expenses	1 931	1 930
<i>equals</i>		
GFS net operating balance	-47	-52
<i>less</i>		
Net acquisition of non-financial assets		
Purchases of non-financial assets	374	367
less Sales of non-financial assets	111	108
less Depreciation	204	203
plus Change in inventories	—	—
plus Other movements in non-financial assets	—	—
equals Total net acquisition of non-financial assets	59	57
<i>equals</i>		
GFS net lending / borrowing (d)	-106	-109

(a) GFS revenue is not equal to AAS31 revenue. GFS revenue includes all (mutually agreed) transactions that increase net worth. Revaluations are not considered mutually agreed transactions, and so are excluded from GFS revenue.

(b) GFS expenses are not equal to AAS31 expenses. AAS31 expenses include all transactions that decrease net worth, whereas GFS expenses exclude revaluations and other transactions not mutually agreed.

(c) These line items are disaggregated further in ABS GFS reporting.

(d) GFS net lending also equals net transactions in financial assets less net transactions in liabilities.

Table A.3 Non-financial Public Sector Operating Statement

	2003-04 Budget	2003-04 Estimated Result
	\$m	\$m
GFS revenue (a)		
Taxation revenue	2 287	2 480
Current grants and subsidies	4 729	4 750
Capital grants	166	185
Sales of goods and services	2 108	2 134
Interest income	89	87
Other	465	445
Total revenue	9 845	10 082
<i>less</i>		
GFS expenses (b)		
Gross operating expenses		
Employee expenses	4 243	4 336
Depreciation	614	608
Other operating expenses	3 212	3 305
Nominal superannuation interest expense	337	351
Other interest expenses	342	330
Other property expenses (c)	5	6
Current transfers (c)	1 053	1 085
Capital transfers (c)	29	28
Total expenses	9 834	10 048
<i>equals</i>		
GFS net operating balance	11	34
<i>less</i>		
Net acquisition of non-financial assets		
Purchases of non-financial assets	909	904
less Sales of non-financial assets	160	159
less Depreciation	614	608
plus Change in inventories	2	2
plus Other movements in non-financial assets	—	—
equals Total net acquisition of non-financial assets	137	140
<i>equals</i>		
GFS net lending / borrowing (d)	-126	-105

(a) GFS revenue is not equal to AAS31 revenue. GFS revenue includes all (mutually agreed) transactions that increase net worth. Revaluations are not considered mutually agreed transactions, and so are excluded from GFS revenue.

(b) GFS expenses are not equal to AAS31 expenses. AAS31 expenses include all transactions that decrease net worth, whereas GFS expenses exclude revaluations and other transactions not mutually agreed.

(c) These line items are disaggregated further in ABS GFS reporting.

(d) GFS net lending also equals net transactions in financial assets less net transactions in liabilities.

Table A.4 General Government Sector Balance Sheet

	2003-04 Budget	2003-04 Estimated Result	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m
Assets					
Financial assets					
Cash and deposits	2 199	2 139	2 280	2 432	2 758
Advances paid	1 133	1 127	1 094	1 053	1 020
Investments, loans and placements	178	177	196	214	231
Other non-equity assets	301	253	255	257	268
Equity	10 227	10 510	10 626	10 850	11 099
Total financial assets	14 039	14 205	14 450	14 806	15 376
Non-financial assets					
Land and fixed assets	11 142	11 755	11 804	11 870	12 060
Other non-financial assets	123	86	87	91	91
Total non-financial assets	11 265	11 841	11 891	11 960	12 151
Total assets	25 303	26 046	26 342	26 766	27 527
Liabilities					
Deposits held	386	332	377	398	444
Advances received	764	752	747	740	726
Borrowing	3 080	2 936	2 832	2 677	2 627
Unfunded superannuation liability (a)	4 611	5 980	6 091	6 196	6 296
Other employee entitlements and provisions	1 223	1 399	1 379	1 411	1 437
Other non-equity liabilities	912	727	718	735	746
Total liabilities	10 976	12 126	12 144	12 157	12 275
Net worth	14 328	13 921	14 198	14 609	15 252
Net financial worth (b)	3 063	2 080	2 306	2 649	3 101
Net debt (c)	719	577	385	116	-213

(a) Previous financial releases were published as 'Superannuation liability' and included accrued superannuation contributions which have now been re-classified as 'Other employee entitlements and provisions'.

(b) Net financial worth equals total financial assets minus total liabilities.

