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1. OVERVIEW

The 2001–2002 Budget continues to deliver sound financial management while maintaining the delivery of services to the South Australian community. Cuts to the level of taxation and the provision of funding for new expenditure initiatives are possible in this budget after a period of financial restructuring over the last seven years.

This Budget Statement discusses the State's financial position and outlook to 2004-05. A summary of the highlights contained within each of the chapters in this budget paper is provided below.

Chapter 2 Budget Strategy and Outlook

- Small surpluses are expected for the non commercial sector in 2001-02 and across the forward estimates.
- By 30 June 2001 net debt plus unfunded superannuation liabilities will have fallen to around half of 1993 levels.
- Public sector net debt fell by $4.9 billion as a result of the electricity privatisation process.
- The budget delivers reductions in the level of payroll tax, lease duty and land tax.
- $572 million over the next four years are provided for high priority expenditure initiatives.
- The budget delivers new capital works of $309.4 million over three years.
- Revenue from Commonwealth funding, taxation and royalties is higher by $430 million over the four years from 2000-01 to 2003-04 than estimated last budget.
- The plan to fully fund superannuation liabilities by 2034 remains on track.

Chapter 3 *The Accrual Budget Perspective*

- The general government net operating balance is in surplus from 2002-03 onward.
- The general government net borrowing requirement improves from $346 million in 2000-01 to $61 million in 2004-05.

Chapter 4 *Expenditure*

- The 2001-02 Budget provides for new service delivery initiatives in the areas of health in our communities, employment and economic development, early intervention for literacy and physical well-being, policing, improving the environment, investing in public transport, regional development, and the needs of older South Australians.
- In 2001-02 net interest payments will have reduced by more than two-thirds when compared to 1998-99 levels.
- The forward estimates provide for reasonable public sector wage growth.

Chapter 5 *Revenues*

- The payroll tax rate will be cut from 6% to 5.75% from 1 July 2001 with a further cut to 5.67% from 1 July 2002.
- The payroll tax-free threshold is to be lifted to $504 000 from 1 July 2002.
- The payroll tax base will be broadened from 1 July 2002.

- Financial institutions duty will be abolished from 1 July 2001.
- Stamp duty on transfer of quoted marketable securities will be abolished from 1 July 2001.
- Leases with annual lease payments below $50 000 will be exempted from lease duty from 1 January 2002.
- Emergency Services Levy rates on fixed property will be adjusted to maintain a constant level of revenue collection.

Chapter 6 *Commonwealth–State Finances*

- A new era in Commonwealth–State relations began on 1 July 2000, with GST revenues being paid to the States in lieu of financial assistance grants.
- States are guaranteed to be no worse off under the tax reform arrangements.
- The Intergovernmental Agreement implementing the new arrangements stipulated that GST revenue will be distributed among the States on horizontal fiscal equalisation principles.

Chapter 7 *Managing the State's Assets and Liabilities*

- Net assets of the Government of South Australia increased by $1.4 billion in 1999-2000.
- Net debt has fallen from $7.7 billion at June 1999 to $3.3 billion at June 2001.
- Unfunded superannuation has fallen from almost $4 billion at June 1999 to $3.3 billion at June 2001.
- Sales of government businesses have contributed to reduction in net debt of almost $7 billion since June 1993.

Chapter 8 *Government Businesses*

- Implementation of government business reforms is at an advanced stage in accordance with the timeframes agreed in the National Competition Policy agreements between the Commonwealth and the States and Territories.

Chapter 9 *Risk Statement*

- This statement has been produced for the first time in this budget.
- It outlines the range of financial risks that could affect the fiscal position and outlook presented in the 2001-02 Budget.

Chapter 10 *The South Australian Economy*

- Economic growth in South Australia is expected to be 2½% in 2001-02, following expected growth of 2¾% in 2000-01.
- The trend unemployment rate in South Australia was 7.2% in April 2001—a significant improvement from the 8.0% in April 2000. Trend unemployment in 2001 is approaching levels last experienced a decade ago.
- Overseas exports of goods from South Australia improved strongly, growing by 27% in the nine months to March 2001 compared to the nine months to March 2000.

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

Appendices B and C discuss the impact of the budget on families and women respectively.

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

Appendix E is a tax expenditure statement. This is the first time such a statement has been included in the budget papers.

A glossary and a list of abbreviations are also provided.

Throughout this budget paper, reference is made to real term aggregates and growth rates. All real terms calculations use the Adelaide CPI as the deflator. In the case of 2000-01, the expected impact of the new tax system reforms on the CPI has been estimated by the Commonwealth Treasury to be 2¾%, and in 2001-02 at – ½%. These impacts have been excluded from the deflator for the purpose of real terms calculations.

2. BUDGET STRATEGY AND OUTLOOK

HIGHLIGHTS

- Small surpluses are expected for the non commercial sector in 2001-02 and across the forward estimates.
- The budget for 2000-01 remains on track with a forecast surplus of $3 million.
- By 30 June 2001 net debt plus unfunded superannuation liabilities will have fallen to around half of the 1993 levels.
- Public sector net debt fell by $4.9 billion as a result of the privatisation of electricity assets.
- The budget delivers reductions in the levels of payroll tax, lease duty and land tax.
- $572 million over the next four years is provided for high priority expenditure initiatives.
- The budget delivers new capital projects of $309.4 million over the next three years.
- Revenue from Commonwealth funding, taxation and royalties is higher by $430 million over the four years from 2000-01 to 2003-04 than estimated in the last budget.
- The plan to fully fund superannuation liabilities by 2034 remains on track.

2.1. OVERVIEW OF 2001-02 BUDGET

The 2001-02 Budget is the final budget under the Government's four-year financial plan as first outlined in the 1998-99 Budget. Accordingly the budget remains focused on achieving a cash balance (including current and capital spending) for the non commercial sector.

The budget provides for $572 million of expenditure initiatives over the next four years in the areas of health in our communities, employment and economic development, early intervention for literacy and physical well-being, policing, improving the environment, investing in public transport, regional development, and the needs of older South Australians. The Government has introduced a Three-Year Capital Investment Program, with new capital projects over the three years totalling $309.4 million.

There are no new taxes included in this budget. Significant taxation relief measures are included as listed below.

- Payroll tax relief of an estimated $24.5 million per annum is provided.
- Leases with annual payments below $50 000 will be exempt from stamp duty from 1 January 2002.
- Relief from land tax will be provided from the 2001-02 assessment year in circumstances where an owner–occupier may incur a land tax liability at the time of acquisition for technical reasons.

Revenue from mining royalties has been revised up reflecting higher international oil and commodity prices, depreciation of the Australian dollar and increased production levels at Roxby Downs. The Commonwealth Grants Commission (CGC) 2001 Update of per capita relativities for the distribution of Commonwealth general purpose payments (GPPs) resulted in a higher than anticipated increase for South Australia.

These benefits, together with increased distributions from the Government's financial enterprises, are sufficient to fund significant expenditure initiatives, and achieve a balanced budget, without the need for new taxes.

The commitment to fully fund superannuation liabilities by 2034 is reaffirmed, with the budget providing for payments to FundsSA for the annual new service expense, as well as payments to fund the past service liability.

Both net debt and the unfunded superannuation liability have fallen significantly over the last two years. The finalisation of the electricity disposal process has reduced public sector net debt by $4.9 billion. The interest saved (based on current interest rates) in the non commercial sector amounts to $210 million in 2000-01.

2.2. FISCAL OUTLOOK

Key budget aggregates and fiscal trends

Budget and forward estimates are provided in Table 2.1 for the non commercial sector on a cash basis consistent with the four-year plan announced in the 1998-99 Budget. Budget estimates for the General Government sector on an accrual basis are provided in Chapter 3. The full suite of accrual statements produced under the Uniform Presentation Framework is provided in Appendix A.

Key fiscal trends are summarised in Table 2.2. Consistent with the Government's four-year financial plan, the budget will be in balance in cash terms across the forecast period.

The budget provides for real terms growth in final consumption expenditure (excluding past service superannuation payments) in 2000-01 and 2001-02. This reflects the Government's commitment to a range of expenditure initiatives as outlined in the 2000-01 and 2001-02 budgets. Wages outcomes which reflect greater than CPI growth in a number of employment groups have also contributed to this growth.

Reflecting the Government's strong commitment to social infrastructure, significant real terms growth in gross fixed capital expenditure was evident in 1999-2000 and is expected for 2000-01.

A number of capital programs originally budgeted for 1999-2000 and 2000-01 were carried forward into 2000-01 and 2001-02. The real terms decrease in gross fixed capital expenditure in 2002-03 largely reflects the return to a more stable level of investment spending.

Table 2.1 Non commercial sector—2000-01 to 2004-05 (excluding net proceeds of the sale of Government businesses)

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m	2002-03 Estimate $m	2003-04 Estimate $m	2004-05 Estimate $m
Current outlays						
General Govt final consumption expenditure	4 316	4 402	4 742	4 815	4 978	5 170
Net interest payments	347	256	159	177	158	161
Subsidies paid	659	776	733	668	661	648
Other[(a)]	1 003	1 118	1 131	1 130	1 144	1 135
Total current outlays	6 326	6 552	6 764	6 790	6 941	7 115
Capital outlays						
Gross fixed capital expenditure and other capital outlays	561	602	612	535	539	545
Grants	74	80	46	45	41	11
Advances	(33)	7	(20)	(10)	(9)	(13)
Total capital outlays	602	689	638	570	571	543
Total outlays	6 928	7 241	7 402	7 360	7 512	7 658
Own-source revenues						
Taxes	2 089	2 172	1 984	2 068	2 146	2 227
Net operating surplus of non commercial public trading enterprises	59	118	29	28	34	35
Income from commercial public trading enterprises	279	247	243	256	262	273
Other revenue	430	438	602	395	354	312
Own-source revenues	2 857	2 976	2 858	2 747	2 796	2 846
Grants received	3 962	4 112	4 415	4 532	4 635	4 732
Total revenue and grants received	6 819	7 088	7 272	7 279	7 431	7 578
Financing transactions						
Provisions	77	79	80	82	82	82
Deficit/(surplus)	32	74	50	(2)	(1)	(3)
Abnormal items						
Stamp duty on electricity sales/ leases	—	39	—	—	—	—
Separation payments	(20)	(69)	(40)	—	—	—
Cost associated with asset sales	(14)	(48)	(12)	—	—	—
Underlying deficit/(surplus)	(2)	(3)	(2)	(2)	(1)	(3)

(a) Grants on-passed to local government, personal benefit payments etc.

Table 2.2 Non commercial sector underlying fiscal trends—1999-2000 to 2004-05[(a)]

		1999-2000 Actual	2000-01 Revised Budget	2001-02 Budget	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
Deficit/ (surplus)—	$m	25	(3)	(2)	(2)	(1)	(3)
Current deficit/ (surplus)	$m	(390)	(636)	(563)	(494)	(496)	(470)
Capital deficit/ (surplus)	$m	416	633	561	492	495	467
Total outlays real growth	%	0.8	1.0	1.4	(2.4)	(0.4)	(0.5)
Current outlays real growth—	%	(1.7)	(1.5)	2.6	(1.4)	(0.2)	0.1
Excluding interest and superannuation [(a)]	%	0.8	6.1	2.2	(2.3)	0.1	0.0
Total capital outlays real growth	%	44.4	35.6	(9.4)	(13.0)	(2.3)	(7.1)
Final consumption expenditure—	%	(2.3)	(1.1)	7.0	0.0	0.9	1.4
Excluding superannuation [(b)]	%	(1.3)	4.5	4.0	(0.8)	0.9	1.4
Gross fixed capital expenditure	%	54.9	13.4	(0.5)	(14.9)	(1.6)	(1.4)
Own-source revenue real growth—	%	1.3	0.3	(0.0)	(6.3)	(0.7)	(0.6)
Excluding SAAMC dividends	%	0.9	(1.2)	(4.8)	(1.5)	0.3	0.1
Net interest to own-source revenue	%	13.3	8.7	5.6	6.4	5.6	5.7
Net interest to total revenue	%	6.9	3.6	2.2	2.4	2.1	2.1
Commonwealth grants	%	1.7	2.1	2.4	0.0	(0.2)	(0.3)

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

(b) Superannuation refers to the payment towards past service superannuation liability and timing impacts of the partial prepayment of 1999-2000 new service superannuation payments made in 1998-1999.

Underlying deficit

Figures 2.1 and 2.2 illustrate the improvement in the non commercial sector financial position, compared with the significant deficits incurred in 1993-94, 1994-95 and 1995-96.

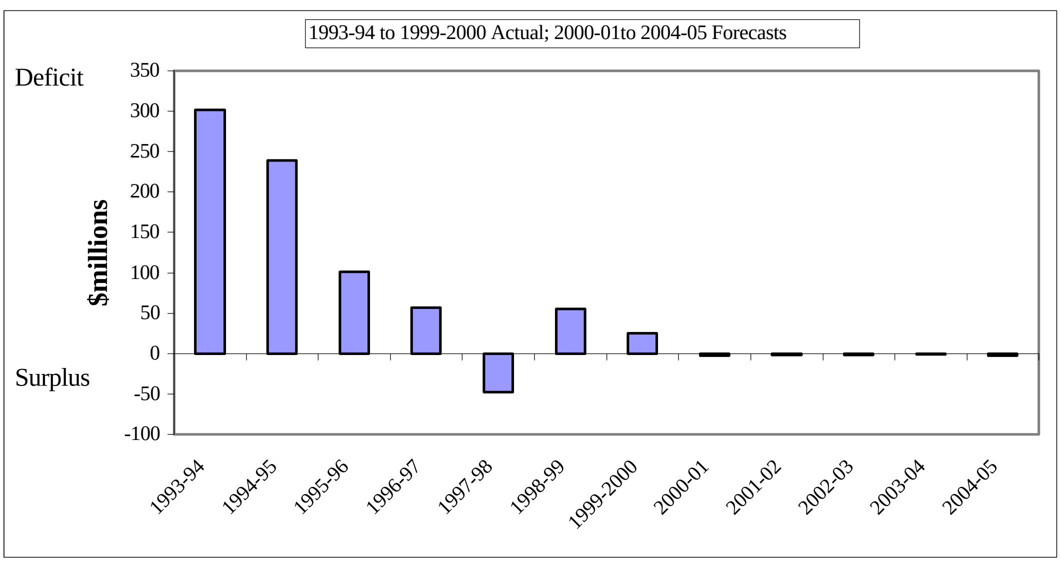


Figure 2.1 Underlying non commercial sector result

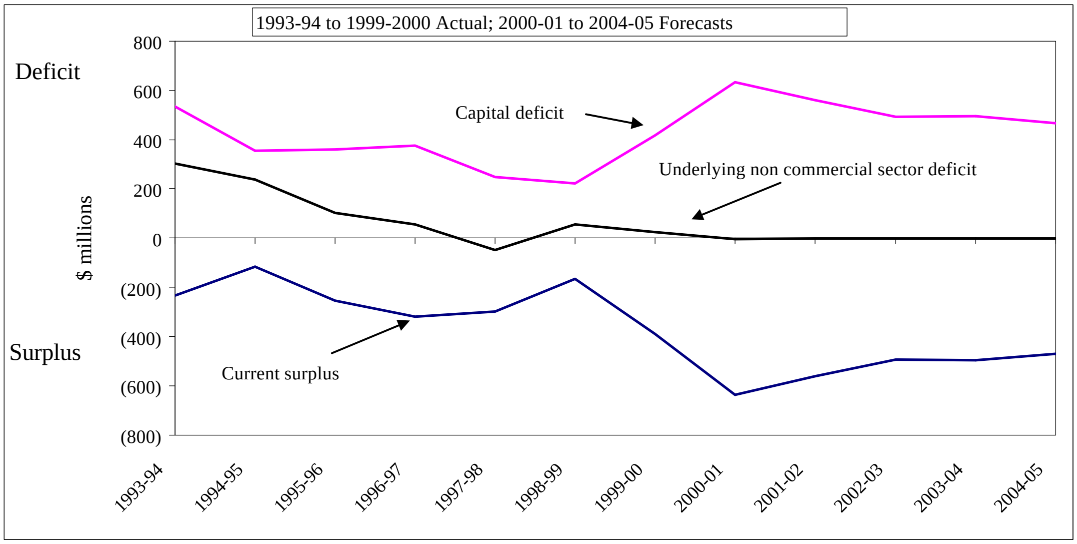


Figure 2.2 Underlying non commercial sector capital, current and total results

Compared with the period from 1993-94 to 1998-99, larger capital deficits and offsetting current surpluses underlie the balanced outlook.

2.3. KEY 2001-02 BUDGET MEASURES

Revenue

Key revenue measures included in the 2001-02 Budget are outlined below.

Payroll tax

The payroll tax rate will be cut from 6% to 5.75% with effect from 1 July 2001. A further rate cut to 5.67%, and an increase in the tax-free threshold from $456 000 to $504 000, will apply from 1 July 2002, funded through a broadening of the payroll tax base to include the full grossed-up value of fringe benefits (rather than the net value) and 'eligible termination payments'.

Lease duty

From 1 January 2002, leases with annual payments below $50 000 will be exempt from stamp duty.

Land tax

Land occupied as the principal place of residence is exempt from land tax. Relief from land tax will be provided from the 2001-02 assessment year in circumstances where an owner–occupier may incur a land tax liability at the time of acquisition for technical reasons that relate to the land tax status of the vendor or the timing of the transfer from one principal place of residence to another.

SAFA and SAAMC dividends

A review of South Australian Government Financing Authority (SAFA) capitalisation has revealed that it currently retains a higher level of capital than is required for its ongoing operation. The level of retained earnings held by SAFA will be reduced to $75 million giving a benefit to the budget of $92 million over the forward estimates period.

In addition, SAAMC dividends have been increased by $56 million.

Expenditures

Operating initiatives

- Health in our communities—This budget provides new funding for a range of public health initiatives including additional funds for public hospital acute care services and the employment of an additional 200 nurses ($23 million in 2001-02 and $69.5 million over four years), continued implementation of the Government's mental health strategy ($2 million per annum) and the continuation of the private dental purchase scheme ($2 million in each of 2001-02 and 2002-03).

- Employment and economic development—The Government has continued its commitment to supporting existing industries in South Australia and to facilitating the introduction of new firms and industries. This support varies from job brokerage services to direct industry support packages. A significant opportunity for the State over the next decade is the Asian Gateway that will be opened up by the Adelaide–Darwin rail link. These initiatives will see an additional $43.7 million spent in 2001-02 (more than $130 million over four years).

- Policing—This budget confirms the Government's commitment to reducing crime by expanding policing services. This includes the planned employment of an additional 90 police comprising officers on the street, additional resources for combating the illicit drug market (Operation Mantle) and the introduction of a dedicated police call centre to free-up front-line police time. These measures, totalling $35.4 million over four years ($10.3 million in 2001-02), complement the 112 police employed through the new funding provided in last year's budget.

- Improving our environment—A series of environmental improvement initiatives include a major investment in the Council of Australian Governments (COAG) salinity and water quality program which will see $200 million in State and Commonwealth funds expended in South Australia over the next seven years. Other environmental initiatives include metropolitan beach sand management ($6.9 million over four years including $3 million in 2001-02) and the establishment of marine protected areas across the State ($800 000 per annum).

- Investing in public transport—This budget outlines the Government's plans to capitalise upon the savings generated by the last round of competitive tendering of public transport services and reinvest these benefits in other public transport initiatives such as a range of new services ($30.3 million over four years) and additional funding for non-metropolitan bus services ($800 000 per annum).

- Regional development—A range of initiatives are included in this budget, including country water quality improvement projects ($2.1 million in 2001-02 and $32.8 million over four years); the Service SA initiative which will see 'one-stop' government services shops introduced into regional and rural areas plus the introduction of internet and call centre service delivery points for all South Australians ($6.2 million over four years); essential services improvements for remote Aboriginal communities ($700 000 per annum); and outback tourism initiatives in recognition of 2002 The Year of the Outback ($7.1 million over four years).

- The needs of older South Australians—The Government has provided additional funds for local government rate concessions for pensioners and extension of concessions to self-funded retirees (increasing from $7.7 million in 2001-02 to $8.4 million in 2003-05), and continued implementation of the Moving Ahead strategy ($1 million per annum), and Home and Community Care programs (annually this will see $2.7 million in State funds matched by over $4 million in Commonwealth funds).

- Early intervention strategies for literacy and physical well-being—The Government has continued to review service delivery options and has funded a group of initiatives which will act to influence public behaviour and perceptions in risk areas before long-term harm takes place. Initiatives in this category include the Early Years literacy strategy ($1.4 million in 2001-02 and $5.6 million over four years) and the Active for Life schools physical education program ($4 million per annum).

Investing initiatives

Key investing initiatives included in the budget are:

- a country hospitals and aged-care program totalling $18.6 million over three years, on top of the $220 million underway or planned on metropolitan hospital upgrades
- $123 million over three years for construction and refurbishment of primary, secondary and area schools
- $30.7 million in 2001-02 on the next stage of the Government's emergency services radio network
- $25 million in 2001-02 for the Adelaide–Darwin rail link
- $49.3 million over the three-year program on the Port River expressway
- a community sporting and recreation infrastructure program of $17 million over three years.

The State is contributing $176.4 million to the Adelaide-Darwin rail link with $150 million being funded from the budget and a loan of $26.4 million from the South Australian Government Financing Authority. The contribution in the 2000-01 year will be $75 million in total. This is $25 million more than expected at the time of the 2000-01 budget. The State is contributing $100 million over seven years to fund South Australia's share of the costs of National Action Plan for Salinity and Water Quality.

Key parameter changes in the 2001-02 Budget

The Commonwealth Grants Commission 2001 Update of per capita relativities for the distribution of Commonwealth GPPs resulted in a higher level of payments to South Australia than had been factored into the May 2000 budget forward estimates.

Revenue from mining royalties has been revised up since the 2000-01 Budget reflecting higher international oil and commodity prices, depreciation of the Australian dollar and increased production levels at Roxby Downs.

After adjusting for classification changes since the 2000-01 Budget and policy measures to take effect in 2001-02, taxation revenues in the forward estimate period are close to the levels forecast a year ago. In 2000-01, there is an improvement of $106 million (net of classification effects) of which $39 million is due to stamp duty on the sale/lease of electricity assets. The remaining $67 million improvement mainly reflects a stronger than expected property market including a number of large commercial property transactions and higher than budgeted revenue from gambling and insurance taxes.

Actuarial calculations relating to superannuation are reviewed on a regular basis. The last revisions resulted in a reduction in the annual new service superannuation expense of the order of $15 million per annum. The $7 million per annum saving included in Table 2.3 represents the saving over and above the saving built into the 2000-01 Budget.

Fine revenue has been revised downwards based on current collection levels.

The key parameter changes and policy decisions in the 2001-02 Budget are detailed in Table 2.3 which provides a reconciliation to the 2000-01 Budget.

Table 2.3 Reconciliation statement—underlying result, non commercial sector

	2000-01 Estimated Result $m	2001-02 Budget $m	2002-03 Estimate $m	2003-04 Estimate $m
2000-01 Budget/estimated non commercial sector underlying deficit (surplus)	(2)	(1)	(3)	(1)
plus				
Parameter effects[(a)]				
Commonwealth GPPs	(56)	(72)	(47)	(57)
Royalties	(32)	(26)	(22)	(28)
Taxation revenue	(67)	7	(10)	(20)
New service superannuation payments—revised actuarial assumptions	(7)	(7)	(7)	(7)
Fines	14	8	11	13
equals				
No policy change estimates[(b)]	(150)	(91)	(78)	(100)
plus 2001-02 Budget measures				
Policy changes				
Revenue measures				
PRT reductions, land tax and lease duty relief		24	26	28
Additional SAFA and SAAMC distributions		(94)	(50)	(4)
Timing changes [(c)]	95	(144)	(55)	58
Outlays				
Alice Springs to Darwin Railway	25			
Other new operating initiatives[(d)]	16	156	141	144
Past service superannuation [(e)]	(42)	(14)	(5)	(40)
Other net expenditure changes [(f)]	53	161	19	(87)
Equals				
2001-02 Budget/estimated non commercial sector underlying deficit (surplus)	(3)	(2)	(2)	(1)

() denotes improvement

(a) Parameter effects refer to significant impacts on the budget, the underlying causes of which are generally outside the Government's control.

(b) The starting point for policy deliberations, being the forward estimates from the previous year's budget adjusted for parameter effects only.

(c) Changes to the timing of the receipt of SAAMC and SAFA dividends, including from 1999-2000, to accommodate agency expenditure carryovers, and other timing impacts.

(d) Reflects additional funding for spending decisions made in the 2001-02 Budget including specific high priority initiatives and provisions to meet unexpected demands and new policy initiatives. Refer to Chapter 4 for more information on these initiatives.

(e) Lower superannuation payments result from the Government prepaying superannuation contributions in 1999-2000.

(f) Includes revisions to the timing of agency expenditure across years, including from 1999-2000, and other miscellaneous items.

Asset sales

The electricity asset disposal process was completed in October 2000 but the expected net impact from the disposal has been built into budgets since 1998-99. The completion of the disposal process did not provide any significant change from the figures included in the 2000-01 Budget for the non commercial sector.

The Government has allocated $100 million over seven years to fund the salinity program. This is the State's contribution to the National Action Plan for Salinity and Water Quality which commits expenditure of $1.4 billion over seven years to addressing the problems of salinity. Each year it is intended that the expenditure will be offset by reductions in payments for past superannuation liabilities. This means there will be no net impact on annual budgets.

The reductions in payments for past superannuation liabilities will in turn be funded by payments of proceeds from the sale of Ports Corporation to FundsSA. This will ensure that there is no adverse impact on the Government's commitment to fund past service superannuation payments by 2034. The payment of the proceeds of Ports Corporation sale to FundsSA is not reflected in current budget figures as the sale has yet to occur.

2.4. NET DEBT AND UNFUNDED SUPERANNUATION

Table 2.4 and Figure 2.3 demonstrate the fall in net debt in recent years. The impact of applying the proceeds (net of costs) of the electricity disposal process to debt reduction is apparent. Net debt was reduced by $4.9 billion as a result of this process, $3.7 billion in 1999-2000 and $1.2 billion in 2000-01.

Table 2.4 Non financial public sector net debt—June 2000 to June 2005

As at June		2000 Actual	2001 Estimated Result	2002 Budget	2003 Estimate	2004 Estimate	2005 Estimate
Net debt							
Nominal	$m	4 355	3 270	3 392	3 451	3 433	3 356
Real [(a)]	$m	4 491	3 270	3 318	3 289	3 193	3 048
As a % of GSP [(b)]	%	10.3	7.2	7.2	7.0	6.6	6.1
Net debt plus unfunded superannuation							
Nominal	$m	7 898	6 572	6 791	6 909	6 949	6 925
Real [(a)]	$m	8 145	6 572	6 643	6 586	6 464	6 290
As a % of GSP [(b)]	%	18.7	14.5	14.4	13.9	13.3	12.5

(a) June 2001 prices.
(b) Nominal Gross State Product (GSP) forecasts are calculated by applying Treasury and Finance's estimate of real growth, to 'current' real GSP followed by inflating real GSP to nominal GSP by applying the Commonwealth Treasury forecasts of the non-farm GDP deflator for 1999-2000 and 2000-01 and CPI projections (as a proxy for the non-farm Gross Domestic Product (GDP) deflator) thereafter.

The reduction in net debt between June 2000 and June 2001 (estimated) of $1.1 billion is less than the $1.2 billion net proceeds from the electricity disposals received in 2000-01. This is mainly due to the borrowing requirement of the SA Water Corporation (SAWater) and funding of targeted voluntary separation packages (TVSP). In addition, the principal value of debt outstanding has increased due to expected book losses on debt management activities associated with the early repayment of high interest rate debt in a lower interest rate environment. The increase in the nominal value of the debt is offset by lower future interest payments.

Notwithstanding the balanced non commercial sector forecast in 2001-02, net debt will rise marginally. SAWater will increase its borrowings in 2001-02 to fund an enhanced capital works program that is underpinned by an approved five-year Community Services Obligations Plan to meet its environmental improvement and other regional development priorities. Further borrowing is expected to provide funds for the enhanced TVSP scheme. Provision has also been made for further book losses on debt management activities.

The General Government component of the non financial public sector net debt at June 2001 is $1.2 billion ($1.9 at June 2000).

The unfunded superannuation liability falls from June 2000 to June 2001 as a result of the net effect of

- a revision to actuarial assumptions
- an expected below trend earnings rate by FundsSA in 2000-01
- nil past service superannuation payment in 2000-01 because the scheduled payment towards the 2034 payment plan in 2000-01 was prepaid in earlier years.

Chapter 7 provides more information on the management of superannuation assets and liabilities.

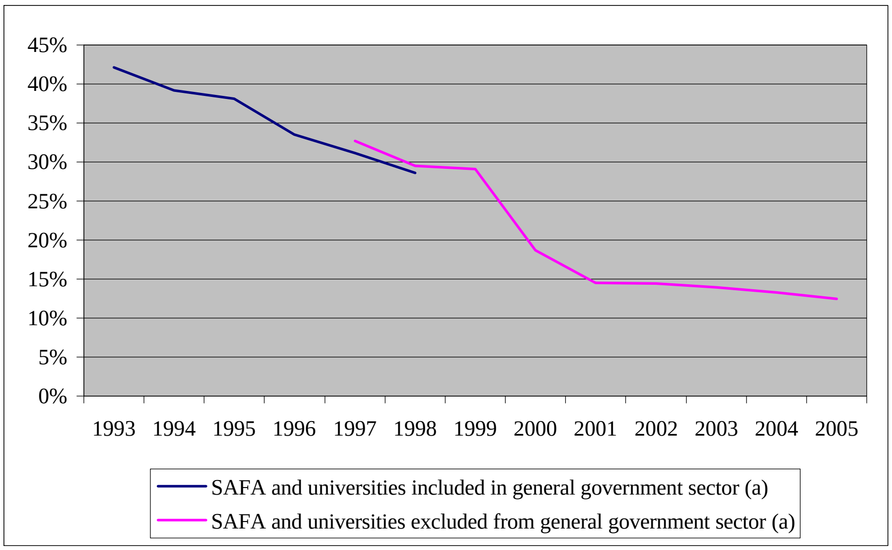


Figure 2.3 **South Australian non financial public sector net debt plus unfunded superannuation liabilities as a percentage of GSP [(b)]**

(a) 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 individual State finance statistics and are treated as belonging to a ‘multi-jurisdictional’ category.

(b) Nominal GSP forecasts are calculated by applying Treasury & Finance’s estimate of real growth to ‘current’ real GSP—followed by inflating real GSP to nominal GSP by applying the Commonwealth Treasury forecasts of the non-farm GDP deflator for 1999-2000 and 2000-01 and CPI projections (as a proxy for the non-farm GDP deflator) thereafter.

2.5. PROGRESS AGAINST THE FOUR-YEAR PLAN

A final assessment of the Government’s performance against the four-year financial plan will not be possible until the release of the 2001-02 Outcome Report.

The medium-term budget objectives as set out in the 1998-99 four-year financial plan and the Government’s achievements to date against these objectives are summarised below.

To maintain the non commercial sector in underlying balance over the medium term

This objective has now been achieved.

Small surpluses are forecast for 2000-01 and 2001-02.

To further reduce debt in real terms with the aim of achieving an AA+ plus rating as soon as possible

As a result of the first tranche of electricity asset disposals, and the consequent reduction in State debt of $3.4 billion, Standard & Poor's increased the State's credit rating from AA to AA+ in December 1999.

Finalisation of the electricity asset disposal process has resulted in over $5.3 billion of proceeds being received and a reduction in net debt of $4.9 billion.

Net debt will fall from 19.3% of GSP at June 1998 to approximately 7.2% of GSP in June 2002.

Reflecting the significant decline in net debt, net interest to underlying own source-revenue for the non commercial sector is expected to fall from 20.2% in 1997-98 to 5.6% in 2001-02.

To eliminate the State's unfunded superannuation liability

The Government has retained and continues to meet its target of fully funding unfunded superannuation liabilities over a 40-year period (by 2034).

To ensure the State has a competitive tax regime for business and job creation

South Australia is estimated to remain third lowest of the States in terms of tax revenue per capita in 2001-02. Per capita tax relativity for 2001-02 reflects recent budget announcements in Victoria and decisions reflected in this South Australian Budget.

To ensure the State has an adequate economic and social infrastructure to promote business investment and contribute to social well-being

The Government has introduced a Three-Year Capital Investment Program, with the net cost for new capital projects to the Government over the three years totalling $309.4 million of which $108.1 million occurs in 2001-02.

The program incorporates major projects across all sectors of Government to improve services to the community.

Further information on the Government's capital program for 2001-02 is provided in the Capital Investment Statement.

To provide community services to a standard and level at least comparable with other States

The 2001-02 Budget contains new expenditure initiatives totalling $572 million over four years that will further stimulate the economy, boost employment opportunities, encourage regional development and improve core community services.

Further information on the expenditure initiatives contained in the 2001-02 Budget is provided in Chapter 4.

3. THE ACCRUAL BUDGET PERSPECTIVE

HIGHLIGHTS

- The general government net operating balance is in surplus from 2002-03 onward.
- The general government net borrowing requirement improves from $346 million in 2000-01 to $61 million in 2004-05.

3.1. INTRODUCTION

In April 2000 the Australian Bureau of Statistics (ABS) released its first accrual-based Government Finance Statistics (GFS) publication. All Australian governments have agreed to a uniform presentation framework (UPF) for budgets that adopts the accrual standards used by the GFS.

The primary objective of the UPF is to provide a common core of financial information within the budget papers of the Commonwealth, States and Territories. This uniform approach allows a meaningful comparison of each government's financial estimates.

The other main accrual-based standard for public sector reporting is Australian Accounting Standard AAS31, *Financial Reporting by Governments*. The Government presents consolidated financial statements consistent with this standard annually.

The GFS standard was adopted as the basis for the UPF largely for the following reasons:

- The ABS was considered able to provide a consistent point of reference for the interpretation of GFS standards and classifications decisions for all governments.
- The GFS standard has an economic focus which was seen as important in assessing the impact of a government's policies on the economy.

Appendix A provides a conceptual reconciliation between both reporting types.

The focus of government management of the public sector is the non commercial sector, which includes the general government sector as defined in the ABS GFS accounts plus non commercial public non financial corporations (PNFC). Given that the impact on the financial position of the Government from the non commercial PNFCs is reflected in payments from the general government sector to those PNFCs the general government figures represent the Government's overall budgetary position.

3.2. NET OPERATING BALANCE

The net operating balance is the difference between GFS revenue and GFS expenses. The net operating balance includes non-cash expenses such as accruing employee entitlements and depreciation.

Table 3.1 and Figure 3.1 present the general government sector net operating balance for the 2000-01 estimated result, the 2001-02 Budget and forward estimates. The ABS does not treat any expenditure as abnormal. Therefore the numbers in Table 3.1 include expenditure such as GST implementation costs and targeted voluntary separation payments. This partly explains why these figures compare unfavourably with the underlying non commercial sector deficit/surplus figures. Full financial statements for the general government, non financial public corporations and total non financial public sector are contained in Appendix A.

Table 3.1 General government sector net operating balance

	1999-2000 Actual	2000-01 Amended Budget [a]	2000-01 Estimated Result	2001-02 Budget	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
	$m	$m	$m	$m	$m	$m	$m
GFS revenue	7 644	7 999	7 880	8 141	8 194	8 319	8 470
GFS expenses	7 974	8 191	8 101	8 179	8 174	8 314	8 387
Net operating balance	**(330)**	**(192)**	**(221)**	**(38)**	**19**	**4**	**83**

(a) The 2000-01 amended budget reflects the ABS publication 5501.01 Government Financial Estimates, Australia 2000-01 released 2 November 2000 adjusted to treat GST assistance from the Commonwealth Government as a grant.

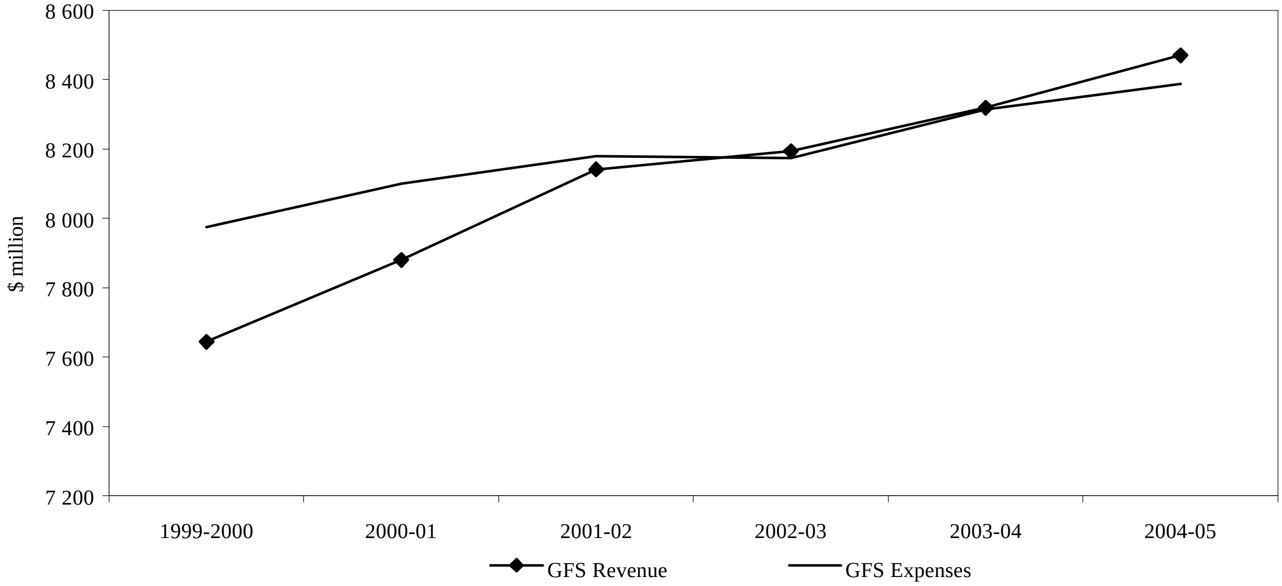


Figure 3.1 General government total revenue and total expenses

The general government net operating balance is expected to improve over the forward estimates period from a deficit of $221 million in 2000-01 to a surplus of $83 million in 2004-05.

Expenses in 2000-01 and 2001-02 are above trend due to carryover of expenditure budgeted in prior years and the higher level of targeted voluntary separation payments compared to later in the forward estimates period.

3.3. NET LENDING

Net lending/borrowing (sometimes referred to as fiscal balance) measures a government's investment-saving balance.

A government's net lending/borrowing is calculated by deducting the net acquisition of non-financial assets (equivalent to net capital expenditure less depreciation expense) from the net operating balance. By including the full amount of investment spending, the extent to which total spending decisions, including social capital spending, are covered by current revenues is shown.

General government net borrowing (ie fiscal balance deficit) is expected to improve from $346 million in 2000-01 to $61 million in 2004-05. This is illustrated in Figure 3.2.

The Government recognises the desirability in any given year of funding its capital expenditure net of depreciation expense from a surplus net operating balance. Notwithstanding the budgeted surpluses in the net operating balance, they are insufficient to achieve a balanced net lending position across the forward estimates period. The Commonwealth and a number of State jurisdictions are in a similar position.

Achieving a balance in net lending will be a budget objective by the end of the next four-year financial plan.

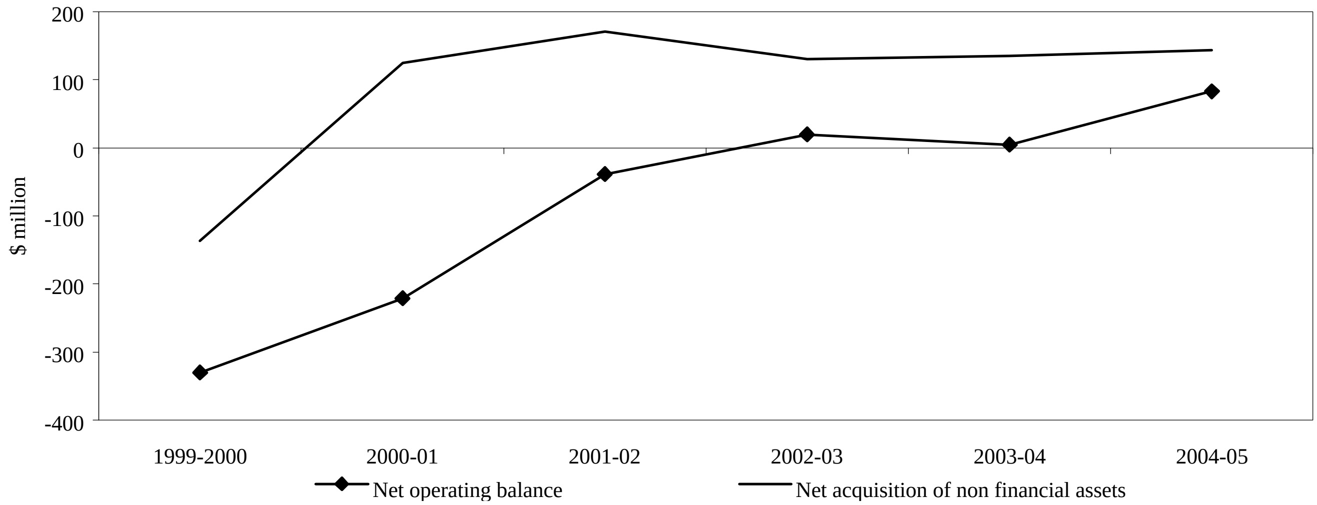


Figure 3.2 General government net operating balance vs net acquisition of non financial assets

3.4. COMPARISON WITH CASH-BASED NON COMMERCIAL SECTOR CURRENT SURPLUS

In broad terms, differences between the accrual operating result and the cash-based current surplus arise as a result of depreciation and accruing employee entitlements being included as charges against the operating result but not included in the cash-based deficit. Conversely, the cash-based deficit includes cash invested in new capital assets during the year and cash payments for employee entitlements, particularly long service leave and superannuation, items that are not included in the operating result.

Table 3.2 presents a reconciliation of the general government net operating balance to the non commercial sector deficit before adjusting for abnormal items.

Table 3.2 Reconciliation of general government net operating balance and non commercial sector deficit

	2000-01 Estimated Result $m	2001-02 Budget $m	2002-03 Estimate $m	2003-04 Estimate $m	2004-05 Estimate $m
General government net operating balance	**(221)**	**(38)**	**19**	**4**	**83**
add back					
Depreciation and amortisation	350	350	355	361	362
less					
Change in inventories	2	1	2	2	0
Acquisition of non financial assets	474	519	483	494	506
General government net lending	**(346)**	**(209)**	**(111)**	**(130)**	**(61)**
add back					
Nominal superannuation interest	247	239	244	248	253
Accrued expenses	20	60	37	47	(38)
Advances	(7)	20	10	9	13
less					
Accrued revenue	6	(18)	(25)	(34)	(28)
Past service superannuation payment	0	(134)	(177)	(184)	(192)
Distributions from non commercial PNFCs	(40)	(11)	(11)	(13)	(12)
Other	(3)	11	(4)	(4)	(6)
General government contribution to the non commercial sector surplus/(deficit)	**(121)**	**(43)**	**(38)**	**(60)**	**(71)**
add back					
Contribution by non commercial PNFCs surplus/(deficit)	(47)	7	(40)	(61)	(73)
Non commercial sector surplus/(deficit) before abnormals	**(74)**	**(50)**	**2**	**1**	**3**
add back					
Abnormals	78	52	0	0	0
Underlying (deficit)/surplus	**3**	**2**	**2**	**1**	**3**

4. EXPENDITURE

HIGHLIGHTS

- The 2001-02 Budget provides for new service delivery initiatives totalling $572 million over the next four years.
- Current outlays excluding interest and past service superannuation payments are maintained in real terms across the forward estimates.
- The Government's capital investment program for 2001-02 totals $1035 million, including $309.4 million of new capital projects over the period 2001-02 to 2003-04 as part of a three-year capital investment program.
- In 2001-02 net interest payments will have reduced by more than two-thirds when compared to 1998-99 levels.
- The forward estimates maintain the Government's commitment to fully fund the past service superannuation liability by 2034, and provide for reasonable public sector wage growth.

4.1. OVERVIEW

The discussion in this section on trends in outlays is followed by a discussion on key components of total outlays in Section 4.2, while Section 4.3 provides details of specific service delivery and capital investment initiatives, including an overview of service delivery priorities and initiatives for each portfolio. Section 4.4 highlights South Australian service delivery performance against State and national benchmarks.

In this chapter, 'outlay' is a measure of government spending consistent with the previous cash-based government finance statistics (GFS) and the Government's overall cash-based fiscal strategy. The key differences between total cash outlays on the previous cash GFS basis and total operating and investing cash payments on a basis consistent with generally accepted accounting principles, are that the previous GFS outlays are net of revenues from charges related to providing services and capital receipts. The term 'expenditure' is a measure of spending on operating activities on an accruals basis consistent with generally accepted accounting principles.

An analysis of the real growth in outlays across the forward estimate period is provided in Table 4.1 and displayed in Figure 4.1. Current outlays before interest and superannuation are maintained in real terms across the forward estimates while net interest payments decline substantially over the same period. In 2001-02 net interest payments will have reduced by more than two-thirds when compared to 1998-99 levels. Significant real terms growth in capital outlays was evident in 1999-2000 and is expected in 2000-01. The decreases evident across the forward estimates largely reflect the return to a more stable level of investment spending as a number of major projects finish or near completion. However the level of capital outlays is maintained at a higher level than that which existed in 1998-99.