(c) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

**Table A.5 Public Non-financial Corporations (Public Trading Enterprises) Sector
Balance Sheet**

	2003-04 Budget	2003-04 Estimated Result
	\$m	\$m
Assets		
Financial assets		
Cash and deposits	184	205
Advances paid	32	19
Investments, loans and placements	16	12
Other non-equity assets	173	183
Equity	33	21
Total financial assets	438	441
Non-financial assets		
Land and fixed assets	12 198	12 515
Other non-financial assets	40	44
Total non-financial assets	12 238	12 560
Total assets	12 676	13 001
Liabilities		
Deposits held	9	9
Advances received	956	957
Borrowing	1 454	1 401
Unfunded superannuation liability (a)	2	—
Other employee entitlements and provisions	70	67
Other non-equity liabilities	351	368
Total liabilities	2 842	2 801
Net worth	9 834	10 199
Net financial worth (b)	-2 404	-2 361
Net debt (c)	2 186	2 129

(a) Previous financial releases were published as 'Superannuation liability' and included accrued superannuation contributions which have now been re-classified as 'Other employee entitlements and provisions'.

(b) Net financial worth equals total financial assets minus total liabilities.

(c) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table A.6 Non-financial Public Sector Balance Sheet

	2003-04 Budget	2003-04 Estimated Result
	\$m	\$m
Assets		
Financial assets		
Cash and deposits	2 283	2 215
Advances paid	210	203
Investments, loans and placements	194	189
Other non-equity assets	302	309
Equity	426	332
Total financial assets	3 413	3 249
Non-financial assets		
Land and fixed assets	23 340	24 270
Other non-financial assets	60	30
Total non-financial assets	23 400	24 301
Total assets	26 813	27 549
Liabilities		
Deposits held	294	212
Advances received	764	766
Borrowing	4 534	4 336
Unfunded superannuation liability (a)	4 611	5 980
Other employee entitlements and provisions	1 291	1 467
Other non-equity liabilities	992	867
Total liabilities	12 485	13 629
Net worth	14 328	13 921
Net financial worth (b)	-9 072	-10 380
Net debt (c)	2 905	2 707

(a) Previous financial releases were published as 'Superannuation liability' and included accrued superannuation contributions which have now been re-classified as 'Other employee entitlements and provisions'.

(b) Net financial worth equals total financial assets minus total liabilities.

(c) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table A.7 General Government Sector Cash Flow Statement

	2003-04 Budget	2003-04 Estimated Result	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m
Cash receipts from operating activities					
Taxes received	2 463	2 655	2 689	2 718	2 829
Receipts from sales of goods and services	965	994	1 015	1 041	1 048
Grants/subsidies received	4 839	4 881	5 066	5 308	5 527
Other receipts	821	818	825	775	745
Total receipts	9 089	9 348	9 596	9 841	10 148
Cash payments for operating activities					
Payment for goods and services	-6 893	-7 080	-7 222	-7 350	-7 480
Grants and subsidies paid	-1 366	-1 395	-1 419	-1 463	-1 429
Interest paid	-239	-248	-255	-262	-266
Other payments	-25	-26	-28	-30	-29
Total payments	-8 522	-8 749	-8 923	-9 105	-9 204
Net cash flows from operating activities	566	599	673	736	944
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	49	55	36	23	18
Purchases of non-financial assets (a)	-532	-538	-498	-474	-598
Net cash flows from investments in non-financial assets	-484	-483	-462	-450	-580
Net cash flows from investments in financial assets for policy purposes (b)	24	23	37	48	13
Net cash flows from investments in financial assets for liquidity purposes	-8	-8	-15	-12	-10
Net cash flows from financing activities					
Advances received (net)	-13	-13	-13	-13	-13
Borrowing (net)	26	-32	-127	-183	-77
Deposits received (net)	-60	-32	45	21	45
Dividends paid	—	—	—	—	—
Other financing (net)	-9	-9	—	—	—
Net cash flows from financing activities	-57	-87	-96	-175	-45
Net increase / decrease in cash held	42	43	137	147	322
Net cash from operating activities and investments in non-financial assets					
Distributions paid	—	—	—	—	—
Finance leases and similar arrangements (c)	—	—	—	—	—
Surplus / deficit	83	116	211	286	365

(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 Budget	2003-04 Estimated Result
	\$m	\$m
Cash receipts from operating activities		
Taxes received	—	—
Receipts from sales of goods and services	1 329	1 326
Grants/subsidies received	475	469
Other receipts	49	49
Total receipts	1 853	1 845
Cash payments for operating activities		
Payment for goods and services	-1 028	-1 026
Grants and subsidies paid	-28	-28
Interest paid	-146	-136
Other payments	-186	-187
Total payments	-1 388	-1 377
Net cash flows from operating activities	465	468
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	111	108
Purchases of non-financial assets (a)	-356	-350
Net cash flows from investments in non-financial assets	-245	-242
Net cash flows from investments in financial assets for policy purposes (b)	1	-3
Net cash flows from investments in financial assets for liquidity purposes	-4	-3
Net cash flows from financing activities		
Advances received (net)	-32	-32
Borrowing (net)	84	77
Deposits received (net)	—	—
Dividends paid	-332	-331
Other financing (net)	—	—
Net cash flows from financing activities	-279	-287
Net increase / decrease in cash held	-63	-68
Net cash from operating activities and investments in non-financial assets	220	225
Distributions paid	332	331
Finance leases and similar arrangements (c)	—	—
Surplus / deficit	-112	-106