Table 4.1 Underlying cash outlay[(a)] indicators—forward estimates

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m	2001-02 Real Growth [(b)] %	2002-03 Real Growth %	2003-04 Real Growth %	2004-05 Real Growth %
Total outlays	6 894	7 124	7 351	1.4	(2.4)	(0.4)	(0.5)
Current outlays—	6 291	6 435	6 713	2.6	(1.4)	(0.2)	0.1
Excluding interest	5 944	6 179	6 554	4.3	(1.7)	0.1	0.1
Excluding interest and superannuation	5 902	6 179	6 420	2.2	(2.3)	0.1	0.0
Final consumption expenditure—	4 301	4 287	4 690	7.0	0.0	0.9	1.4
Excluding superannuation [(c)]	4 259	4 287	4 556	4.0	(0.8)	0.9	1.4
Net interest payments	347	256	159	(39.4)	8.5	(13.0)	(0.1)
Capital outlays	602	689	638	(9.4)	(13.0)	(2.3)	(7.1)

(a) Excludes separation payments, asset sales costs and stamp duty on electricity sales/leases. Adjusted for the effects of the Commonwealth's tax reforms.

(b) Adjusted to remove impact of expenditure increases and State tax reduction on account of implementation of Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations.

(c) Superannuation refers to the payment towards past service superannuation liability and timing impacts of the partial prepayment of 1999-2000 new service superannuation payments made in 1998-99.

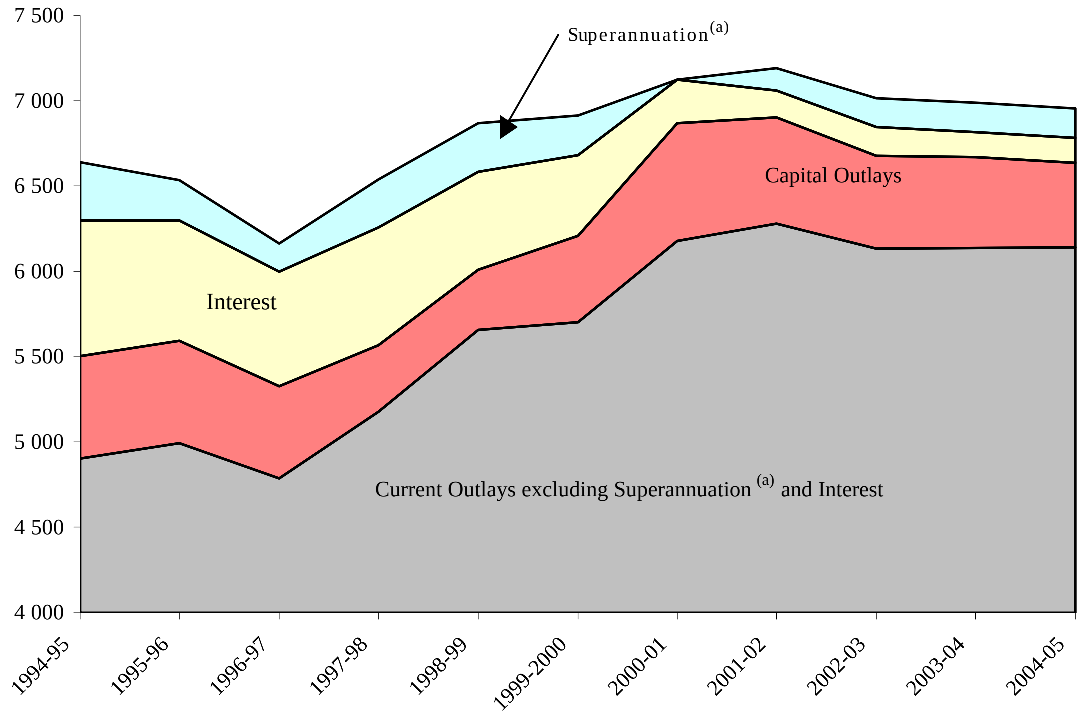


Figure 4.1 Non commercial sector real terms cash outlays—1994-95 to 2004-05

(a) Superannuation refers to the payment towards past service superannuation liability and timing impacts of the partial prepayment of 1999-2000 new service superannuation payments made in 1998-99.

4.2. KEY COMPONENTS OF OUTLAYS

Interest payments

The timeseries of actual and forecast net interest payments in Figure 4.2 compares forecasts in the 2001-02 Budget with adjusted figures to show the effect on interest if the electricity asset disposal process had not taken place. Consistent with the March 2001 Auditor-General's report, savings of around $210 million in 2000-01 for the non commercial sector at current interest rates are evident.

The lower level of debt resulting from the application of the net sale/lease proceeds to debt reduction lessens the sensitivity of the budget to interest rate movements. For example an average increase of just 2% in interest rates on a net debt of $8 billion would lead to increased annual interest costs of about $160 million.

While the budget benefits from lower interest costs as a result of the electricity asset disposal process, it also loses the revenue stream of distributions from the electricity entities. Attempting to estimate what the level of distributions might have been if the electricity entities remained in public ownership is becoming an increasingly speculative exercise.

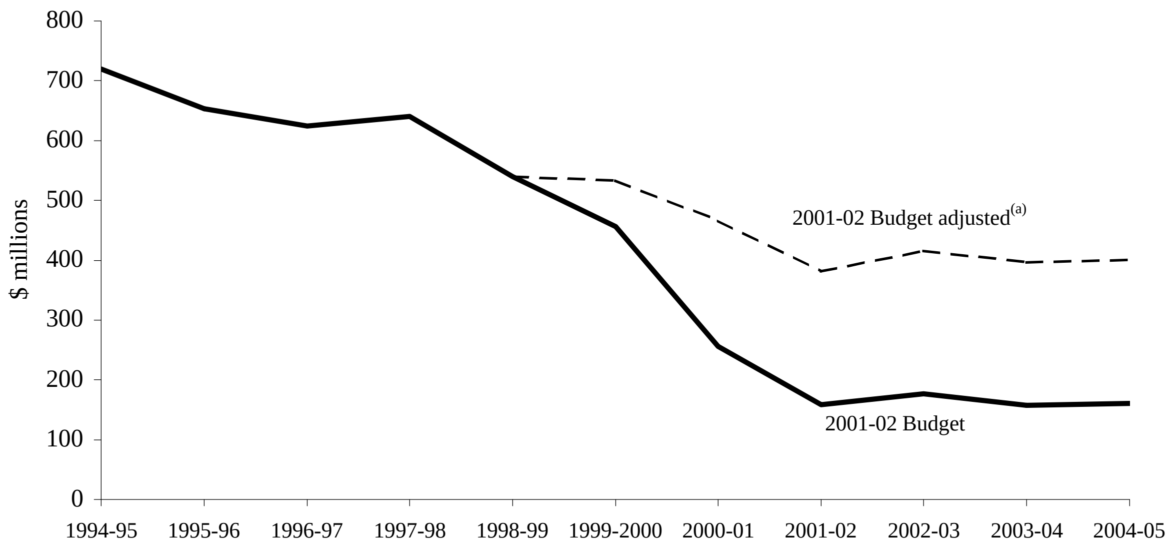


Figure 4.2 Non commercial sector net interest payments—1994-95 to 2004-05

(a) 2001-02 Budget net interest payments adjusted to remove the benefit of electricity asset disposals at current interest rates.

Superannuation

In the 1994-95 Budget, the Government began a strategy to reduce the State's liabilities by fully funding superannuation liabilities. The strategy, modified in 1999-2000, involves a schedule of annual payments being invested with FundsSA to fully fund the liability for 'past service' superannuation by 2034. Contributions for 'new service' superannuation are also paid to FundsSA each year.

Table 4.2 provides a summary of the past service superannuation liability payments made since 1994-95, and those projected for the forward estimates period, as at the 2000-01 Budget and as reflected in this budget.

An independent actuary was used to perform the triennial actuarial review of South Australian superannuation schemes. On 2 September 2000 the Treasurer approved the adoption by the Department of Treasury and Finance of the assumptions underlying that review. A real earnings rate (and discount rate) of 5% (formerly 4%) and a real salary growth of 1.5% (formerly 1%) have been assumed. The major financial implications arising from the adoption of the revised assumptions are:

- a reduction in the annual superannuation expense ('new service' expense) of the order of $15 million per annum
- a reduction of $618.5 million in the balance of the 'unfunded superannuation liability'.

The Government has retained its target of fully funding superannuation over a 40-year period (by 2034).

Further information on the management of superannuation assets and liabilities can be found in Chapter 7.

Table 4.2 Estimates of past superannuation liability payments

	1994-95 to 1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	Total
	$m	$m	$m	$m	$m	$m	$m
2000-01 Budget	1 082 (a)	127 (b)	42	148	182	224	1 805
2001-02 Budget(c)	1 082 (a)	227 (a)	0	134	177	184	1 805
2001-02 Budget (if Ports Corp included)	1 082 (a)	227 (a)	0	217	155	163	1 844

Totals may not add due to rounding.

(a) Actual.

(b) Estimated result for 1999-2000 at the time of the 2000-01 Budget.

(c) The expected payment towards past service superannuation from Ports Corporation sale proceeds in 2001-02, and subsequent reductions in annual past service payments, are not reflected in the budget as the sale has yet to occur.

Agency savings

As part of the 2000-01 Budget, the Government set a target of reducing total public sector expenditure on consultants by at least $40 million over two years compared to 1999-2000 expenditure levels. As part of this policy non commercial sector agencies were to target a 20% reduction in consultancy expenditures over two years to help fund any new initiatives. The $40 million reduction is on target, and should see costs decline from around $105 million in 1999-2000 to below $65 million during 2001-02.

The last round of competitive tendering of metropolitan bus services provided the Government with annualised savings of $7 million per annum (net benefit after redundancy payments and funding for redeployees). This budget sees the Government reinvesting these savings into additional public transport services.

In this budget the Government has adopted the following two additional strategies to assist portfolios to manage within the budget targets that have been established:

- the adoption of a 5% reduction target over two years in the number of administrative executive positions
- a 1% efficiency measure over two years across all non-salary costs (excluding Commonwealth funded programs) which will be retained by portfolios to assist the management of emerging cost pressures and new initiatives.

These measures should see around $20 million freed up from existing portfolio cost structures and be available to be applied to cost pressures and new initiatives within portfolios.

In addition portfolios have access to the Enhanced Targeted Voluntary Separation Package (ETVSP) Scheme that will operate until 19 September 2001 (see discussion below).

Wages

The largest single outlay for the Government is wage and salary costs. It follows therefore that any significant unbudgeted movement in wage costs would adversely impact on the Government's estimates.

The 2001-02 Budget includes funding provisions for the new enterprise agreements established during 2000-01 for teachers, medical officers and nurses. A provision has also been made for police officers, who are due to establish a new agreement by 1 July 2001. Similar provisions have been allowed for the next round of enterprise agreements for these groups across the forward estimates.

The last major employment group to establish an enterprise agreement in the current round is the wages parity group of about 35 000 employees. The budget and forward estimates include provisions for the anticipated cost of the new wages parity agreement.

Australian Bureau of Statistics data show that public sector average weekly ordinary time earnings of full-time adult employees in South Australia, between August 1994 (earliest data available) and February 2001, grew at an average of 4.7% per annum. This was the most moderate wages growth recorded in the mainland Australian States, and was below the national rate of 4.9% per annum. In the same period, Victoria had an average increase of 5.3% per annum, and New South Wales an increase of 5.0% per annum. Western Australia experienced the largest increase of 5.4% per annum.

Public sector employment

The estimated aggregate workforce levels in the State public sector for the periods ending 30 June 2001 and 2002 are shown in Table 4.3.

Table 4.3 Public sector employment numbers

	Full Time Equivalent Employees	
	30 June 2001 Estimate	30 June 2002 Estimate
Non commercial sector agencies	63 982	64 355
Commercial sector agencies[(a)]	1 453	1 438
Estimated total public sector employment	65 435	65 793

(a) Now includes ForestrySA, which was excluded from the tables published in last year's budget papers.

In the year to 30 June 2002 employment in the State's non commercial sector is estimated to increase by a small amount which broadly reflects initiatives to employ additional police officers and nurses.

The Government has put in place an ETVSP Scheme that will operate until 19 September 2001, which is designed to facilitate public sector change to ensure more effective services to the South Australian community. The primary aims of the ETVSP Scheme are to improve the efficiency and productivity of the South Australian public sector by:

- facilitating ongoing restructuring
- enhancing its skill base
- providing more graduate employment and improving its age profile.

4.3. SERVICE DELIVERY

Outlays by portfolio

In 2001-02, total outlays on a cash GFS basis to support the provision of services including health, education, transport and police, will be $7351 million. Total current and capital outlays by portfolio are displayed in Figure 4.3.

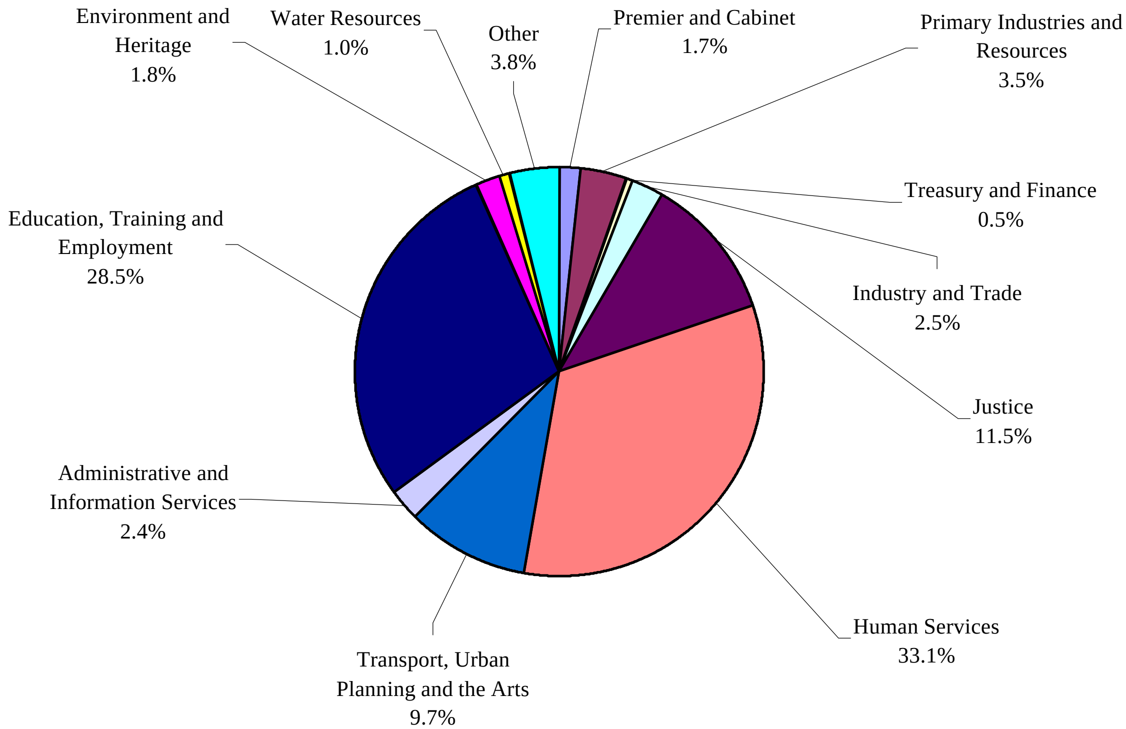


Figure 4.3 Outlays by portfolio—2001-02 Budget

Accrual expenditure on outputs by portfolio

The services provided by portfolios are described in the budget papers as outputs. For 2001-02 portfolios have identified and defined specific service delivery outputs, each of which has been costed on an accruals basis and measured with appropriate performance indicators (for detailed information on outputs by portfolio see the Portfolio Statements).

The accrual expenditure on outputs for each portfolio is summarised in Table 4.4. The accrual expenditure is estimated according to generally accepted accounting principles, and includes non-cash items such as depreciation and employee entitlements.

Table 4.4 Accrual expenditure on outputs[(a)] by portfolio

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m
Premier and Cabinet	111	123	111
Auditor-General	10	10	10
Primary Industries and Resources	177	180	215
Treasury and Finance	65	63	62
Industry and Trade	159	170	195
Justice	835	850	901
Human Services	2 678	2 687	2 852
Transport, Urban Planning and the Arts	697	717	736
Administrative and Information Services	542	539	555
Education, Training and Employment	1 708	1 803	1 803
Environment and Heritage	149	156	165
Water Resources	52	58	61
Total accrual expenditure on outputs	**7 183**	**7 356**	**7 666**

(a) Accrual expenditure on outputs includes portfolio controlled expenses plus any administered expenses directly attributable to outputs.

The key operating initiatives funded as part of the 2001-02 Budget are listed in Table 4.6.

The more substantial variations between the 2000-01 estimated result and the 2001-02 Budget shown in Table 4.4 reflect:

- spending on salinity and water quality programs, increased spending on Bio Innovation as well as the impact of 2000-01 carryover expenditure in 2001-02 (Primary Industries and Resources)
- increased expenditure on industry assistance (Industry and Trade)
- initiatives such as the recruitment of additional police officers, the illicit drugs strategy and the establishment of a police call centre as well as the impact of 2000-01 carryover expenditure in 2001-02 (Justice)
- increased expenditure as a result of enterprise bargaining outcomes for nurses and medical officers, as well as additional funding for hospitals, an extra 200 nurses, and other initiatives in 2001-02 (Human Services)
- increased expenditure on metropolitan public transport services (Transport, Urban Planning and the Arts).

The most significant variation between the 2000-01 Budget and the 2000-01 estimated result is an increase of $95 million within the Education, Training and Employment portfolio. This increase is largely due to increased wages costs associated with the outcome of the enterprise agreement with the South Australian teachers and related staff, and increased payments in 2000-01 for various minor works projects.

As can be seen from Table 4.4 the two major areas of government spending are Human Services and Education, Training and Employment. Figure 4.4 shows the nominal cash operating and investing spending across the five-year period from 1997-98 to 2001-02 for both health and education, training and employment.

Figure 4.4 Nominal spending trends for health and education, training and employment—1997-98 to 2001-02 Budget

On a nominal basis, cash spending has increased by $440 million for health and $280 million for education, training and employment over the period 1997-98 to 2001-02.

Capital investment by portfolios

The capital investment program is summarised in Table 4.5 (data is sourced from the Capital Investment Statement).

Table 4.5 Capital investment program[(a)]

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m
Premier and Cabinet[(b)]	64	73	22
Primary Industries and Resources	10	14	16
Treasury and Finance	2	3	4
Industry and Trade	9	26	1
Justice	87	58	80
Human Services	192	187	248
Transport, Urban Planning and the Arts	183	183	195
Administrative and Information Services	157	141	112
Education, Training and Employment	84	69	98
Environment and Heritage	13	16	24
Water Resources	2	1	13
Grant-funded community investments	78	78	53
Total non commercial sector	879	848	865
Commercial agencies	124	123	167
Other agencies	—	—	3
Total capital investment program	**1003**	**971**	**1035**

(a) All figures exclude payments in respect to financial assets.

(b) Includes expenditure on tourism infrastructure grants.

The key investing initiatives funded as part of the 2001-02 Budget are listed in Table 4.7.

The more substantial variations between the 2000-01 estimated result and the 2001-02 Budget shown in Table 4.5 reflect:

- the completion of the Adelaide Convention Centre extensions (Premier and Cabinet)
- provision of a $25 million loan for the Adelaide–Darwin rail link in 2000-01 (Industry and Trade)
- increased spending on the relocation of the Adelaide Police Station and the Supreme Court refurbishment projects, as well as spending on the Audio Management System, SAPOL Business Call Centre and new fire stations (Justice)
- increased spending on the major hospital redevelopments, Clinical Information System (OACIS) roll out, country aged care and country hospitals (Human Services)
- the completion of the Botanic Wine and Rose Development and lower spending on the Patawalonga Development as the project nears completion (Administrative and Information Services)
- the provision of funding to assist in the establishment of the Le Cordon Bleu campus in Adelaide and the commencement of several significant school projects (Education, Training and Employment)
- increased spending on community sporting infrastructure (Environment and Heritage)
- spending on salinity and water quality programs (Water Resources).

Major expenditure initiatives

The 2001-02 Budget includes funding to implement a range of initiatives that will further stimulate the economy, boost employment opportunities, encourage regional development and improve core community services.

These initiatives build on the existing priorities funded in past budgets. Key operating initiatives are listed in Table 4.6. The amounts shown are the additional expenditure approved in the budget and in some cases add to previously approved levels of expenditure. The key investing initiatives are listed in Table 4.7.

Table 4.6 Major expenditure initiatives—cash operating payments

	2001-02 $m	2002-03 $m	2003-04 $m	2004-05 $m
Education and lifelong learning				
Active for Life	4.0	4.0	4.0	4.0
Early Years Strategy	1.4	2.0	2.0	0.2
Employment and youth programs	6.0	6.0	11.0	11.0
Illicit Drugs Strategy—effective drug strategies	0.5	0.5	0.5	0.5
Senior Secondary School Assessment Board of South Australia	1.4	1.0	1.0	1.0
	13.3	**13.6**	**18.6**	**16.7**
Employment and economic development				
International and intrastate tourism marketing strategies	2.5	2.0	—	—
Bio Innovation SA	3.5	3.0	3.0	3.0
FarmBis (State contribution)	4.0	4.0	4.0	—
Farmed Seafood Industry	2.0	1.4	—	—
State Food Plan	1.8	1.9	1.9	1.1
Adelaide–Darwin rail link—local participation, employment and training initiatives	1.5	1.5	1.2	1.0
Industry development	29.5	19.4	18.1	11.5
Innovation and entrepreneur programs	0.6	1.6	2.1	2.3
Overseas representative offices—Industry and Trade	1.3	1.3	1.3	1.3
SA film industry revitalisation	0.8	0.8	0.8	0.8
Playford Centre	—	—	1.6	1.6
SA Connect	0.1	1.0	—	—
	47.5	**37.9**	**33.9**	**22.4**
Regional communities				
Country water quality improvements	2.1	4.8	11.6	14.3
Regional development strategy initiatives	0.5	0.5	0.5	0.5
Remote Areas Energy Scheme	0.8	0.8	0.8	0.8
Regional development boards	0.5	0.5	0.5	—
Aboriginal lands and essential services initiatives	0.7	0.7	0.7	0.7
Country bus initiatives	0.8	0.8	0.8	0.8
Outback toilets maintenance	0.1	0.1	0.1	0.1
Service SA—'one stop shops' and online presence for government services	1.3	1.8	1.6	1.5
Septic Tank Effluent Disposal Scheme	1.0	1.0	—	—
Environment Protection Agency—regional presence	0.4	0.4	0.4	0.4
Developing options for Mount Lofty Ranges water resources	1.1	1.0	0.9	0.9
	9.2	**12.4**	**17.9**	**19.9**
Culture, lifestyle and the environment				
Centenary of Federation	0.2	—	—	—
Major events and festivals	2.8	0.8	0.8	0.1
Premier's community fund	0.8	0.5	0.2	0.2
Brukunga mine rehabilitation	0.7	0.7	0.7	0.7
Cooperative Research Centre on Sustainable Finfish Aquaculture	0.5	0.5	0.5	0.5
Fisheries compliance	1.0	1.0	1.0	—
Mineral resources plan	—	—	2.5	2.5
Office of Sustainable Energy	1.3	1.0	1.0	1.0
Increased metropolitan public transport services	7.3	7.7	7.7	7.6
Wasp eradication	0.1	0.1	—	—
Willunga aquifer storage and recovery	0.3	0.2	—	—
Integrated natural resource management	0.8	0.8	0.8	—
Marine conservation	1.1	1.1	1.1	0.8
Olympic, Commonwealth and Paralympic games appeals	0.1	0.1	0.1	0.1
Metropolitan beach sand management strategies	3.0	1.3	1.3	1.3
State Heritage Fund	0.5	0.3	0.3	0.3
Great Artesian Basin	0.3	0.3	—	—
National Action Plan on Salinity and Water Quality (State contribution to operating initiatives)	9.6	11.8	11.6	11.8
	30.2	**28.0**	**29.4**	**26.8**

Table 4.6 Major expenditure initiatives—cash operating payments

	2001-02 $m	2002-03 $m	2003-04 $m	2004-05 $m
Health and communities				
Gene technology regulation	0.4	0.5	0.1	0.1
National Depression Initiative	0.3	0.3	0.3	0.3
Food Safety Initiatives	1.7	1.7	0.4	0.4
Coober Pedy Alcohol Strategy	0.4	0.5	0.5	0.5
Dental health	2.0	2.0	—	—
Illicit Drugs Strategy—clean needles program	0.3	0.3	0.3	0.3
Financial support for diabetics	0.3	0.3	0.3	0.3
Gambler’s Rehabilitation Fund	0.3	0.3	0.3	0.3
Home and Community Care	2.7	2.7	2.7	2.7
Hospitals—additional 200 nurses	8.0	8.0	8.0	8.0
Hospitals—additional funding	15.0	7.5	7.5	7.5
Implement recommendations of the mental health review	2.0	2.0	2.0	2.0
Men’s health screening and information programs	0.1	0.2	0.2	0.2
Mosquito control	0.2	0.2	0.2	0.2
Progressively implement the Moving Ahead plan	1.0	1.0	1.0	1.0
Parenting SA	0.5	0.5	0.5	0.5
Pensioner concessions on local government rates	7.7	7.9	8.1	8.4
Rural and remote patient transport (PATS)	0.3	0.3	0.3	0.3
Workplace safety—additional inspectors	1.0	1.0	1.0	1.0
International Year of Volunteers	0.3	—	—	—
Office for Volunteers	1.0	1.0	1.0	1.0
	45.4	**37.9**	**34.5**	**34.8**
Justice and safety				
Police—additional 54 police officers	2.2	3.3	3.3	3.3
Illicit Drugs Strategy—including an additional 36 police officers under Operation Mantle	3.0	3.0	3.0	3.0
Expensive State Criminal Cases Fund	0.3	0.3	0.3	0.3
Forensic science	0.3	0.5	0.5	0.5
Magistrates Court Mental Impairment Diversion Program	0.5	0.5	0.5	0.5
National Crime Information System	0.2	0.2	0.2	0.2
Police operations including a call centre	3.0	3.0	1.6	1.6
Violence Intervention Program	0.6	0.6	0.6	0.6
	10.1	**11.4**	**10.0**	**10.0**
Total major operating initiatives	**155.6**	**141.1**	**144.3**	**130.7**

Table 4.7 Major expenditure initiatives—cash investing payments

	Project Total $m	2001-02 $m	2002-03 $m	2003-04 $m
Major investing initiatives—projects				
Education and lifelong learning				
Adelaide High School	2.1	1.0	1.1	—
Booleroo Centre Schools	2.5	0.5	1.5	0.5
Ceduna Area School	5.0	0.3	2.0	2.7
Gawler Primary School	2.7	2.0	0.7	—
Loxton High School	3.9	1.5	1.3	1.1
Mawson Lakes School	15.6	2.0	2.0	1.5
Port Pirie Special School	1.5	1.5	—	—
Stirling East Primary School	3.2	1.1	2.1	—
Willunga Primary School and Preschool	6.2	0.3	3.0	2.9
Le Cordon Bleu	7.0	7.0	—	—
Employment and economic development				
Technology Park Masterplan implementation	3.4	1.4	1.0	1.0
Regional communities				
Roxby Downs council office and community service facilities	0.5	0.5	—	—
Adelaide hills bypass	2.0	2.0	—	—
Anangu Power Station (State contribution)	6.7	—	—	6.7
Culture, lifestyle and the environment				
Brukunga mine rehabilitation	26.1	1.6	2.2	1.3
Replacement patrol vessel	1.6	1.6	—	—
South Australian Museum—Natural Sciences building	2.0	2.0	—	—
North Terrace (State contribution)	8.2	2.7	2.7	2.7
Community sporting and recreational infrastructure	17.0	7.0	5.0	5.0
National Action Plan for Salinity and Water Quality (State contribution)	31.0	4.0	4.0	4.0
Water Information and Licensing Management Application System	3.3	1.7	1.6	—
Health and communities				
Mental health	14.5	4.0	9.5	1.0
Country aged care and country hospitals	18.6	15.2	3.4	—
Centralised train control system upgrade	8.0	4.0	4.0	—
Metropolitan traffic management program	8.7	3.4	1.8	0.9
Old Belair road	1.5	1.3	0.3	—
Safer roads program	30.0	6.8	7.2	7.6
Torrens Parade Ground	3.8	1.5	1.3	1.0
Justice and safety				
Audio Management System	9.2	7.4	1.7	—
Police call centre	2.1	2.1	—	—
Port Augusta Court	7.4	—	1.0	2.4
Government reform				
Human Resource Management Systems	12.4	7.1	3.4	—
Total major investing initiatives—projects	**267.7**	**94.5**	**63.7**	**42.3**

Table 4.7 Major expenditure initiatives—cash investing payments

	Project Total $m	2001-02 $m	2002-03 $m	2003-04 $m
Major investing initiatives—grant related community investments				
Employment and economic development				
Head of the Bight	0.8	0.8	—	—
Tourism—General infrastructure	3.9	2.3	1.6	—
Tourism—Outback infrastructure	6.7	2.0	2.0	2.7
Total major investing initiatives—grant related community investments	**11.4**	**5.1**	**3.6**	**2.7**
Total major investing payments	**279.1**	**99.6**	**67.2**	**45.0**

Portfolio service delivery

The following section provides a portfolio-by-portfolio overview of key operating priorities and initiatives.

Premier and Cabinet

Table 4.8 Accrual expenditure by output class—2001-02 Budget

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m
Premier and Cabinet			
Coordination and Advice	28.2[(a)]	33.1	24.6
Public Sector Human Resource Management	22.7[(a)]	21.5	24.0
Multicultural Services	5.2	5.1	5.1
SA Tourism Commission			
Coordination and Advice	1.4	1.5	1.5
Tourism Development	10.6	16.1	15.0
Marketing South Australia	43.2	45.8	41.2
Total accrual expenditure on outputs	**111.3**	**123.0**	**111.4**

(a) Due to the exclusion of administered expenses from these figures the numbers vary from those published last year.

Auditor-General

Table 4.9 Accrual expenditure by output class—2001-02 Budget

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m
Auditing Services	9.8	10.2	9.5
Total accrual expenditure on outputs	**9.8**	**10.2**	**9.5**

During 2001-02 the Premier and Cabinet Portfolio will strengthen its leadership, strategic and coordinating functions by streamlining and further integrating policy development and strategic advice to achieve more effective decision making and policy implementation across government, as well as major improvements in service delivery and communication with the community.

The South Australian Tourism Commission is a major agency within the portfolio which provides infrastructure and support for tourism development, manages and develops a year-round program of feature events, conducts well-researched, targeted and effective marketing campaigns, and creates opportunities for industry partnerships and cooperative marketing.

The portfolio's key initiatives in the 2001-02 Budget include:

- further developing the national cooperative scheme for regulating gene technology, to protect public health, provide environmental safety and encourage a responsible and competitive biotechnology industry
- supporting the National Depression Initiative which aims to reduce the prevalence and impact of depression in the Australian community
- launching the National Wine Centre to establish South Australia as the pre-eminent wine State and the national focus of the wine industry
- continued promotion of Centenary of Federation activities in South Australia

- expanding the Premier's Community Fund to assist community organisations across South Australia
- achieving international visitation growth by an increased and aggressive thrust into international markets to capitalise on the interest generated by the Sydney Olympics
- implementing infrastructure packages and developing major events and festivals associated with the Year of the Outback 2002, which will provide direct economic benefits to outback communities, and stimulate further development and visits to the region and the State in general
- continuing to attract a year-round range of major events and festivals that contribute to growth in visitor numbers to South Australia; new events include the Australian Duathlon Championship, a series of the Australian Rally Car Championships, Wagner's *Parsifal* and the Women's World Cup of Golf
- developing new, authentic and unique tourism products in areas in which South Australia has a competitive advantage such as wine and food and nature-based tourism
- pursuing tourism planning policy reform initiatives to establish a consistent planning approach to tourism across regional South Australia.

Primary Industries and Resources

Table 4.10 Accrual expenditure by output class—2001-02 Budget

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m
Information Services	66.2	63.3	61.6
State Resource Regulation Planning	27.2	34.8	39.2
Coordination and Advice	8.3	8.4	8.0
Facilitation Services	74.9	73.7	106.4
Total accrual expenditure on outputs	**176.6**	**180.2**	**215.2**

Primary Industries and Resources (PIRSA) is a key economic development agency and is focused on delivering services which increase the prosperity of South Australians, improve their quality of life and ensure the sustainable development of the State's resource base for future generations.

PIRSA has four key areas of service delivery: Information Services, State Resource Regulation Planning, Coordination and Advice, and Facilitation Services. The major customer and stakeholder is the Government of South Australia but PIRSA works with and delivers a wide range of services to the agriculture, aquaculture, natural resources, fisheries, minerals and petroleum, research and development, and energy sectors, and to regional communities and local government.

The key agency initiatives for 2001-02 include:

- $6.9 million of State funds in 2001-02 on revegetation, drainage and rehabilitation programs under the National Action Plan for Salinity and Water Quality to be matched with contributions from the Commonwealth Government
- a further $2 million ($3.4 million over two years) allocated to maximising the growth of the farmed seafood industry by ensuring resources are used in a sustainable and efficient way
- an increase of $1 million ($3 million over three years) in fisheries compliance to reduce the level of illegal fishing activities, better manage fish resources and assist the conservation of biodiversity
- funding committed to ensuring the State receives its maximum pro rata share of Commonwealth Government funding available for the new FarmBis program—Skilling Farmers for the Future,

which aims to assist farmers and fishers improve skills in business and natural resource asset management

- a priority placed on energy management with additional funding of $1.3 million ($4.3 million over four years) to increase the focus and commitment to sustainable and renewable energy
- expansion of the Government's Food Plan, which targets growth in the value of the South Australian food sector to $15 billion by 2010
- funding of $800 000 ($2.5 million over four years) allocated to a food safety risk assessment program and support for the implementation of the new Food Act aimed at ensuring primary industry sectors implement appropriate food safety systems
- a joint initiative with the Department for Environment and Heritage to improve the management of South Australia's existing and proposed marine protected areas
- $500 000 per annum allocated for seven years to establish a Cooperative Research Centre on Sustainable Finfish Aquaculture which will attract up to $40 million worth of research contributions from industry and the Commonwealth Government over this period.

In addition the portfolio has two important initiatives within its administered items:

- Bio Innovation SA has been allocated $3.5 million ($12.5 million over four years) to maximise opportunities for South Australia in this knowledge based industry sector
- $500 000 ($2 million over four years) to assist with the revitalisation of rural and regional communities by implementing priorities identified in the State's regional development strategy—Directions for Regional South Australia.

Treasury and Finance

Table 4.11 Accrual expenditure by output class—2001-02 Budget

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m
Ensuring Accountability for Public Sector Resources	18.1	17.3	17.1
Financial Service Provision	47.1	45.4	44.5
Total accrual expenditure on outputs	**65.2**	**62.8**	**61.6**

In 2001-02, Treasury and Finance will continue to implement a range of major initiatives within Government to support the Government's outcome targets.

In particular, there will be a focus on maintaining and improving the State's financial position by ensuring outlays in aggregate are sustainable and reducing the Government's financial risk exposure. A key part of this will be establishing an enhanced policy capability across major expenditure areas of the State Budget, and leading and coordinating the implementation of public–private partnerships in the State. Further improvements in the process of monitoring and managing the State Budget will assist Government in meeting its financial targets.

Treasury and Finance will develop a policy framework for introducing full retail competition in the electricity market and implement supporting regulatory and legislative arrangements. It will also continue non-financial support of new sources of electricity generation and interconnection.

Emphasis will also be maintained on providing economic policy advice on a range of issues including revenue, Commonwealth–State relations, National Competition Policy and economic conditions.

In the area of financial service provision, Treasury and Finance will continue to focus on service delivery for a key range of government services including collection of taxes, liability management, and insurance and superannuation administration. Revenue SA will develop systems to improve electronic access by clients for a range of taxation areas to facilitate more efficient lodgement and collection processes. The South Australian Government Financing Authority (SAFA) will continue to meet the Government's debt funding requirements. Super SA will enhance its service delivery by introducing an internet-based system that will provide a wide range of online services to both employers and employees. The South Australian Government Captive Insurance Corporation (SAICORP) will restructure its claims management section to better manage medical malpractice claims and improve information available to reinsurers on its website.

Department of Industry and Trade

Table 4.12 Accrual expenditure by output class—2001-02 Budget

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m
Coordination and Advice	2.1	1.8	2.1
Infrastructure Development	66.8	79.4	91.4
Industry Development	90.0	88.4	101.5
Total accrual expenditure on outputs	**159.0**	**169.6**	**195.0**

The Industry and Trade Portfolio contributes to the economic and community development of the State so that South Australia is a State which is outwardly focused and able to present a compelling case as one of the best places in the world to live, visit, work and do business. The portfolio is primarily focused on acting as a catalyst for the sustainable growth and development of an internationally competitive community.

During 2001-02, the portfolio will:

- help ensure construction of the Adelaide–Darwin rail link within four years
- maximise the return to the South Australian economy of the opportunities that will arise from the Adelaide–Darwin rail link project, aimed at industry and infrastructure development, export facilitation and promotion of regional and remote areas employment
- progress the establishment of an industrial park providing world-class serviced industrial land for automotive, defence and general manufacturing activities
- continue working with regional development bodies to facilitate investment in alternative telecommunications networks and infrastructure, including addressing mobile phone coverage 'blackspots'
- facilitate an alternative gas supply to the State to support security and competitiveness of supply within three years
- establish a representative office in the United States to take advantage of trade and investment opportunities from the region
- promote an Innovation and Entrepreneur program to increase the rate of commercialisation of South Australia's ideas by assisting with the establishment and growth of commercialisation businesses, products and services in South Australia
- establish new initiatives under the State Food Plan to complement and expand existing activities, focusing on export market development, innovation, product commercialisation, demand-chain development, and assistance with accessing Commonwealth programs
- ensure the strategic investment program is focused on the key areas of information and communications technologies, food, back office, defence and selected opportunities in emerging industries, generating $150 million per annum in additional Gross State Product.

In addition, the portfolio will continue to strengthen policy directions and develop future strategies in line with government outcomes. During 2001-02 specific emphasis will be placed on:

- supporting the Innovation, Science and Technology Council to formulate a high level South Australian innovation strategy that clearly articulates possible directions and actions to be taken by business, government and the education and research community to build an innovative South Australian economy
- assessing the potential for trade development, and strategies for Government involvement in promoting trade, including services exports and the development of a whole of government policy on the export of government services
- developing strategies for Government to facilitate growth of emerging industries to ensure opportunities for future wealth creation and economic competitiveness are captured (for example renewable energy industries)
- providing policy advice on strategic issues aimed at the building of skills, knowledge and capabilities in innovation, science and technology and, in particular, innovation culture and awareness, collaboration and linkages, education, training, skills and entrepreneurship, innovation capability and infrastructure, emerging industries and commercialisation.

Justice Portfolio

Table 4.13 Accrual expenditure by output class—2001-02 Budget

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m
Preventative Services	68.8	51.5	58.6
Legal and Court Services	152.4	155.1	157.5
Coordination and Advice	5.0	4.3	5.2
Incident Response Services	258.0	303.1	316.7
Regulatory and Investigatory Services	224.5	222.4	236.8
Offender Supervision	100.8	91.8	99.1
Electoral Services	3.4	3.9	8.2
Non Emergency Ambulance Services	22.0	17.9	19.2
Total accrual expenditure on outputs	**834.9**	**850.0**	**901.3**

In 2001-02 the Justice portfolio will have a focus on enhancing justice and public safety through community and industry partnerships, improving emergency prevention and response capacity, preventing and reducing harmful drug use, addressing domestic violence, improving justice response to people with mental illness and intellectual disability, and Aboriginal people, and improving support for victims.

The Justice Portfolio will outline its major strategies in *Strategic Directions 2001-03* due for release in mid-2001.

Key commitments for the 2001-02 Budget include:

- continuing the Violence Intervention Program operating in the Elizabeth and Adelaide Magistrates Courts
- developing an across-government program aimed at establishing a multi-faceted strategy within the Coober Pedy community, addressing harm to the individual and the community associated with the misuse of alcohol
- funding the State’s contribution towards the future replacement of a national crime information system incorporating the National Automated Fingerprinting Systems, a DNA database and a range of other law enforcement systems

- establishing, on a permanent basis, the Adelaide Magistrates Court Mental Impairment Diversion Program
- reducing harm to the community and reducing drug related crime by continuing to implement diversionary policing strategies as part of operational tactics designed to prevent crime, through:
  - evaluating the Justice Portfolio Illicit Drug Strategy to determine trends and outcomes for people who have been diverted into treatment and support
  - enhancing Operation Mantle by increasing the capacity of South Australia Police to focus on the disruption of the illicit drug market at street level by establishing local service area tactical investigation teams
  - improving the quality of data available on illicit drug use by participating in drug use monitoring in Australia in conjunction with the Australian Institute of Criminology
- establishing an Expensive State Criminal Cases Fund to enable adequate legal representation in long and complex State criminal cases for accused persons who cannot afford legal representation
- providing additional funding to allow for an expansion of the capacity within the Adelaide Women's Prison
- improving the efficiency and effectiveness of the delivery of police services through the recruitment of additional police officers
- implementing the Audio Management System project which will enable current computer aided dispatch systems to connect to the Government Radio Network
- establishing a dedicated SAPOL business call centre as a modern, efficient primary point of initial community access to police services
- replacing existing court facilities at Port Augusta to commence in 2002-03
- creating three new positions to deliver communications and rescue training to State Emergency Service volunteers
- appointing additional volunteer support officers within the Emergency Services Administrative Unit (ESAU) to further support Emergency Services Volunteers in regional South Australia
- purchasing additional emergency services vehicles, and building and refurbishing brigades and stations for the SAMFS, CFS and SES.

Department of Human Services

Table 4.14 Accrual expenditure by output class—2001-02 Budget

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m
Promotion and Protection of Health and Well-being	78.2	77.5	84.2
Personal Financial Assistance	122.7	123.5	133.3
Housing Services	367.4	364.1	376.1
Community Based Care	430.1	432.1	459.3
Accommodation and Support	172.2	174.3	179.3
Hospital Based Treatment Services	1505.9	1513.8	1618.4
Coordination and Advice	1.5	1.5	1.5
Total accrual expenditure on outputs	**2678.1**	**2686.8**	**2852.2**

The Human Services Portfolio funds a wide range of services in health, housing and family and youth support for the South Australian community, including those in vulnerable circumstances.

The Government has provided additional funding of $32.7 million in 2001-02 to address priorities including:

- $7.7 million for local government rate concessions
- $15 million for winter bed pressures and emergency department workloads in public hospitals
- $2 million for public dental services through private dentists
- $2 million to implement the recommendations of the Mental Health Review
- $1 million to progressively implement the Moving Ahead plan for older people.

In addition the Government has provided funding through enterprise agreements to support nurses and doctors working in the public health system, with almost $200 million provided over the next three years for nurses, including 200 new nursing positions, and approximately $110 million for doctors over the life of each agreement.

Demand for services is high across all sectors, particularly in the hospital sector. More people are attending emergency departments, especially through the winter season, adding to the pressures on the hospital system. Improving the transition of older people to a community or aged-care setting is a priority that will enable them to receive more appropriate care when they no longer need hospital care. At the same time, it will also facilitate access to hospital beds for patients requiring hospital care. Strategies have been developed to improve the management of emergency department workloads.

In addition to these ongoing pressures, there are cost pressures associated with exchange rate fluctuations leading to higher costs for drugs and imported medical supplies.

A significant uncertainty in framing the current budget is the impact that the growth in private health insurance will have on hospital demand. This budget will continue to fund a level of activity in 2001-02 similar to that funded in 2000-01. To the extent that increased private health insurance membership leads to lower demands on the public hospital system there will be scope for improved service levels.

In addition to addressing the demands on hospitals, the portfolio is pursuing strategies to improve access to dental care, encourage healthy ageing and support for older people and those requiring care to remain in their own homes.

Specific programs include implementing the Drug Strategy clean needle program, continuing reforms to mental health services and addressing men's health and well-being. Country communities will benefit from the extension of the Patient Assisted Transport Scheme (PATS) and from capital works planned at several country locations.

From 2001-02 the Government is increasing concession payments for pensioners and existing recipients on local government rates, lifting the ceiling from $150 to $190, and also providing for the first time a local government rate concession of $100 to self-funded retirees who have a State Seniors Card. The Government also intends to begin a dialogue with the local government sector on the scope for councils to offer greater flexibility in rate payment options to groups such as pensioners and self-funded retirees.

A $248 million capital budget for 2001-02 is directed at funding major capital works for redeveloping major hospitals, continuing the housing capital program with an extra $8 million and improving information systems. The budget provides $18.6 million over two years for hospital redevelopment and associated aged-care beds in a number of country centres and $14.5 million over three years for new and more accessible mental health facilities at metropolitan hospitals.

The housing program includes $93.4 million from the capital budget and the provision of funding by way of loans and grants totalling $25.5 million to community housing organisations through the SA Community Housing Authority which will together provide for 277 new houses, the purchase of 45 homes and renovation of 1735 homes across the public, community and Aboriginal housing sectors.

Table 4.15 Accrual expenditure by output class—2001-02 Budget

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m
Coordination and Advice	12.3	—	—
Regulatory Services	39.3	42.7	60.9
Maintenance and Operation of the Transport System	488.8	522.5	515.0
Planning and Development	32.4	11.8	15.8
Information Services	40.8	45.9	60.9
Art, Museum and Heritage Services	18.2	21.2	21.2
Arts Industry Development and Access to Artistic Product	41.4	44.1	46.7
Other Government Services	13.4	13.7	1.8
Aboriginal Development, Land and Heritage	—	11.3	10.9
Aboriginal Development	7.4	—	—
Heritage Conservation	1.5	—	—
Local Government Frameworks	1.8	3.3	3.0
Total accrual expenditure on outputs	**697.2**	**716.6**	**736.2**

The Department for Transport, Urban Planning and the Arts provides an administrative means for integrating urban and regional development, local government initiatives, transport infrastructure and services, and cultural and artistic development for South Australia. The department also provides services to Aboriginal people to advance economic and community needs, and promotes and encourages the participation of women in decision-making forums.