(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 Budget	2003-04 Estimated Result
	\$m	\$m
Cash receipts from operating activities		
Taxes received	2 287	2 480
Receipts from sales of goods and services	2 147	2 173
Grants/subsidies received	4 841	4 882
Other receipts	478	477
Total receipts	9 753	10 013
Cash payments for operating activities		
Payment for goods and services	-7 691	-7 965
Grants and subsidies paid	-920	-955
Interest paid	-336	-333
Other payments	-106	-26
Total payments	-9 053	-9 278
Net cash flows from operating activities	700	735
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	160	159
Purchases of non-financial assets (a)	-889	-884
Net cash flows from investments in non-financial assets	-729	-725
Net cash flows from investments in financial assets for policy purposes (b)	-7	-13
Net cash flows from investments in financial assets for liquidity purposes	-12	-11
Net cash flows from financing activities		
Advances received (net)	-13	-13
Borrowing (net)	111	44
Deposits received (net)	—	—
Dividends paid	—	—
Other financing (net)	-9	-9
Net cash flows from financing activities	88	22
Net increase / decrease in cash held	39	8
Net cash from operating activities and investments in non-financial assets		
Distributions paid	-29	10
Finance leases and similar arrangements (c)	—	—
Surplus / deficit	-29	10

(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 Budget	2003-04 Estimated Result
	\$m	\$m
Taxes on employers' payroll and labour force	678	694
Taxes on property		
Land taxes	187	202
Stamp duties on financial and capital transactions	424	567
Financial institutions' transaction taxes	60	60
Other (a)	113	114
Total	784	942
Taxes on the provision of goods and services		
Excises and levies	5	5
Taxes on gambling	372	377
Taxes on insurance	271	272
Total	647	655
Taxes on use of goods and performance of activities		
Motor vehicle taxes	354	362
Other	—	—
Total	354	362
Total GFS taxation revenue	2 463	2 653

(a) Excludes taxes paid by general government units.

Table A.11: Reconciliation of general government net worth

	2003-04 Budget	2003-04 Estimated Result	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
	\$m	\$m	\$m	\$m	\$m
Net worth at beginning of year	14 288	15 288	13 921	14 198	14 609
Change in net worth from operating transactions:					
Net Operating Balance	58	87	191	173	397
Change in net worth from other economic flows:					
Movement in retained earnings of PFCs	13	13	8	98	127
Revaluations of investments in PNFCs	17	11	110	128	122
Revaluation of superannuation liability	5	-1 418	5	6	7
Other revaluation adjustments	-54	-60	-36	6	-12
<i>Subtotal</i>					
Total other economic flows	- 18	-1 453	86	238	245
Net worth at year end	14 328	13 921	14 198	14 609	15 252

4. GENERAL GOVERNMENT TIME SERIES

	1998-99 Outcome \$m	1999-2000 Outcome \$m	2000-01 Outcome \$m	2001-02 Outcome \$m	2002-03 Outcome \$m
GFS Revenue					
Taxation revenue	2 433	2 748	2 197	2 193	2 431
Current grants and subsidies	2 875	3 098	3 992	4 485	4 638
Sales of goods and services	733	696	982	902	997
Interest income	143	215	169	131	146
Other	1 034	888	768	827	925
<i>Total revenue</i>	<u>7 218</u>	<u>7 644</u>	<u>8 108</u>	<u>8 538</u>	<u>9 346</u>
<i>less</i>					
GFS Expenses					
Gross operating expenses	5 296	5 694	6 216	6 489	6 524
Nominal superannuation interest expense	277	274	248	244	299
Other interest expenses	643	601	353	272	297
Other property expenses	—	—	—	—	—
Current transfers	1 213	1 345	1 545	1 663	1 724
Capital transfers	76	59	43	44	54
<i>Total expenses</i>	<u>7 505</u>	<u>7 974</u>	<u>8 406</u>	<u>8 713</u>	<u>8 898</u>
<i>equals</i>					
GFS Net operating balance	<u>-287</u>	<u>-330</u>	<u>-297</u>	<u>-174</u>	<u>448</u>
<i>less</i>					
Net acquisition of non-financial assets					
Gross fixed capital formation	364	478	427	337	433
<i>less Depreciation</i>	323	337	322	390	401
<i>plus Change in inventories</i>	-2	—	-3	3	—
	-21	—	—	—	—
<i>plus Other movements in non-financial assets</i>					
<i>equals Total net acquisition of non-financial assets</i>	<u>19</u>	<u>140</u>	<u>102</u>	<u>-50</u>	<u>34</u>
<i>equals</i>					
GFS net lending/borrowing	<u>-306</u>	<u>-471</u>	<u>-399</u>	<u>-124</u>	<u>414</u>