During 2001-02 the portfolio intends to:

- begin strategic planning for the north-west corridor to determine its transport requirements to meet urban regeneration and consolidation objectives
- prepare and initiate implementation of a transport and urban planning greenhouse action agenda
- implement the System Improvement Program for promoting development plan policy improvements and streamlining development assessment procedures
- implement an electronic lodgement system for land division applications in partnership with the Local Government Association and relevant sections of the development industry
- work with industry to generate more rail freight and facilitate the development of rail–road inter-modal facilities
- establish a plan to meet the targets outlined in the *Disability Discrimination Act 1992* for public transport infrastructure
- introduce additional bus, train and tram services, and extend the Metroticket system to further invigorate public transport across Adelaide and attract additional customers
- introduce concessions for the unemployed in regional areas and investigate the opportunity to increase small freight services on regional bus services
- introduce the Art Gallery’s regional touring program
- support the development of the new Children’s Performing Arts Company program and the first Australian performance of Wagner’s *Parsifal*
- highlight the contribution being made by women in rural and regional communities and continue to identify women for appointment to government boards and committees

- develop and implement a framework that will promote the coordination of State Government services to Aboriginal communities
- provide online access to the Digital Library of Historic Aboriginal Photographs that provides an insight into the cultural heritage of South Australia
- start implementation of a Safer Roads infrastructure program to reduce road fatalities
- begin construction of Stage 1 of the Port River expressway, complete the Southern expressway and continue the 10-year Unsealed Rural Arterial Program
- develop and implement a framework through the Office of Local Government that will facilitate whole of government and cross agency initiatives between State and local government
- develop an electronic citizen's guide to local government, to provide members of the public with easily accessible information about the roles and responsibilities of councils and citizens' rights and remedies under the new Local Government Acts
- develop corporate governance principles for Aboriginal communities prescribed as local government authorities, in collaboration with Aboriginal communities.

Department of Administrative and Information Services

Table 4.16 Accrual expenditure by output class—2001-02 Budget

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m
Services to Government	154.4	162.4	166.2
Asset Management Services	95.9	98.1	98.2
Coordination and Advice	8.9	16.2	8.8
Procurement and Contract Services	144.7	181.5	188.9
Project Delivery Services	39.1	10.3	9.9
Public Records and Lands Services	36.6	36.7	38.4
Industry Support Services	62.2	33.5	44.9
Total accrual expenditure on outputs	**541.8**	**538.7**	**555.3**

The Department for Administrative and Information Services (DAIS) is an agency with a broad range of activities and specialist expertise that shapes and delivers quality infrastructure and services to Government and the community to create value and economic advantage to South Australia. Its mission is to deliver innovative solutions and quality services which improve the efficiency and effectiveness of government and its agencies in meeting the needs of the community.

DAIS has a major role in contributing to the South Australian Government's aim to create a State with a high standard of living. To achieve this the strategic objectives and challenges that have been set for DAIS in 2001-02 are to:

- make significant and valued contributions to government strategic operations and initiatives through the application of specialised expertise
- provide leadership and direction in the effective and efficient management of the Government's substantial assets and information services
- strategically position the Government to lead South Australia in taking up the information economy
- deliver economies of scale to government agencies by providing corporate bureau services
- protect public health and safety, and prevent environmental damage from hazardous materials, plant machinery and equipment

- make a significant contribution to the economic prosperity of the State through occupational health and safety, and workplace relations policy, and advisory and compliance services to the community
- ensure that the South Australian Government's information technology and telecommunication infrastructure is supported and maintained by taking advantage of new and emerging technologies.

In addition a number of major initiatives will be undertaken by the portfolio in 2001-02. These include:

- through the Information Economy 2002—Delivering the Future strategy, setting the climate for new asset creation to encourage more industry groups to develop industry action plans designed to ensure all South Australian businesses are ready for the next stage of the information economy's development
- through the Information Economy 2002—Delivering the Future strategy, building on and reinvigorating existing State assets by implementing key initiatives such as the information economy scorecard, intellectual property for a new economy, logistics alliance, South Australia as a global brand and telecommunications infrastructure
- stimulating widespread participation in the information economy by offering a free personal portal and email address to all South Australians through SA Connect, and providing local online and IT assistance for individuals, community groups and small businesses with Smart State volunteers
- transforming the government in the information age through the Service SA and Everything Online public resource initiatives in order to provide greater access to government services and information for South Australians
- benefiting the community and maintaining South Australia's pre-eminent international position in land administration by delivering land transactions that are faster and easier to undertake and improve availability and access through the Automated Torrens Land Administration System (ATLAS)
- introducing tough safety regulations in South Australia to cover amusement devices that are aimed at ensuring they are reliably maintained and safely operated by strongly reinforcing the obligations and responsibilities of operators
- working with the private sector to develop and implement a systematic approach to the environmental management of major hazard facilities to reduce the risk of serious disruptions to communities and the environment in the event of a systems failure
- reducing greenhouse gas emissions in the key areas of demand for electricity and gas in public buildings and the demand for fuels by government vehicles
- introducing electronic purchasing initiatives known as E-purchase to provide a useful management tool to agencies, reducing the costs of procurement and providing the opportunity for suppliers to participate in electronic commerce for government
- supporting the more efficient management of the Government's built assets by collating and maintaining information that is more readily available for analysis and management decision making through the Strategic Asset Management Information System (SAMIS).

Table 4.17 Accrual expenditure by output class—2001-02 Budget

	2000-01 Budget	2000-01 Estimated Result	2001-02 Budget
	$m	$m	$m
Education and Training	1638.4	1716.8	1716.5
Child Care	30.7	33.2	33.6
Employment Services	25.5	37.1	36.8
Coordination and Advice	10.6	13.3	13.0
Youth Services	2.6	2.5	3.4
Total accrual expenditure on outputs	**1707.8**	**1802.9**	**1803.3**

The Department of Education, Training and Employment is committed to ensuring the delivery of high quality learning, teaching, care, employment and youth services within an integrated, responsive and supportive learning organisation, which strives for continuous improvement in service and performance.

The department will maintain its high level of service delivery in 2001-02 by focusing on the broad strategic directions set out in its Portfolio Statement. Major initiatives in 2001-02 include:

- providing education in the use of information technology and telecommunications for senior students which will result in students leaving school with an industry recognised information technology qualification
- meeting the needs of regional and rural students, communities and businesses through strategic regional and rural partnerships and new approaches to service delivery
- supporting State based assessment in literacy (reading, writing and spelling) and numeracy at years three and five, and funding the development and trialling of rigorous and appropriate assessments in literacy and numeracy at year seven, in close consultation with the educational community
- continuing, as indicated in the 2001-02 Employment Statement, to build on the successes of previous programs with additional focus on increasing employment opportunities for young people and disadvantaged groups (includes a provision of $3 million for private sector incentives and $2 million for the Youth Employment program)
- supporting regional infrastructure projects such as the Adelaide–Darwin rail link with $1.15 million to develop a regional and remote area labour force capability
- continuing the Active8 Premier's Youth Challenge, involving community service organisations and schools in a youth development scheme, which provides young people with a range of opportunities that promote self-reliance, self-confidence, voluntary work, leadership and community service
- providing $4 million ($16 million over four years) for the new Active for Life Strategy designed to increase students' physical activity and participation in sport
- providing an extra $1.35 million ($5.6 million over four years) for an early intervention strategy that will have a long-term impact on improving literacy learning outcomes for children and students (builds on the outcomes of the Early Years Strategy by addressing the need for stronger parental involvement in children's learning in early years and intensive individual assistance for children at risk of under achievement in literacy)
- providing $476 000 ($1.9 million over four years) to assist schools in developing holistic and effective approaches to managing illicit drug risks including targeted training in counselling and referral skills for staff in schools

- continuing to implement the Partnerships 21 Local Management Scheme which provides direct support to, and assists, local communities in implementing local management
- continuing to implement major projects identified in the department's Strategic Information Technology Plan including systems to support local school management, human resource management, virtual learning environment and libraries
- managing a capital investment program for 2001-02 of $98 million including stage 4 of the Regency Institute redevelopment at a total cost of $15.7 million; stage 1 of the redevelopment of the Ceduna Area School (total project cost $5.0 million); a major redevelopment for the Willunga Primary and Preschool (total project cost $6.2 million); and redevelopments at the Angaston Primary School (total project cost $1.9 million), Booleroo Centre Schools (total project cost $2.5 million), Gawler Primary School (total project cost $2.7 million), Loxton High School (total project cost $3.9 million), One Tree Hill Primary School (total project cost $1.3 million) and Stirling East Primary School (total project cost $3.2 million).

Department for Environment and Heritage

Table 4.18 Accrual expenditure by output class—2001-02 Budget

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m
Environment Protection	20.5	23.0	25.5
National Parks and Wildlife	76.6	75.5	81.4
Heritage Conservation	2.3	2.4	2.4
Botanic Gardens	7.8	8.0	8.1
Recreation, Sport and Racing	25.7	26.6	26.1
Environmental and Geographic Information and Knowledge	13.1	13.8	14.1
Administration and Stewardship of Crown Lands	1.8	2.4	2.4
Coordination and Advice	1.7	4.0	5.3
Total accrual expenditure on outputs	**149.4**	**155.6**	**165.2**

The Environment and Heritage Portfolio has a major role in ensuring the long term prosperity of South Australia by creating the right conditions for natural resources to be used for their best outcome within sustainable limits, and in reducing the social cost of illness by raising the level of general fitness and health of the people of South Australia through recreation and sport programs. The portfolio also demonstrates its emphasis on volunteers by working with and through communities and developing partnerships to achieve shared goals.

Key initiatives being undertaken during 2001-02 include:

- an additional $700 000 per annum for establishing a marine conservation capacity through the Office for Coast and Marine to continue the implementation of the Marine and Estuarine Strategy, including the creation of a system of marine protected areas (a joint venture with Primary Industries and Resources), investigation of seagrass loss and management planning
- an ongoing annual allocation of $1.25 million for reviewing, investigating and implementing a sustainable protection strategy, including sand replenishment, for the metropolitan Adelaide coastline
- $1.75 million in 2001-02 for specific metropolitan coastal initiatives including sand replenishment and the trialling of structures to reduce the rate of sand movement, sand excavation and recycling
- an additional $360 000 per annum for the Environment Protection Agency to undertake environment protection work and address issues associated with expanding industrial bases of major regional centres and the sensitivity of the surrounding environs

- a further $1 million per annum for the Office for Volunteers to undertake a range of further initiatives during 2001-02 including implementation of improved volunteers' training, development of a community volunteers' internet site, and implementation of volunteers' protection legislation
- an ongoing annual allocation for contributions towards the Commonwealth Games, Paralympic Games and Olympic Games appeals
- an injection of $500 000 into the State Heritage Fund ($250 000 per annum thereafter) to provide for grants for private and community heritage properties and buildings
- an allocation of $3.4 million in 2001-02, shared on a 50:50 basis with the Commonwealth, for initiatives as part of the Government's $100 million commitment to the National Action Plan on Water Quality and Salinity
- major investing projects in 2001-02 include: the further upgrade of the Rocky River precinct in the Flinders Chase National Park, Kangaroo Island; a $7 million allocation, as part of a $17 million package over three years, for a range of community sporting and recreational infrastructure projects; funding of $2.5 million for the continuation of the five-year program to maintain and upgrade the recreational trails network in South Australia; and up to $1 million has been allocated to help facilitate the development of a new aquatic centre at Marion through a public–private partnership project.

Water Resources

Table 4.19 Accrual expenditure by output class—2001-02 Budget

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m
Coordination and Advice	2.7	3.7	3.5
Water Resources Management	49.0[(a)]	53.9	57.2
Total accrual expenditure on outputs	**51.7**	**57.6**	**60.7**

(a) Due to the inclusion of administered expenses in this figure, the numbers vary from those published last year.

During 2001-02 the Department for Water Resources (DWR) will develop and consolidate its role as the lead government portfolio for policy formulation, regulation and the management of the State's water resources. The objective is to achieve a strong, consistent and collaborative focus on water issues for the benefit of South Australia by continuing to draw together the key water-related activities of government into the portfolio. At the national level, the portfolio will further develop strategies to ensure that South Australia's interests are recognised and protected in water reform initiatives and the water resources shared with other States. The portfolio will also ensure that the State takes a lead role in managing water resources in the Murray–Darling Basin, the Lake Eyre Basin and the Great Artesian Basin.

The State's economy and future growth and prosperity will be significantly influenced by how effectively the Government manages and develops the State's water resources in partnership with the Murray–Darling Basin Commission (MDBC), catchment water management boards and planning committees, the proposed Integrated Natural Resources Management Council and interim integrated natural resources management groups, the water industry and the wider community.

A key focus will be the continual supply of good quality water for South Australia within sustainable limits from the Murray–Darling Basin and the State's surface water and groundwater systems. Another key focus will be the oversight, monitoring and analysis of South Australia's water resources and sustainable levels of water use. The effectiveness of the portfolio's service delivery is enhanced by the regional management of water resources through its regional offices and its collaboration with the eight catchment water management boards and other water-related boards and committees.

Key deliverables for 2001-02 include:

- providing policy leadership and direction by coordinating and driving the Government's water initiatives
- implementing the policies, actions and targets in the *State Water Plan 2000* for the current year
- restructuring irrigation within the Lower Murray Swamps leading to eventual self-management
- developing options for the management and control of the Mount Lofty Ranges water resources
- as part of the National Action Plan for Salinity and Water Quality, facilitating the development of accredited integrated natural resources management plans for the three South Australian regions of the Lower Murray, South East, and Mount Lofty Ranges–Northern Agricultural Districts
- providing the Government's ongoing funding contribution to the MDBC for River Murray operations in this State
- implementing salinity management strategies
- developing an environment flows management plan for the River Murray (South Australian section) and Murray–Darling Basin
- ensuring the completion and adoption of six water allocation plans (for prescribed wells areas and the River Murray Water Resources Area) and the water management plans for the areas of the Torrens, Patawalonga and River Murray catchment boards
- replacing the existing Water Licensing System with a new Water Information and Licensing Management Application (WILMA) system designed to significantly improve the administration of water licensing, provide an online public register and facilitate the trading of water allocations
- implementing data collection and assessment programs for the better understanding of resource sustainability in the South East, the Mount Lofty Ranges, the Great Artesian Basin and Kangaroo Island regions
- rehabilitating 20 wells as part of the bore and drain rehabilitation programs in the South East confined aquifer and the Great Artesian Basin.

4.4. HIGHLIGHTS OF SERVICE DELIVERY BENCHMARKING

The following highlights are from the latest available data published by the Productivity Commission in January 2001, benchmarking the performance of State and Territory government services under the auspices of the Steering Committee for the Review of Commonwealth–State Service Provision (RGS). The RGS performance measures assess both the efficiency (cost of inputs per unit of output) and the effectiveness of services (the extent to which services meet their objectives).

Hospitals

Data included in the RGS for 1998-99 indicates that the public hospital system in South Australia was operating at a relatively high level of efficiency. Aggregate unit costs (per casemix adjusted separation) were the third lowest of the jurisdictions and 7% below the national average. South Australia's casemix adjusted relative stay index was less than one indicating a relatively high level of efficiency. High levels of effectiveness also have been achieved, with South Australia having a higher proportion of accredited public hospital beds than the national average.

Schools

Class sizes in South Australia's primary and secondary schools (as measured by student/teacher ratios) continue to be smaller than the national average. In 2000, South Australia's secondary schools remain with the lowest student/teacher staff ratios of all States.

Vocational Education and Training

The efficiency and effectiveness of vocational education and training in South Australia was very high in comparison with other jurisdictions in 1999. Employer satisfaction with VET providers was equal highest of the States and Territories. South Australian TAFE graduates from the previous year had the highest rate of employment of all jurisdictions. The proportion of employed TAFE graduates who regarded their course as highly relevant was greater than the national average. South Australia recorded the second lowest unit cost in providing vocational education and training of all States and Territories and was 7% below the national average.

Housing

The RGS reports that in 1999-2000, the public housing system was operating with relatively high levels of effectiveness. South Australia had the third lowest incidence of ‘over-crowding’ (the proportion of households inadequately matched to dwelling size) compared with other jurisdictions. Rent charged, as a proportion of market rent was third highest of the jurisdictions and well above the national average. Total rent collected as a proportion of total rent charged was higher than average, showing high rates of rent recovery. The proportion of tenants who were ‘very satisfied’ was equal highest of the States and Territories and well above the national average.

Police

South Australian police services are relatively efficient and effective compared with other jurisdictions. Data included in the latest RGS report for 1999-2000 indicates that recurrent expenditure per person in South Australia was the second lowest of the jurisdictions and 6% below the national average. Further data also indicates that the South Australian community has a higher than average level of overall satisfaction with police compared to other jurisdictions. Indicators measuring community perceptions of South Australian police as being ‘fair’ and ‘professional’ are higher than the national average.

Courts Administration

The RGS report indicates that during 1999-2000 the South Australian courts system performed relatively effectively compared with interstate benchmarks. The cost of lodging a claim through the magistrates court was significantly lower than the national average and ranked second lowest of the eight jurisdictions. Lodgement costs for district courts ranked lowest of the five jurisdictions for which data was available and were well below the national average. Case finalisation times have remained significantly shorter than the average of the States and Territories for most South Australian jurisdictions.

5. REVENUES

HIGHLIGHTS

- The rate of payroll tax is being cut from 6% to 5.75% from 1 July 2001 with a further cut to 5.67% from 1 July 2002.
- The payroll tax-free threshold is to be lifted to $504 000 from 1 July 2002.
- The payroll tax base will be broadened from 1 July 2002.
- Financial institutions duty will be abolished from 1 July 2001.
- Stamp duty on transfers of quoted marketable securities will be abolished from 1 July 2001.
- Leases with annual payments below $50 000 will be exempted from lease duty from 1 January 2002.
- Emergency Services Levy rates on fixed property are to be adjusted to maintain a constant level of revenue collection.

5.1. OVERVIEW

Reflecting the impact of State and Territory undertakings on reform of State taxes as part of national tax reform, together with revenue measures to be introduced in the 2001-02 Budget, State own-source revenues will fall in real terms in 2001-02 while funding from the Commonwealth will increase in real terms. Beyond 2001-02, combined revenue from State own-sources and Commonwealth grants is projected to fall slightly in real terms.

5.2. REVENUE MEASURES

Tax reductions are a key feature of the 2001-02 Budget consistent with the Government's election commitment to ensure the State has a competitive tax regime for business and job creation. The main changes relate to payroll tax and lease duty. In addition there are changes in land tax arrangements to ensure that those eligible for a principal place of residence exemption do not incur a land tax liability on technical grounds arising from the particular circumstances of the acquisition and timing of owner occupation.

In accordance with undertakings made by all States and Territories under the Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations (IGA), financial institutions duty (FID) and stamp duty on quoted marketable securities will be abolished from 1 July 2001.

Annual adjustments to rate settings for the Emergency Services Levy (ESL) are also incorporated in the 2001-02 Budget.

The taxation measures to be introduced as part of the 2001-02 Budget are summarised in Table 5.1.

Table 5.1 Taxation measures

	Estimated revenue forgone in 2001-02 $m	Full year $m
Payroll tax		
Payroll tax rate reduced from 6% to 5.75% from 1 July 2001	22.5	24.5
From 1 July 2002 payroll tax rate reduced from 5.75% to 5.67%, payroll tax threshold increased from $456 000 to $504 000 to be funded by a broadening of the payroll tax base	—	—
Lease duty		
From 1 January 2002, exemption from lease duty for leases with annual payments below $50 000	0.4	1.0
Land tax		
Provision of relief for land tax liabilities that attach to land used for the principal place of residence	0.2	0.2
Financial institutions duty		
Abolished from 1 July 2001	88.2	96.2
Share duty on transfers of quoted marketable securities		
Abolished from 1 July 2001	9.6	10.4
Emergency services levy		
Rates on fixed property adjusted to maintain constant revenue levels	—	—
Total	**120.9**	**132.3**

5.3. PAYROLL TAX

The payroll tax rate will be cut from 6% to 5.75% with effect from 1 July 2001 with a further rate cut to 5.67% and an increase in the tax-free threshold from $456 000 to $504 000 to apply from 1 July 2002. The first round rate cut is estimated to deliver payroll tax relief equivalent to $22.5 million in 2001-02 and $24.5 million in a full year increasing to $28.6 million in 2004-05. The second round rate cut to 5.67% and the threshold increase will be funded through a broadening of the payroll tax base to include the full grossed-up value of fringe benefits (rather than the net value) and ‘eligible termination payments’, similar to the action to be taken by Victoria to assist in funding its payroll tax reforms.

The application of payroll tax to the grossed-up value of fringe benefits will ensure consistency in the payroll tax treatment of fringe benefits and cash salaries. Current payroll tax arrangements create an incentive for employers to provide remuneration in the form of fringe benefits to minimise their payroll tax liabilities. Similarly, the proposed changes to the payroll tax treatment of ‘eligible termination payments’ will mean that these payments will be treated for payroll tax purposes as other wage payments. A number of changes have been made to the tax treatment of termination payments by the Commonwealth and the proposed payroll tax changes will provide greater consistency with Commonwealth tax law.

Comparative payroll tax rates and thresholds by jurisdiction are provided in Table 5.2.

Table 5.2 Payroll tax rates and thresholds

	As at 1 January 2001 Current	As at 1 July 2001[(a)]	As at 1 July 2002[(a)]	As at 1 July 2003[(a)]
Payroll tax rates	%	%	%	%
New South Wales	6.20	6.20	6.00	6.00
Victoria	5.75	5.45	5.45	5.35
Queensland	4.90	4.80	4.80	4.80
Western Australia [(b)]	4.87–9.4	4.87–9.4	4.87–9.4	4.87–9.4
South Australia	6.00	5.75	5.67	5.67
Tasmania	6.53	6.30	6.24	6.24
Australian Capital Territory	6.85	6.85	6.85	6.85
Northern Territory	6.60	6.60	6.60	6.60
Payroll tax thresholds	$	$	$	$
New South Wales	600 000	600 000	600 000	600 000
Victoria	515 000	515 000	515 000	550 000
Queensland	850 000	850 000	850 000	850 000
Western Australia	675 000	675 000	675 000	675 000
South Australia	456 000	456 000	504 000	504 000
Tasmania	606 000	1 000 000	1 010 000	1 010 000
Australian Capital Territory	900 000	1 250 000	1 500 000	1 500 000
Northern Territory	600 000	600 000	600 000	600 000

(a) Based on information available at the time of preparation of South Australian Budget papers.
(b) In Western Australia, for payrolls above $5.625 million a flat rate of tax of 5.56% applies.

5.4. LEASE DUTY

Leases of land and non-residential property are taxed at a rate of 1% of the first year's rent. From 1 January 2002, leases with annual payments below $50 000 will be exempt from stamp duty. This will assist small business in two ways. Provided annual payments are below the stamp duty threshold of $50 000, tenants of small business premises will not only be relieved of paying duty, they will also benefit from not having to lodge lease documents for stamping thereby reducing tax administration costs. An estimated 5700 leases per annum will be relieved of any lease duty. Since most leases are for a three-year period, the cumulative benefit will be of the order of 17 000 leases over a three-year period.

5.5. LAND TAX

Although land occupied as the principal place of residence is exempt from land tax, the owner–occupier of that land may incur a land tax liability at the time of acquisition for technical reasons that relate to the land tax status of the vendor or the timing of the transfer from one principal place of residence to another.

For example, under standard contractual arrangements, rates and taxes attached to property being sold are apportioned between the vendor and the purchaser. If the vendor is not eligible for a land tax exemption (for example, because the residential land is held as an investment property) the purchaser can become liable at the time of transfer for a portion of the land tax charge even if they intend to occupy the property as the principal place of residence.

Similarly, if there are two residential properties in the same ownership at 30 June the principal place of residence exemption can only be claimed for one of those landholdings even if the second property is being acquired for eventual owner occupation.

The Government has decided to legislate to give relief in circumstances which give rise, on technical grounds, to a land tax liability even though the owner of the land would otherwise be eligible for a principal place of residence exemption.

5.6. EMERGENCY SERVICES LEVY

ESL rates on fixed property (Table 5.3) for 2001-02 will be adjusted to maintain constancy in the level of revenue. The adjustments have been aimed at minimising impacts on individual properties.

ESL rates on mobile property (Table 5.4) are unchanged from 2000-01.

Table 5.3 Emergency services variable levy rates for fixed property[(a)]

	Land use factor applied to capital value [(c)]		Effective variable levy rate [(e)]	
Land use	2000-01	2001-02 (proposed)	2000-01	2001-02 (proposed)
Industrial	1.05	1.33[(d)]	.001675	.001315
Commercial	1.0	1.0	.001050	.001005
Residential	0.4	0.4	.000280	.000260
Rural—				
Regional Area 4	0.3	0.3	.000280	.000260
Regional Areas 1, 2 and 3	0.3	0.3	.000100	.000095
Other	0.5	0.5	.000280	.000260
Other—Special community use [(b)]	0.1	0.1	.000438	.000425
Vacant land—				
Regional Area 4	0.3	0.3	.000280	.000260
Regional Areas 1, 2 and 3	0.3	0.3	.000100	.000095

(a) A fixed charge also applies in Regional Areas 1, 2 and 4.
(b) Covers cemeteries, hospitals, retired, aged and nursing home accommodation, social welfare, halls, scouts and guides premises, churches and places of assembly. The land use factor is reduced through remissions from 0.5 to 0.1.
(c) Area factors also apply to capital values; these remain unchanged from 2000-01, as follows:
- Regional Area 4 (Greater Adelaide) 1.0
- Regional Area 1 (Regional cities and towns) 0.8
- Regional Area 2 (Rural council areas) 0.5
- Regional Area 3 (Remote/unincorporated areas)
  - Before remissions 0.2
  - After remissions 0.1

(d) Industrial property is levied at the prescribed rate with no remissions applied. The prescribed rate is proposed to be reduced from 0.001675 to 0.001315; the increase in the land use factor ensures that industrial properties, on average, pay the same amount of ESL as in 2000-01. For all other land use categories, a similar result is achieved through the proposed variable levy rates.
(e) Effective variable levy rates reflect the benefit of remissions. The prescribed levy rate before remissions will be 0.001315 in 2001-02.

Table 5.4 Emergency services levy rates on mobile property (unchanged from 2000-01)

	($)
Cars and larger motor cycles	24
Historic vehicles	6
Trailers and caravans	0
Recreational boats	0
Primary producer goods carrying vehicles in the metropolitan area	12

5.7. ABOLITION OF FINANCIAL INSTITUTIONS DUTY AND STAMP DUTY ON TRANSFERS OF QUOTED MARKETABLE SECURIITES

Under the terms of the IGA in conjunction with the introduction of the Goods and Services Tax (GST), the States and Territories agreed to abolish FID and stamp duty on transfers of quoted marketable securities from 1 July 2001. Both of these tax reforms will take effect as planned.

5.8. SOUTH AUSTRALIA'S RELATIVE TAX EFFORT

The Commonwealth Grants Commission has released tax effort assessments for all States and Territories for 1999-2000 as part of its annual relativity update. South Australia's relative tax effort has increased from 0.3% above average in 1998-99 to 7.1% above average in 1999-2000, after adjusting for data errors in the Grants Commission's measurement of vehicle registration fees and taxes for South Australia, and after excluding land tax payments by entities in the Tax Equivalent Regime (TER).

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 TER became liable for State taxes including land tax. This included the South Australian Housing Trust. The large size of the Trust's property holdings has meant that it accounts for more than one-third of total land tax receipts for the State. There is no net benefit to the budget from these tax payments since additional funding is provided to the Trust to meet its land tax liabilities.

Public housing authorities in other jurisdictions are not liable for land tax (although in Queensland the public housing authority is required to include a notional land tax liability in its financial statements). To the extent that other States and Territories have not expanded the coverage of their TER to include public housing authorities, there has been no comparable increase in their land tax receipts relative to South Australia. Consequently, South Australia's *relative* land tax effort as assessed by the Commonwealth Grants Commission has more than doubled between 1996-97 and 1999-2000.

Removing the influence of land tax payments made by South Australian entities in the TER reduces South Australia's tax effort assessment for 1998-99 from 104.3 to 100.3 and for 1999-2000 from 115.1 to 111.4. Correcting for an overstatement of revenue collected from 'vehicle registration fees and taxes' reduces South Australia's 1999-2000 tax effort assessment from 111.4 to 107.1. Details are provided in Table 5.5.

Table 5.5 Tax effort ratios by jurisdiction

	1998-99		1999-2000	
	As published	Adjusted (a)	As published	Adjusted (a)
New South Wales	106.6	107.0	103.6	104.1
Victoria	100.9	101.1	103.2	103.7
Queensland	88.9	89.0	87.7	88.1
Western Australia	91.0	91.2	89.6	90.0
South Australia	**104.3**	**100.3**	**115.1**	**107.1**
Tasmania	93.5	93.5	92.5	92.8
Australian Capital Territory	101.5	101.7	108.4	108.8
Northern Territory	92.6	92.9	100.6	101.2

(a) Adjusted to remove land tax paid by South Australian entities in the TER and, in the case of 1999-2000, to correct for an overstatement by the Grants Commission of 'vehicle registration fees and taxes' for South Australia.

In terms of projected total taxation revenue per capita for 2001-02, South Australia remains third lowest of the States and 25% below the New South Wales per capita figure, as shown in Figure 5.1.

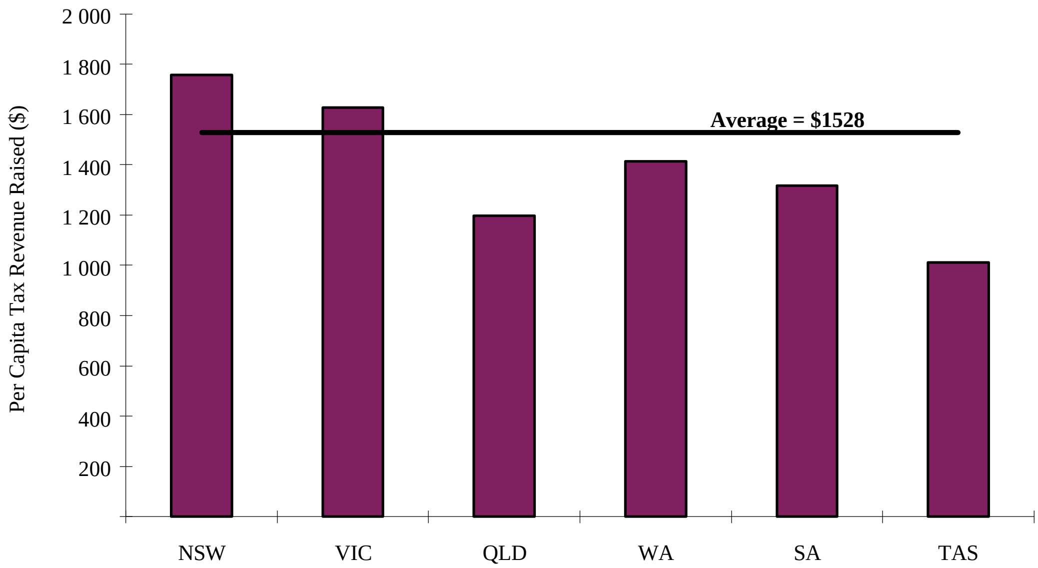


Figure 5.1 **State comparison of per capita estimated tax revenue—2001-02 financial year**

Source: Victoria and Tasmania—respective 2001-02 Budget Papers.
New South Wales, Queensland and Western Australia—respective 2000-01 Mid-Year Review estimates adjusted for subsequent policy announcements.

5.9. REVENUES—EXPECTED RESULT FOR 2000-01

Total revenue and grants received are expected to come in $269 million above the original budget estimate for 2000-01 of which $119 million relates to State own-source revenues and $150 million to Commonwealth grants.

Of the $119 million expected improvement in State own-source revenues, $32 million is due to the effect of classification changes since budget and large 'one-off' items leaving an underlying improvement of $87 million, of which $67 million relates to taxation receipts. There are a number of other large variations against budget. Distributions from the South Australian Asset Management Corporation (SAAMC) and the South Australian Government Financing Authority (SAFA), in aggregate, are expected to be almost $70 million lower than budget. Over recent years there has been a consistent pattern of actual distributions from SAAMC and SAFA being significantly lower than budgeted. These distributions, in part, have been used as a balancing item offsetting significant underspending in each year when compared to budgeted expenditure. Improvements relative to budget include $32 million for royalties, $8 million for distributions from commercial public trading enterprises (other than the electricity entities) and $50 million for a wide range of other revenues. The $67 million improvement in taxation revenue is net of 'one-off' stamp duties on electricity asset sales and is attributable to a stronger than budgeted property market including a number of large transactions in the commercial property sector, continued growth in gambling expenditure and higher than expected revenue from insurance taxes.

Of the $150 million improvement above budget in Commonwealth grants, $55 million relates to general purpose grants and $95 million to specific purpose grants. The improvement in general purpose funding mainly relates to upward revisions to guaranteed funding levels for South Australia under national tax reform arrangements reflecting the higher than expected take-up of the First Home Owner Grant (FHOG) Scheme and higher GST administration costs, both of which are funded through the guaranteed minimum amount (GMA) but have no net budgetary impact, being matched by higher expenditures. The improvement in specific purpose funding mainly relates to funding for non-government schools.

5.10. REVENUE PROJECTIONS

State own-source revenues in 2001-02 are expected to fall in absolute terms reflecting the abolition of FID and stamp duty on quoted marketable securities from 1 July 2001 as part of national tax reform changes, the impact of tax relief measures introduced in the 2001-02 Budget and the absence of ‘one-off’ effects which were present in 2000-01 (in particular capital funding for the Adelaide Convention Centre which resulted in an unusually high operating result for non-commercial public trading enterprises in 2000-01). Higher distributions from SAAMC and SAFA in 2001-02 will only partly offset these falls in revenue.

The outlook for the remaining forward estimates period for State own-source revenue (after removing timing effects associated with SAAMC distributions) is for a smaller fall in real terms in 2002-03 with real terms maintenance of revenue levels in subsequent years.

In real terms, Commonwealth grants are projected to increase in 2001-02, mainly reflecting national tax reform impacts, to remain static in 2002-03 and, thereafter, to fall.

5.11. STATE OWN-SOURCE REVENUE PROJECTIONS

Key features affecting the projections include:

- the timing of distributions from SAAMC and SAFA
- abnormal stamp duty receipts in 2000-01 from transactions associated with the sale/lease of electricity assets
- reduced dividend streams reflecting the privatisation of electricity assets
- the transfer of (corporatised) ForestrySA from the non commercial to the commercial sector
- upward revisions to mining royalties.

The overall outlook for State own-source revenue is summarised in Table 5.6.

Table 5.6 State own-source revenue

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m	2002-03 Estimate $m	2003-04 Estimate $m	2004-05 Estimate $m
Taxation	2088.7	2172.2	1983.7	2067.9	2146.3	2226.7
Income from commercial public trading enterprises (a)	279.2	247.1	242.6	255.8	261.6	272.8
Other revenue (a)	489.2	556.2	631.2	423.3	387.9	346.4
Total State own-source revenue	**2857.0**	**2975.5**	**2857.5**	**2747.0**	**2795.8**	**2845.9**
Total excluding SAAMC distributions and stamp duty on electricity assets	**2748.0**	**2878.4**	**2663.5**	**2692.0**	**2766.8**	**2836.9**
% growth on previous year						
nominal terms growth						
%		**–15.5**	**-4.0**	**–3.9**	**1.8**	**1.8**
% (excluding SAAMC distributions and stamp duty on electricity assets)		**–15.8**	**-7.5**	**1.1**	**2.8**	**2.5**
real terms growth						
%		**–17.9**	**–6.3**	**–6.3**	**-0.8**	**-0.6**
% (excluding SAAMC distributions and stamp duty on electricity assets)		**–18.2**	**–9.7**	**–1.5**	**0.2**	**0.1**

(a) From 1 July 2001, ForestrySA will shift from the non commercial sector to the commercial sector. Dividend streams from ForestrySA will be reported against ‘Income from commercial PTEs’ whereas previously its operating result was included in ‘Other revenue’ as part of the ‘net operating surplus of non commercial PTEs.

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

5.12. TAXATION

Taxation revenue is estimated to exceed budget by $83 million in 2000-01 or by $106 million after removing the effects of classification changes since budget which have reduced taxation revenue by $23 million. Of the $106 million increase, $39 million is due to stamp duty on transactions associated with the sale/lease of electricity assets leaving $67 million as the underlying improvement.

Three classification changes have occurred since budget:

- Motor vehicle registration fees paid by general government units have been excluded in accordance with Australian Bureau of Statistics consolidation practices.
- Income tax equivalent payments by the Lotteries Commission and the TAB have been reclassified from ‘tax’ to ‘other revenue’ to conform with the ABS.
- The Legal Services Commission has been reclassified from 2000-01 onwards as external to the public sector.

The $67 million underlying improvement against budget mainly reflects a stronger than expected property market including a number of large commercial property transactions. In addition, gambling taxes and insurance taxes are expected to exceed budget.

Stamp duty on motor vehicle registrations and transfers is expected to fall short of budget reflecting a lower than anticipated recovery in motor vehicle turnover from the depressed levels immediately before the introduction of the GST and abolition of wholesale sales tax.

The forward outlook for tax revenue is provided in Table 5.7.

Taxation receipts are expected to fall in absolute terms in 2001-02 reflecting the abolition of FID and stamp duty on quoted marketable securities from 1 July 2001 together with policy changes in payroll tax, land tax and lease duty detailed at the beginning of this chapter. Provision has also been made for some slowing in the South Australian economy, including the property market.

In order to gauge the underlying growth in taxation revenues from 1999-2000 to 2004-05, adjustments have been made to remove classification effects, revenue from taxes to be abolished or adjusted as part of national tax reform and abnormal stamp duty receipts from the sale/lease of electricity assets. The results are provided in Table 5.7.

On this adjusted series, taxation revenues are estimated to decline in real terms in 2001-02 with low real terms growth projected over the forward estimate period.

Table 5.7 Taxation

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m	2002-03 Estimate $m	2003-04 Estimate $m	2004-05 Estimate $m
Employer payroll tax	579.7	579.9	579.5	613.3	646.6	680.4
Taxes on property	686.8	778.5	608.1	634.9	651.6	668.7
Taxes on gambling (a)	293.2	288.3	289.3	296.9	308.0	319.3
Taxes on insurance	181.5	191.2	195.4	200.0	204.6	209.3
Motor vehicle taxes(b)	316.9	300.0	310.8	322.2	334.8	348.3
Franchise fee replacement revenue(c)	26.9	31.1	0.0	0.0	0.0	0.0
Other taxes (d)	3.7	3.2	0.7	0.7	0.8	0.8
Total taxation	**2088.7**	**2172.2**	**1983.7**	**2067.9**	**2146.3**	**2226.7**
Adjusted to remove incomparability between years(e)		**1987.3**	**1974.7**	**2067.9**	**2146.3**	**2226.7**
% change on previous year						
Employer payroll tax		3.7	-0.1	5.8	5.4	5.2
Taxes on property		–5.5	-21.9	4.4	2.6	2.6
Taxes on gambling (a)		–22.2	0.3	2.6	3.7	3.7
Taxes on insurance		6.9	2.2	2.4	2.3	2.3
Motor vehicle taxes(b)		1.1	3.6	3.7	3.9	4.0
Franchise fee replacement revenue(c)		–93.9	—	—	—	—
Other taxes (d)		–47.7	–77.1	1.5	0.7	0.3
Total taxation						
Nominal growth		**–20.9**	**–8.7**	**4.2**	**3.8**	**3.7**
Real terms growth		**–23.1**	**–10.9**	**1.6**	**1.2**	**1.3**
Total taxation adjusted to remove incomparability between years (e)						
Nominal growth		**4.4**	**–0.6**	**4.7**	**3.8**	**3.7**
Real terms growth		**1.4**	**–3.1**	**2.1**	**1.2**	**1.3**

(a) Classification change since 2000-01 Budget—tax equivalent payments by the Lotteries Commission and the TAB have been reclassified from ‘tax’ to ‘other revenue’ to conform with the ABS.
(b) Classification change since 2000-01 Budget—motor vehicle registration fees paid by general government units have been excluded.
(c) Revenue replacement grants ceased from 1 July 2000; final payments in respect of 1999-2000 were received early in 2000-01.
(d) The levy on gas sales will cease from 1 July 2001.
(e) Time series has been adjusted to remove taxes that will be abolished during the forward estimates period, to backcast reductions in gambling tax rates as a result of national tax reform, to exclude stamp duty on electricity asset sales and to remove the effects of classification changes.

Projected growth in payroll tax receipts reflects estimated employment and earnings growth including the possibility of some slowing in the South Australian economy in 2001-02 and the timing of increases in the superannuation guarantee levy, including an increase scheduled for 2002-03. Negative growth in 2001-02 reflects the cuts in payroll tax rates detailed at the beginning of this chapter.

Property taxes include land tax, stamp duty on conveyances, mortgages, shares, financial transaction taxes and water catchment levies. Negative growth in 2000-01 and 2001-02 reflects the timing of electricity asset sales which generated stamp duty receipts of $103 million in 1999-2000 compared to $39 million in 2000-01 and zero in 2001-02, together with a slowing in the property market following a very strong year in 1999-2000 in anticipation of the GST. Although the property market has held up better than expected in 2000-01, activity levels are still significantly below those experienced in 1999-2000. The forward estimates assume some further slowing in 2001-02 with property turnover rates returning to trend in 2002-03 and beyond. The fall in property tax revenue in 2001-02 also reflects the abolition of FID and stamp duty on quoted marketable securities from 1 July 2001.

Gambling tax receipts will fall in 2000-01 reflecting the change in the classification of tax equivalent payments by the Lotteries Commission and the TAB, the reclassification of distributions from the TAB to racing clubs following the abolition of the Racing Industry Development Authority (RIDA) on 30 September 2000 and reductions in gambling tax rates to make room for the impact of the GST on gambling operations. The loss of State revenues from lower State gambling tax rates is compensated through guaranteed funding arrangements between the States and the Commonwealth as part of national tax reform.

The lack of growth in gambling tax revenues in 2001-02 reflects the anticipated impact of the Government's responsible gambling measures. Throughout the forward estimate period, gambling expenditure is projected to grow in line with disposable income.

The outlook for individual gambling taxes is provided in Table 5.8.

Table 5.8 Gambling taxes

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m	2002-03 Estimate $m	2003-04 Estimate $m	2004-05 Estimate $m
Gaming machines	183.4	191.5	192.7	196.8	204.8	213.0
Lotteries Commission	78.2	66.5 (a)	67.9	70.9	73.4	75.9
TAB	14.5	12.4 (a)	11.7	11.8	12.2	12.4
Casino	13.7	14.2	13.6	13.9	14.2	14.6
Other (b)	3.4	3.7	3.4	3.5	3.4	3.4
Total	**293.2**	**288.3**	**289.3**	**296.9**	**308.0**	**319.3**
% change on previous year						
Gaming machines		–8.6	0.6	2.1	4.1	4.0
Lotteries Commission		–20.7	2.1	4.4	3.5	3.4
TAB		–41.8	–5.9	0.9	3.4	1.6
Casino		–27.4	–4.2	2.2	2.2	2.8
Other (b)		–90.0	–8.2	3.0	–2.9	0.0
Total		**–22.2**	**0.3**	**2.6**	**3.7**	**3.7**

(a) Shortfalls against budget reflect, in part, the reclassification of tax equivalent payments by Lotteries Commission and TAB as property income, rather than tax, to comply with ABS classification standards.

(b) Includes commission on bets, small lotteries, grants to bookmakers and racing clubs for GST and soccer pools. Prior to 2000-01, contributions from the TAB to RIDA were classified as taxes even though the final destination of these funds was the racing clubs. During 2000-01, RIDA ceased to exist and TAB distributions to clubs are now paid direct rather than through another government body; hence the large negative growth in 2000-01.

Revenue raised from taxes on insurance grew strongly in 2000-01 reflecting higher premium levels including GST impacts both directly on premiums and indirectly through changes in the value of property insured. Revenue from insurance taxes is expected to increase more moderately for the remainder of the forward estimate period.

Motor vehicle tax revenues grew slowly in 2000-01 reflecting lower motor vehicle prices following the abolition of wholesale sales tax and the introduction of the GST. Notwithstanding price falls, turnover of the motor vehicle stock has not been as strong as was anticipated. Growth in motor vehicle taxes is expected to return to the longer-term trend in the remainder of the forward estimate period.

Franchise fee replacement revenues ceased from 1 July 2000 as part of changes to Commonwealth–State funding arrangements under national tax reform. Final payments relating to the 1999-2000 financial year were received early in 2000-01.

5.13. INCOME FROM COMMERCIAL PUBLIC TRADING ENTERPRISES

Commercial public trading enterprises (PTEs) comprise Ports Corporation, SA Water Corporation, the Industrial and Commercial Premises Corporation and ForestrySA, which will transfer from the non-commercial sector to the commercial sector on 1 July 2001. Before their sale/lease, the States' electricity entities also formed part of the commercial sector.

Revenue distributions from commercial PTEs take the form of dividends and tax equivalent payments (income tax, local government rate equivalents and, before 1 July 2000, wholesale sales tax equivalents).

The composition of income distributions from commercial PTEs is summarised by category of income stream in Table 5.9.

Table 5.9 Income distributions from commercial PTEs, by category of income stream

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m	2002-03 Estimate $m	2003-04 Estimate $m	2004-05 Estimate $m
Dividends	195.0	174.0	175.6	192.5	192.8	195.6
Income tax equivalents	82.8	71.9	65.9	62.3	67.8	76.3
Wholesale sales tax equivalents	0.3	0.2	0.0	0.0	0.0	0.0
Local government rate equivalents	1.0	1.0	1.0	1.0	1.0	0.9
Total	**279.2**	**247.1**	**242.6**	**255.8**	**261.6**	**272.8**
% change on previous year						
Nominal		**–34.4**	**–1.8**	**5.4**	**2.3**	**4.3**
Real terms		**–36.2**	**–4.2**	**2.8**	**–0.3**	**1.8**

Reflecting the sale/lease of the State's electricity assets, the level of income distributions from commercial PTEs fell in 2000-01 compared to the previous year, and also fell short of budgeted amounts for 2000-01.

A breakdown of income distributions by entity is provided in Table 5.10.

Table 5.10 Income distributions from commercial PTEs, by entity

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m	2002-03 Estimate $m	2003-04 Estimate $m	2004-05 Estimate $m
Electricity entities	49.7	10.1	0.0	0.0	0.0	0.0
SA Water Corporation	219.4	226.4	207.3	216.2	219.1	228.6
Ports Corporation	9.8	10.0	12.1	11.5	11.9	12.6
Forestry SA	0.0	0.0	22.7 [(a)]	27.5	30.0	31.1
Industrial and Commercial Premises Corporation	0.2	0.7	0.6	0.6	0.5	0.6
Total	**279.2**	**247.1**	**242.6**	**255.8**	**261.6**	**272.8**

(a) In 2001-02, ForestrySA is also budgeted to return $20 million of equity which is not included in Table 5.10 since it is in the nature of a distribution of retained earnings previously included as income to the non-commercial sector.

Further detail on revenue distributions from individual commercial PTEs is provided in Chapter 8.

5.14. OTHER STATE OWN-SOURCE REVENUE

This revenue category comprises:

- the net operating surplus of non commercial PTEs
- income distributions from public financial institutions such as HomeStart, FundsSA Subsidiary Holding Corporation, Motor Accident Commission, SAFA and SAAMC
- royalties
- fines (mainly court fines and traffic fines)
- a range of miscellaneous receipt items that make up a residual category.

Other State own-source revenue is expected to exceed budget by $67.0 million in 2000-01. There are a number of large variations against budget contributing to this net improvement.

A $58.3 million improvement above budget in the net operating result of non commercial PTEs mainly reflects funding for building extensions at the Adelaide Convention Centre. Capital funding of $55 million in 2000-01 (with a further $5 million in 2001-02) will be treated as operating revenues in the Convention Centre's accounts (offset on the expenditure side of the budget by a comparable increase in subsidy payments).

Dividends from SAAMC and SAFA will be $69.5 million lower than originally budgeted while revenue from fines is expected to fall short of the original budget by $14.1 million. Mining royalties, on the other hand, are expected to exceed budget by $32.3 million reflecting increases in international oil and commodity prices and a depreciated Australian dollar.

All other revenues, which relate to many individual receipt lines, are expected to exceed budget by $60.0 million.

The forward outlook for Other State own-source revenue is provided in Table 5.11.

Table 5.11 Other State own-source revenue

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m	2002-03 Estimate $m	2003-04 Estimate $m	2004-05 Estimate $m
Net operating surplus of non commercial PTEs	59.5	117.8	28.8	27.9	33.7	34.8
Income from public financial institutions—						
SAAMC	109.0	58.0	194.0	55.0	29.0	9.0
FundsSA Subsidiary Holding Corporation	18.0	22.1	0.0	0.0	0.0	0.0
HomeStart	7.1	2.9	2.1	1.6	1.6	1.8
Motor Accident Commission	10.0	10.0	10.0	0.0	0.0	0.0
SAFA	50.0	31.5	110.0	59.0	35.5	14.0
Royalties	71.7	104.0	102.3	98.4	101.7	101.0
Fines	69.8	55.7	61.7	59.3	60.5	61.4
All other	94.1	154.2	122.3	122.1	125.9	124.4
Total	**489.2**	**556.2**	**631.2**	**423.3**	**387.9**	**346.4**
Total (excl SAAMC distributions)	**380.2**	**498.2**	**437.2**	**368.3**	**358.9**	**337.4**
% change on previous year						
Nominal growth						
%		**39.7**	**13.5**	**–32.9**	**–8.4**	**–10.7**
% (excl SAAMC distributions)		**25.1**	**–12.2**	**–15.8**	**–2.5**	**–6.0**
Real terms growth						
%		**35.7**	**10.7**	**–34.6**	**–10.6**	**–12.8**
% (excl SAAMC distributions)		**21.5**	**–14.4**	**–17.9**	**–5.0**	**–8.2**

Fluctuations in the level of Other State own-source revenue reflect the timing of distributions from SAAMC to a large extent. Excluding SAAMC distributions, Other State own-source revenues are projected to decline throughout the forward estimate period mainly reflecting lower distributions from SAFA after 2001-02. The absence of 'one-off' effects which were present in 2000-01 is mainly responsible for the fall in revenue (excluding SAAMC distributions) in 2001-02. In particular, the net operating result of non commercial PTEs will be lower in 2001-02 reflecting, in part, an artificially high result in 2000-01 from capital funding for the Adelaide Convention Centre and the reclassification in 2001-02 of ForestrySA from the non commercial to the commercial sector.

Revenue projections for mining royalties have been revised up significantly since budget for both the Cooper Basin and Roxby Downs. Although declining production levels at Cooper Basin continue to be reflected in the forward estimates, a more optimistic price outlook delivers substantial revenue gains. Royalty estimates for Roxby Downs have also been revised up to reflect higher price assumptions and the completion of the most recent scaling up of mine operations with a further expansion expected to lift royalty levels in 2003-04.

5.15. COMMONWEALTH GRANT REVENUE PROJECTIONS

Commonwealth grants are expected to exceed budget by $150 million in 2000-01, reflecting a $55 million improvement in general purpose funding and a $95 million improvement in specific purpose funds.

Strong growth in 2001-02 mainly reflects structural adjustments as part of national tax reform resulting in a higher proportion of State funds coming from the Commonwealth, offset by reductions in State own-source revenues. Beyond 2002-03, projected levels of Commonwealth grants to South Australia fall short of projected inflation.

The forward outlook for Commonwealth grants is summarised in Table 5.12.

Table 5.12 Commonwealth grants

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m	2002-03 Estimate $m	2003-04 Estimate $m	2004-05 Estimate $m
General purpose grants						
GST revenue grants	2249.1	2264.1	2540.5	2694.3	2818.6	2947.1
Transitional grants	241.5[(a)]	282.2	222.6	157.8	95.2	29.0
Competition grants	36.1	35.9	55.3	56.1	57.1	58.5
Subtotal	2526.7	2582.2	2818.4	2908.2	2970.9	3034.6
Specific purpose grants						
Direct grants	1148.4	1173.6	1222.2	1250.5	1282.0	1306.5
On-passed grants	286.9	356.4	374.2	373.5	382.3	391.3
Subtotal	1435.3	1530.0	1596.4	1624.1	1664.2	1697.8
Total	**3962.0**	**4112.2**	**4414.8**	**4532.3**	**4635.1**	**4732.4**
% change on previous year						
Nominal		**28.4**	**7.4**	**2.7**	**2.3**	**2.1**
Real terms		**24.7**	**4.7**	**0.1**	**–0.3**	**–0.3**

(a) Includes interest-free loan of $166.8 million from the Commonwealth under the GMA arrangements in the IGA. The Commonwealth Government subsequently decided to provide all supplementary funding in grant form.

Strong growth in general purpose grants in 2000-01 and 2001-02 reflects revised Commonwealth–State funding arrangements that took effect with the introduction of the GST on 1 July 2000. GST revenue grants in combination with transitional assistance replace other forms of Commonwealth funding (financial assistance and revenue replacement grants) and compensate for the loss of State taxation revenue as a result of the abolition of some State taxes (for example FID and share duty on quoted marketable securities) and reductions in other State tax rates (for example gambling taxes) as part of national tax reform.

Under the IGA the Commonwealth undertook to underwrite the revenue yield from the GST to ensure that States and Territories receive, as a minimum, the equivalent of what they could have expected to receive under existing Commonwealth–State funding arrangements. This guaranteed minimum amount is each State's share of GST revenue collections supplemented by transitional funding assistance up to the guaranteed minimum level.

Supplementary funding is and will continue to be provided by the Commonwealth until each State's share of GST revenues at least matches this guaranteed amount. In South Australia's case, supplementary funding is expected to be required up to and including 2005-06.

The guaranteed level of funding for South Australia in 2000-01 has been revised up mainly due to the higher than expected take-up of the FHOG Scheme and higher GST administration costs, both of which are funded through the GMA.

On 9 March 2001 the Commonwealth Government announced a temporary expansion of the FHOG scheme to provide for an additional $7000 for first home buyers who build or purchase new but previously unoccupied homes. The extended scheme will apply until 31 December 2001 and is funded by the Commonwealth. Costs incurred in 2000-01 will be funded through the GMA. Costs incurred in

2001-02 under the expanded scheme will be provided to the States in the form of specific purpose funds.

Funding under the GMA will increase strongly in 2001-02 mainly reflecting compensation for the loss of FID and stamp duty on quoted marketable securities, both of which are to be abolished from 1 July 2001, and a higher level of revenue forgone from the abolition of financial assistance grants following the 2001 Update of Commonwealth Grants Commission relativities which delivered an increased grant share for South Australia. Details of the impact of the 2001 Update are provided in Chapter 6.

Funding under the GMA is projected to increase in real terms in 2002-03 and, thereafter, to grow more slowly than projected inflation.

The derivation of the GMA for South Australia in the forward estimates period is summarised in Table 5.13.

In addition to GST revenues, supplemented by transitional grants to reach guaranteed minimum funding levels, the States and Territories continue to receive competition grants. These grants remain conditional on States complying with Competition Policy requirements. In accordance with the third tranche of the payment schedule, there will be a 'step up' in the level of competition grants in 2001-02.

Specific purpose grants are expected to exceed budget in 2000-01 mainly on account of higher than budgeted funding for non-government schools. Throughout the forward estimate period, projected growth in specific purpose funds is insufficient in most years to keep pace with projected inflation.

Further detail on Commonwealth funding arrangements is provided in Chapter 6.

Table 5.13 Guaranteed minimum amount

	2000-01 Budget $m	2000-01 Estimated Result $m	2001-02 Budget $m	2002-03 Estimate $m	2003-04 Estimate $m	2004-05 Estimate $m
Revenue forgone from						
Abolition of other forms of Commonwealth funding—						
Financial assistance grants	1788.8	1797.0	1928.5	2013.2	2066.8	2107.9
Franchise fee replacement grants	566.2	552.3	608.6	629.9	651.6	674.2
Abolition of State taxes						
Financial institutions duty[(a)]	0.0	0.0	85.5	96.6	100.1	103.7
Share duty[(a)]	0.0	0.0	14.7	16.6	17.8	19.0
Debits tax[(b)]	0.0	0.0	0.0	0.0	0.0	0.0
Wholesale sales tax equivalents	12.7	12.7	12.7	12.7	0.0	0.0
Reduced gambling tax rates						
Gaming machines	43.2	44.7	49.6	51.0	52.8	54.6
Casino	6.2	6.4	7.0	7.1	7.2	7.3
TAB	6.8	8.6	9.9	10.1	10.4	10.6
Lotteries Commission	10.4	10.5	11.7	12.1	12.5	12.9
Small lotteries	0.6	0.5	0.6	0.6	0.6	0.6
plus						
Additional expenditure						
First Home Owner Grant	63.0	100.0	80.0	62.0	63.2	63.3
Additional First Home Owner Grant	0.0	5.9	–3.9[(c)]	0.0	0.0	0.0
Contribution to ATO for administration costs	63.1	77.3	39.9	28.7	28.1	27.3
Grants to reimburse the racing industry for GST costs—						
bookmakers	0.3	0.3	0.4	0.4	0.4	0.4
on-course totalisators	0.6	0.6	0.7	0.7	0.8	0.8
Interest costs	4.0	4.0	1.1	1.4	0.0	0.0
less						
Reduced expenditure from						
Termination of off-road diesel subsidies	32.1	31.3	35.9	37.1	38.3	39.5
Embedded savings from removal of wholesale sales tax	36.4	36.4	38.8	41.4	44.1	47.1
Revenue growth stimulated by tax reform						
Growth dividend in State tax revenues	6.8	6.8	9.2	12.5	16.1	19.9
equals						
GUARANTEED MINIMUM AMOUNT	**2490.6**	**2546.3**	**2763.1**	**2852.1**	**2913.8**	**2976.1**
Share of GST revenues	2249.1	2264.1	2540.5	2694.3	2818.6	2947.1
Transitional grant	241.5[(d)]	282.2	222.6	157.8	95.2	29.0

(a) To be abolished on 1 July 2001.
(b) To be abolished by 1 July 2005, subject to review by the Ministerial Council.
(c) Adjustment for estimated excess funding in 2000-01 for the additional $7000 First Home Owner Grant.
(d) Includes $166.8 million which was originally intended by the Commonwealth to be paid as an interest-free loan but all transitional funding will now be paid wholly in the form of grants.

6. COMMONWEALTH–STATE FINANCES

HIGHLIGHTS

- A new era in Commonwealth–State relations began on 1 July 2000, with GST revenues being paid to the States in lieu of financial assistance grants.
- States are guaranteed to be no worse off under the tax reform arrangements.
- The Intergovernmental Agreement implementing the new arrangements stipulates that GST revenues will be distributed among the States on horizontal fiscal equalisation principles.

6.1. INTRODUCTION

The 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 national tax reform and local government relations.

6.2. RECENT DEVELOPMENTS

Ministerial Council

The second meeting of the Ministerial Council for Commonwealth–State Financial Relations was convened in Canberra on 30 March 2001. The Council, comprising the Commonwealth and State Treasurers, was established by the Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations (IGA) and has replaced the annual financial Premiers’ Conference.

The meeting considered expected revenue payments to the States in 2000-01 and 2001-02, as well as a range of Goods and Services Tax (GST) administration issues. The major outcomes included:

- agreement that 2001-02 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 2001 Update* after accounting for minor technical issues raised by Western Australia at the meeting
- confirmation that each State will require budget balancing assistance (in the form of grants only, the previous loan portion no longer being required) in 2000-01 to ensure that, in accordance with the transitional guarantee provided by the IGA, no State is worse off under the national taxation reform arrangements
- recognition that in 2001-02 budget balancing assistance is required by all States and will take into account the removal, from 1 July 2001, of financial institutions duty (FID) and stamp duty on quoted marketable securities
- assurance that all States have implemented the First Home Owner Grant scheme (FHOG) in agreement with the agreed criteria in the IGA, and confirmation from the Commonwealth that it will be providing funding for an additional $7000 grant to first home owners contracting to buy or build new homes between 9 March and 31 December 2001
- assurance from the Commonwealth that it will continue to honour its commitment under the IGA not to cut aggregate specific purpose payments (SPPs) to the States as part of the reform process

- continuation of competition payments to the States, as specified in the *Agreement to Implement the National Competition Policy and Related Reforms*.

The Ministerial Council also considered the progress of other GST administration issues such as the performance agreement between the States and the Australian Tax Office (ATO), the introduction of a National Tax Equivalent Regime (NTER) for income tax for State government business enterprises, and ministerial determinations under the GST legislation. A detailed discussion of national tax reform issues is included in Section 6.5.

Commonwealth Grants Commission 2001 Update

In February, the CGC released its 2001 Update of per capita relativities for the distribution of Commonwealth general purpose payments to the States in 2001-02.

The relativities, based on the principle of horizontal fiscal equalisation (HFE; see Section 6.3), aim to ensure that each State has the capacity to provide public services at a similar standard and level of efficiency as other States for a comparable revenue-raising effort. HFE distribution is a requirement of the IGA.

In accordance with the IGA, the CGC provided two sets of relativities:

- the first to apply to a pool of GST revenue grants and health care grants (the GST relativities)
- the second to apply to a pool of financial assistance grants (FAGs) and health care grants, which would have resulted from the continuation of Commonwealth–State financial arrangements applying before national tax reform was implemented on 1 July 2000 (the FAG relativities).

The FAG relativities are required to ensure that no State is worse off under the national tax reform arrangements and are in practice the relativities which determine general purpose grants in 2001-02.

On the basis of the FAG relativities, shown in Table 6.1, South Australia's relativity has increased from 1.23481 as assessed in the 2000 Update to 1.27328 in the 2001 Update. This equates to an increase in general purpose grants of almost $73 million from payments which would have been received using the previous relativities.

The increase for South Australia was largely the result of the addition of 1999-2000 and the deletion of 1994-95 from the rolling five-year average assessment period used by the CGC, with comparatively minor changes resulting from data revisions within the first four years of the assessment period. In particular, the assessment of South Australia's revenue capacity contributed almost $58 million. Slower than average growth in land values and wages led to a substantial drop in relative revenue-raising capacity in stamp duty on conveyances and payroll tax assessments, and the State's assessed capacity to raise land and mining revenues fell. The remaining $15 million of the funding increase originated from an assessed rise in South Australia's relative cost of service provision and a fall in relative share of (in-scope) SPPs.

Overall, the 2001 Update relativities redistributed almost $183 million among the States: six States or Territories gained (Queensland, Western Australia, South Australia, Tasmania, Australian Capital Territory and Northern Territory) at the expense of New South Wales and Victoria. The CGC's next data update is due in February 2002, for application to the 2002-03 grant pool, and the next major methodology review is scheduled for completion in 2004.

Table 6.1 Commonwealth Grants Commission 2001 Update results

	2000 Update FAG relativity	2001 Update FAG relativity	Implied effect on grant share ($m)
New South Wales	0.89642	0.88284	–109.4
Victoria	0.85780	0.84543	–73.3
Queensland	1.01079	1.01882	+36.8
Western Australia	0.92399	0.92429	+1.1
South Australia	**1.23481**	**1.27328**	**+72.5**
Tasmania	1.62565	1.68695	+36.1
Australian Capital Territory	1.14522	1.18924	+17.4
Northern Territory	4.85767	4.93364	+18.8
Total redistributed among States			182.7

6.3. 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. Paid monthly on the basis of actual Commonwealth GST collections, they are distributed to the States using CGC per capita relativities.
- *Guaranteed minimum amount (GMA)* is provided within the IGA to ensure that no State is made worse off by the national tax reform arrangements. Calculated on the basis of an agreed formula that takes account of the changes to funding arrangements contained in the IGA, it is based on the pool of funds that would be available had the reforms not been implemented.
- *Budget balancing assistance* represents the difference between the GMA calculated for each State and that State's share of GST revenues. Budget balancing assistance will continue to be provided to a State for as long as its share of GST revenue in a given year is less than its GMA.
- *FAGs* were also 'untied' payments to assist in the financing of State expenditure priorities that were distributed using CGC relativities. With the advent of national tax reform and the IGA, the payment of FAGs was discontinued, and replaced by the distribution of GST revenue to the States from 2000-01 onwards.
- *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' which include funding for non-government schools and local government. The administration of SPPs by the States is subject to guidelines agreed with the Commonwealth. The distribution and magnitude of SPPs are determined through the Commonwealth Budget, usually following negotiations between the States and the Commonwealth Government (see Specific Purpose Payments below).
- *Special revenue assistance* is occasional general revenue assistance provided in special circumstances to some or all States. Payments may either be funded directly by the Commonwealth or from within the pool of general purpose funds distributed by CGC relativities.
- *National Competition Policy (NCP) payments* are payments by the Commonwealth to the States to ensure the States share in additional revenue accruing to the Commonwealth from the economic gains of implementing competition policy. Payment is conditional on compliance with the NCP agreement as assessed by the National Competition Council (NCC).
- *Contributions* are funds provided to the States not classified as SPPs because payment is made through a Commonwealth 'non-budget agency' or is considered to be a Commonwealth own-purpose outlay. For example, Veterans' Affairs funding in South Australia is provided through the South Australian Health Commission. Such payments are classified as

Commonwealth contributions in State Budget documents. In addition, minor payments are received for services provided by States on behalf of the Commonwealth.

- *Revenue replacement payments* are wholesale sales tax and excise surcharges levied by the Commonwealth on liquor, petrol and tobacco (replacing business franchise fees on those products) on-passed to the States in accordance with agreed shares. The States stopped levying franchise fees following a High Court decision in August 1997 which held the New South Wales tobacco franchise fee to be an excise and invalid for States to collect. In line with the IGA, revenue replacement payments were discontinued at the end of 1999-2000, but there was a small carryover of payments into 2000-01 that has been accounted for in the GMA calculation.

Estimated levels of Commonwealth financial assistance for South Australia are set out in Table 6.2.

Table 6.2 Commonwealth payments to South Australia 2000-01 and 2001-02[(a)]

	2000-01 Estimated Result $m	2001-02 Budget $m	Change %
General purpose payments			
GST revenue grants	2 264.1	2 540.5	12.2
Budget balancing assistance	282.2	222.6	-21.1
NCP payments	35.9	55.3	54.0
Total general purpose payments	2 582.2	2 818.4	9.1
Specific purpose payments ‘to’ the State			
Health Care Grants	533.0	566.5	6.3
Government schools	150.1	157.2	4.7
Commonwealth–State Housing Agreement (CSHA)	67.8	67.1	-1.0
Roads	48.5	59.5	22.7
Australian National Training Authority (ANTA)	73.7	80.1	8.7
Other ‘to’ payments[(b)]	300.6	291.8	-2.9
Total specific purpose payments ‘to’ the State	1 173.6	1 222.2	4.1
Total payments ‘to’ the State	**3 755.8**	**4 040.6**	**7.6**
Major contributions [(c)]			
Veterans’ Affairs arrangements	55.5	57.0	2.7
Pathology Laboratory grants	31.5	31.9	1.3
‘On-passed’ specific purpose payments[(d)]	356.4	374.2	5.0

(a) Data is compiled from agency budget estimates as published in the Estimates Statement and from Commonwealth Budget Paper No. 3 Federal Financial Relations 2001-02.
(b) 2000-01 estimated result includes the one-off payment of $20 million for the Adelaide Airport runway extension.
(c) Major Commonwealth contributions to the State are not classified as SPPs. The States also provide services on behalf of the Commonwealth for which the Commonwealth makes contributions (ie fee for service); such minor payments are excluded.
(d) Includes Commonwealth grants for local government, non-government schools and, in 2001-02, additional FHOG payments.

General purpose payments

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

Consequently, 2000-01 and 2001-02 GPPs consist of GST revenue grants, budget balancing assistance and NCP payments. On present estimates, budget balancing assistance will be provided to all States in both years as there is a shortfall between the estimated GST revenues and the GMA.

South Australia will receive an estimated $2818 million in GPPs in 2001-02, an increase of $236 million from the $2582 million estimated to be received in 2000-01.

Horizontal fiscal equalisation

The Commonwealth uses a fiscal equalisation approach for the distribution of GPPs to the States. The IGA includes a specific provision that GST revenue grants will be distributed on this basis.

This 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 to the other States for a comparable revenue-raising effort.

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. Equalisation payments cannot be viewed as 'subsidies'; they are an integral part of the distribution of resources inherent in the federal system.

In the absence of equalisation, those States which, through no fault of their own, face high costs or have a low capacity to raise revenues would be unable to provide their communities with the level of service offered elsewhere in Australia: these States would have to impose higher rates of taxation to fund an average level of services, or settle for fewer or lower standard services. Some States are disadvantaged in terms of their revenue-raising capacities (for example through a lower level of economic activity) or expenditure requirements (for example an older population requiring more health services), and these disadvantages exist regardless of State government policy.

Equalisation is thus an important element in ensuring equity for States, regardless of their demographic, economic or geographic circumstances. It would also be inefficient nationally if resources were attracted to regions with (say) a low payroll tax rate merely because of the concentration of other revenue sources such as mining developments or financial market activity in those regions.

Comprehensive and up-to-date assessments of the relative financial position of all States are needed to accurately determine which States are advantaged and which are disadvantaged. A partial assessment confined to a number of States would hamper the achievement of full equalisation.

The CGC, an independent statutory body, recommends the shares of GPPs that each State and Territory should receive.

Its approach is the most comprehensive fiscal equalisation process currently applied in the world's federations, and assesses revenue-raising capabilities across almost 20 revenue sources and differential expenditure needs in approximately 50 categories for each State. Furthermore, relativities are updated each year on the basis of the latest five years of available data, with the CGC's methodology remaining fixed between major five-yearly assessment reviews.

In making its revenue assessments, the CGC attempts to find a measure of the capacity of each State to raise taxation. That is, it derives the notional amount of revenue (or 'standardised' revenue) each State could raise from its base if it applied the average tax effort. It also calculates the standard revenue for the State, which is the amount that would be raised if the State raised the same per capita revenue as the average for all States. The revenue a State chooses to raise remains its policy choice and does not affect its level of Commonwealth funding. In this way, the CGC's assessments are policy neutral.

Needs for each State are derived by comparing standardised revenue and standard revenue. If a State's standard revenue exceeds its standardised revenue it has a positive need, which indicates that the State has a below-average revenue capacity and thus requires relatively more Commonwealth funding. A negative need indicates that the State has above-average capacity and thus requires relatively less Commonwealth funding.

On the expenditure side, the CGC attempts to measure what each State needs to spend to provide an average level of service. The CGC quantifies the reasons why some States need to spend more than others in providing services. For example, it looks at State differences in:

- the age profile of the population
- socio-demographic composition
- access to scale economies in administration
- the effects of dispersed populations
- costs of inputs such as wages and salaries and electricity
- costs of the physical environment.

The factors are summed and an overall advantage or disadvantage is derived for each expenditure category.

The assessments for all revenue and expenditure categories are combined to derive an overall relativity for each State. South Australia's per capita relativity from the CGC's 2001 Update was 1.27328, meaning that after the CGC's recommended distribution of GPPs is implemented, South Australia will receive about 27% above the average per capita grants. That is, the State will receive approximately $480 million more than its population share of funding in 2001-02.

An accurate and comprehensive application of HFE is a difficult task which of necessity requires at times the exercise of judgment by an independent expert body. An essential part of the HFE process as practised in Australia is rigorous testing of arguments put forward by individual States. The CGC provides all States with ample opportunities to make submissions and to provide input through working parties of officials on particular issues.

Specific purpose payments

SPPs are provided under Section 96 of the Constitution for both recurrent and capital expenditure purposes. In 2001-02, South Australia will receive an estimated $1596 million of funding in this form —an increase of 4.3% from the $1530 million estimated to be received in 2000-01.

Of the total SPPs to be received by South Australia in 2001-02, $374 million (or 23%) will be 'on-passed' predominantly to non-government schools and local government. This represents an increase of 5.0% over the amount in 2000-01.

SPPs 'to' the State (for a range of purposes including health, housing and government schools) are forecast to increase by 4.1% to $1222 million in 2001-02. The majority of this increase reflects increases in Health Care Grants and provision of roads funds for the Port River expressway.

The allocation of SPPs is based on many approaches including Commonwealth discretion, historical allocation and formula-based allocation. The CGC takes the distribution of most recurrent SPPs into account in its recommendations for allocating general revenue assistance.

On average over the last five years, SPPs per capita included in the CGC's assessments for South Australia have been approximately 2% greater than the average Australian inclusion. Accordingly, South Australia's share of untied general revenue assistance has been reduced correspondingly.

Health

The 1998 Australian Health Care Agreements (AHCAs) increased State flexibility and provided for automatic adjustments to funding for changes in private health insurance levels, but State dissatisfaction at overall health funding remains.

States have argued that Commonwealth funding under the AHCAs is inadequate given increased demand for health and hospital services, and inadequate indexation for AHCAs payments, unilaterally adopted by the Commonwealth and ignoring an independent arbiter's recommendation.

The Commonwealth's revised fringe benefits tax arrangements introduced in 2000 also impact on public hospitals. A compensation package was negotiated with the Commonwealth, with payments to be made over a three-year period based on the relative financial impact of the revised arrangements.

The States will continue to press for more equitable health funding arrangements.

Home and community care

A new agreement between the Commonwealth and the State for the Home and Community Care (HACC) Program was signed in May 1999. It continues the previous arrangement for Commonwealth offers of growth in the program to be matched by the State in the approximate proportions of 60% Commonwealth and 40% State. It is estimated that the total HACC allocation in 2001-02 will be $88 million, made up of $53 million from the Commonwealth and $35 million from the State. This represents an increase of 8.2% over the previous year.

Housing

Housing assistance funding to the State is provided through the Commonwealth–State Housing Agreement (CSHA). These funds are used for public, community and Aboriginal housing, and the South Australian Housing Trust's smaller programs of private rental support and supported tenancies. The agreement provides for Commonwealth grant funds, allocated on a per capita basis, to be matched by a State contribution. In 2001-02 it is estimated that CSHA 'block assistance' to South Australia will be $67 million.

Commonwealth and State Ministers signed a new CSHA in July 1999 to cover the four years from 1999-2000 to 2002-03. The Commonwealth refused to adjust for inflation the amounts scheduled for payment under the CSHA and in addition insisted on a 1% efficiency payment (reduction) for each year of the agreement.

As part of the 1999 Premiers' Conference negotiations on national tax reform, the Commonwealth agreed to pay an additional $269 million over three years as compensation to the States for the impact of the GST on housing.

Roads

Most SPPs for roads are made under the Australian Land Transport Development Program—incorporating specific funding for national highways and black spots. Minor funding is provided under the *Interstate Road Transport Act 1985* (Cwlth).

The expected rise of almost 23% to $60 million in SPPs in 2001-02 for national highways and black spots in South Australia reflects a provision of $9 million under the Roads of National Importance program for the Port River expressway.

Schools

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

The Commonwealth estimates that SPPs in 2001-02 for government schools will be $157 million (an increase of 4.7% from 2000-01). SPPs for non-government schools are estimated to be $237 million (an increase of 7.4%). 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 States and the Commonwealth over recent months have been negotiating a renewed Australian National Training Authorities (ANTA) Agreement to cover the period 2001 to 2003. South Australia has agreed in principle to the new agreement, which provides for a small increase in Commonwealth funding. A number of States have so far refused to sign.

It is estimated that, in 2001-02, the Commonwealth will provide $80 million in SPPs to the State for ANTA purposes.

Salinity

The Council of Australian Governments (COAG) agreed at its November 2000 meeting to increase funding to address salinity, particularly dryland salinity, and water quality. It endorsed an action plan involving new expenditure of $1400 million over the next seven years, including $700 million by the Commonwealth.

The Commonwealth's 2001-02 expenditure estimate is $65 million, of which South Australia estimates it will receive $14 million.

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

A discussion paper on these and other SPP issues was prepared by State Treasuries in July 1999 for Heads of Treasuries of all jurisdictions to consider. Subsequently, a joint working party of Commonwealth and State officials was set up to consider how best to progress reforms.

The three projects agreed were:

- coordination of a project on the feasibility and scope for the development of SPP guidelines
- development of a comprehensive database on SPPs
- investigation of a pilot project examining outcome-based agreements, as a means of educating and publicising the benefits of an outcome-based approach.

To date, the following progress has been made.

- The 'best practice' SPP guidelines have been endorsed by all Heads of Treasuries and were disseminated throughout South Australian departments and agencies in April 2000.
- The database project is near completion and the Commonwealth distributed its first version of the SPP database in February 2001 for review by the working party.
- The SPP pilot project is under way, with the Supported Accommodation Assistance Program (SAAP IV) selected as the pilot SPP.

The States are monitoring the level of SPPs as a priority, in accordance with the assurance from the Commonwealth that it will continue to honour its commitment under the IGA not to cut aggregate SPPs to the States as part of the national tax reform process.

SPPs have shown considerable volatility over the 10 years before national tax reform was introduced in 2000-01, with aggregate SPPs growing at an average annual rate of just over 2% per annum (Figure 6.1). Payments to South Australia have not been quite so volatile, the State's share of SPPs rising above the national average, reflecting growth in grants at an annual rate of approximately 2.7% over the same period.

Figure 6.1 indicates that the Commonwealth is meeting its commitment not to cut aggregate SPPs in 2000-01 and 2001-02, with payments in both years increasing in real per capita terms. In comparison, SPPs to South Australia are estimated to fall in real terms in 2000-01, but to increase an equivalent amount in 2001-02.

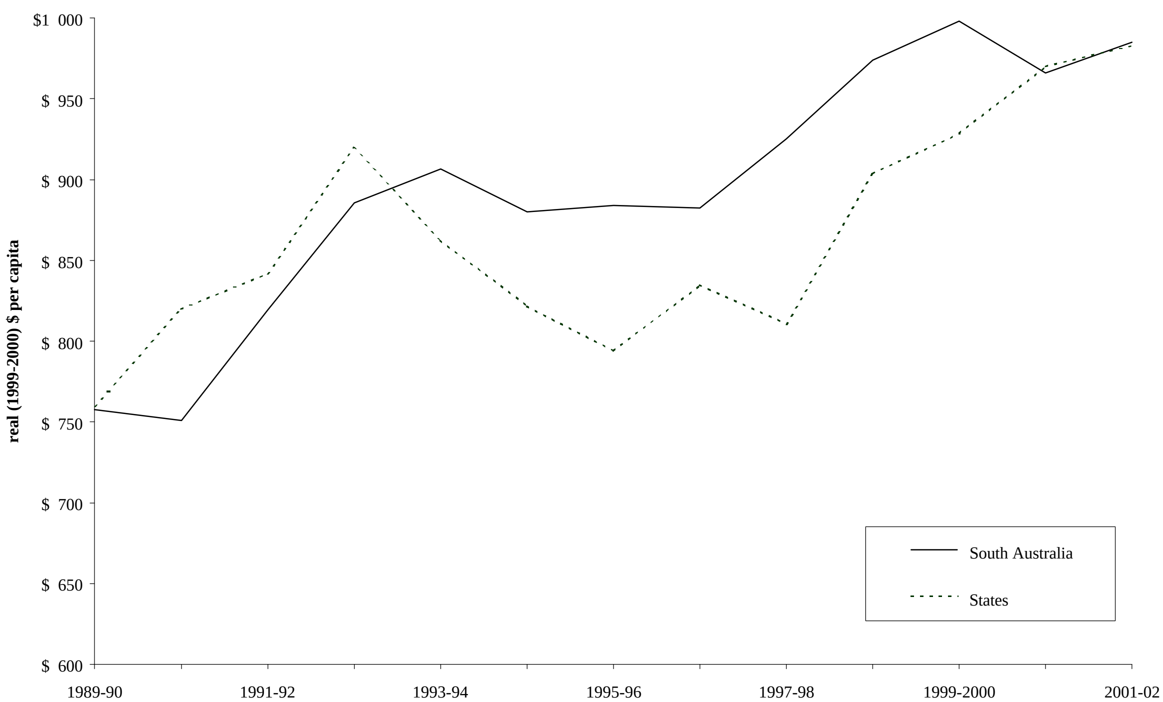


Figure 6.1 Real per capita specific purpose payments—States and South Australia

Trends in payments to the States

Over recent years the States have become increasingly concerned at the decline in their share of national tax revenues (Figure 6.2), particularly in light of increasing expenditure requirements and limited State tax bases. A joint Commonwealth and State Heads of Treasuries report, *The State and Territory Shares of National Tax Revenues*, to the 2001 Ministerial Council outlines their concerns and forms the basis of the following analysis.

Between 1983-84 and 1999-2000 the Commonwealth raised, on average, almost 80% of national revenue (the sum of Commonwealth and State revenues), while spending only 60% of total own-purpose outlays. The States have thus had to rely on Commonwealth grants as a major funding source, but these grants have fallen considerably as a share of Commonwealth revenue in recent years.

The funding arrangements provided under the IGA are predicted to make the States better off, with GST revenues expected to outstrip the GMA for all States within the next 10 years. Figure 6.2 highlights the significant change in the share of Commonwealth revenue provided to the States (in the form of grants) after the introduction of national tax reform in 2000-01. The Heads of Treasuries report and the Commonwealth Budget treat the GST as a State tax, and hence report a significant fall in (GST exclusive) grants in 2000-01, as shown in Figure 6.2. However, South Australia considers the GST to be a Commonwealth tax, consistent with the ABS treatment, and that GST inclusive figures, which show a significant increase in 2000-01, are a more accurate representation of Commonwealth grants to the States.

The new arrangements do not improve the budget positions of the States in the early years. The States' share (own-source revenues and Commonwealth grants) of national revenue remains static in 2000-01 and 2001-02 before declining steadily in the future.

This highlights the report's prime conclusion that, despite the provision of GST revenues to the States, the Commonwealth will continue to have a significant role in ensuring that States are adequately funded to provide services. SPPs and own-source revenues will remain important sources of revenue to the States.

Furthermore, if the Commonwealth maintains its current level of funding from sources other than the GST, the States' share of national revenue will continue to fall and no significant improvement in capacity for the States to meet their expenditure commitments is apparent (Figure 6.2).

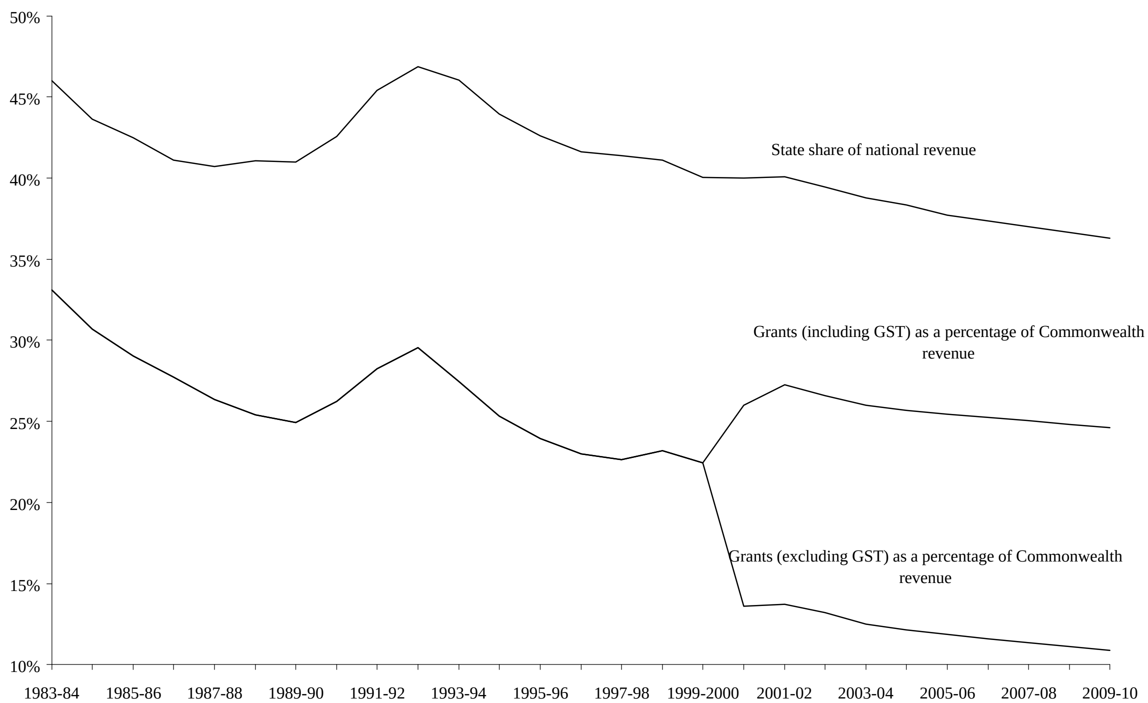


Figure 6.2 State share of Commonwealth and national revenue

National Competition Policy payments

In April 1995, all Australian governments reached agreement on the implementation of the NCP package of pro-competitive reforms. COAG affirmed the importance of NCP "in sustaining the competitiveness and flexibility of the Australian economy and contributing to higher standards of living" in its communique of 3 November 2000.

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

Initially payment of the per capita growth component of FAGs was linked to compliance with NCP obligations but, with the replacement of FAGs with GST revenue grants, now only NCP payments are subject to assessment of satisfactory progress with the reform agenda by the National Competition

Council (NCC). The total annual amount of these payments to the States increased over three tranches. COAG confirmed in its November 2000 communique that annual competition payments are to be ongoing beyond 2005-06, and that States' performance in meeting reform obligations will be assessed annually following completion of the NCC's scheduled third tranche assessment.

South Australia received its competition payments in full in 1997-98 and 1998-99 (first tranche) and in 1999-2000 (second tranche). Supplementary assessments of some outstanding issues in relation to second tranche payments due in 2000-01 were undertaken for all States by the NCC. South Australia will receive its 2000-01 competition payments in full. The NCC will complete its third tranche assessment at the end of June 2001. Its recommendations will then be considered by the Commonwealth Treasurer.

South Australia's share of the third tranche, due for payment in 2001-02, is estimated as $55 million.

COAG also approved a number of improvements to the NCC assessment process in November 2000. These improvements are:

- closer oversight of the NCC by the senior officials group of COAG, including development of the NCC's forward work program and clarification and specification of reform commitments and assessment benchmarks
- extension of the deadline for completion of legislation reviews and reforms to 30 June 2002, with provision for a firm transitional arrangement extending beyond that deadline, where justified
- introduction of a 'reasonable person' test for legislation review to guide the NCC in its assessments—this allows for a range of possible conclusions arising from the review process, with jurisdictions to determine what policy, within the range of outcomes that could reasonably be reached, is in the public interest
- clarification of assessment of compliance with competitive neutrality requirements, including delivery of community service obligations (see Chapter 8 for more details on competitive neutrality).

In addition, there are minor amendments to the Conduct Code Agreement.

COAG also provided further guidance to the NCC in terms of making any recommendation that a penalty be applied to a particular jurisdiction, with the Commonwealth to give jurisdictions one month to respond to such recommendations before making its decision.

In order to improve transparency on the operation of NCP, jurisdictions are now also required to make available documentation of public interest reasons supporting a decision or assessment. Explicit identification of the likely impact of reforms on specific industry sectors and communities, including expected costs in adjusting to change, is also to be considered by governments. COAG is also to provide further guidance to the NCC in its role of explaining and promoting NCP policy to the community.

NCP and the NCC's role are to be further reviewed before September 2005.

6.4. FINANCIAL ASSISTANCE TO LOCAL GOVERNMENT

Commonwealth

The Commonwealth provides both general and specific grants to local government in South Australia and most of this funding is provided as general purpose assistance. It is paid to States and on-passed to local governing bodies on the recommendation of Local Government Grants Commissions in each State. Arrangements for the payment of general purpose assistance are embodied in the Commonwealth's *Local Government (Financial Assistance) Act 1995*. This includes identified local road funding previously paid as SPPs. For South Australia, Commonwealth financial assistance grants to local government are estimated to be $98 million in 2001-02, an increase of $4 million on the previous year.

The Local Government (Financial Assistance) Act provides for allocations to councils on the basis of full HFE subject to a minimum grant provision. The CGC is presently reviewing the Act and South Australia has made a number of submissions to the inquiry, with the primary aim of preserving the principle of fiscal equalisation in the intrastate distribution of grants.

The review is explicitly prevented from examining the interstate distribution of local government general purpose FAGs (currently made on an equal per capita basis) and the distribution of identified road grants (currently made on an undefined historical basis). The State Government and local governing bodies have long been dissatisfied with the share South Australia receives of identified local road grants in particular. South Australia receives less than a per capita share of such funds and a lower per capita and per road length amount than any other State (see Figure 6.3).

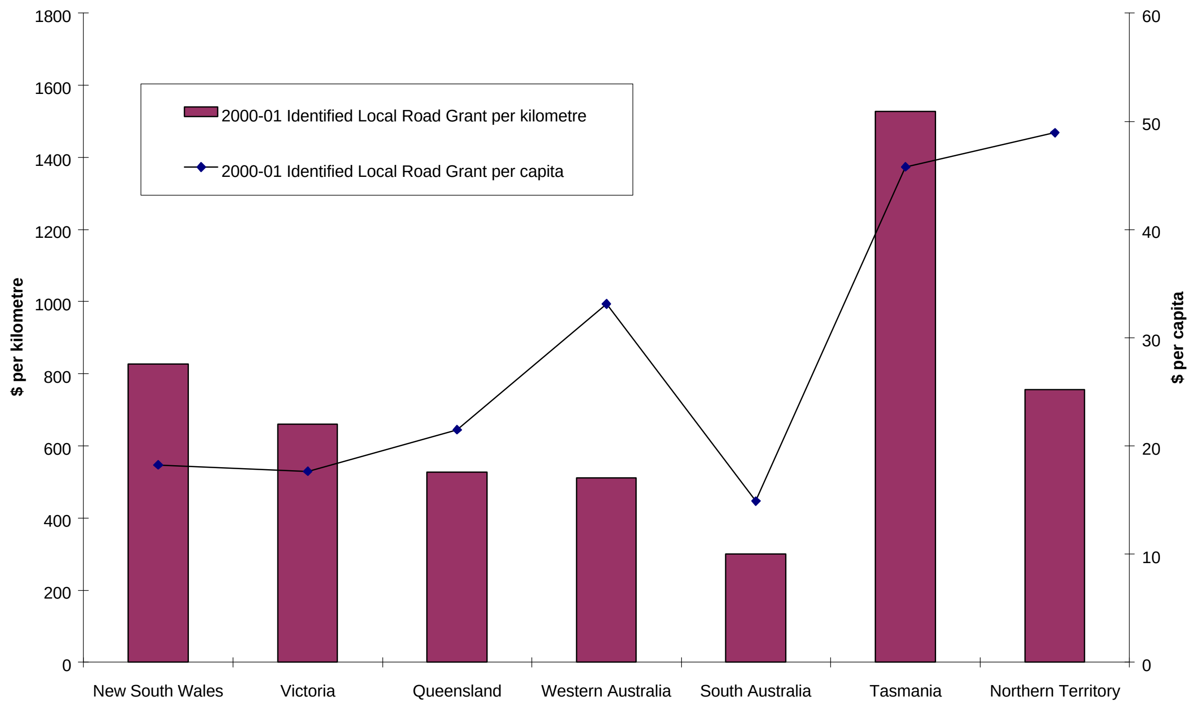


Figure 6.3 Identified local roads grants (excluding ACT), 2000-01

There is a sound case for the distribution of local government grants using fiscal equalisation. It is an anomaly that equalisation is presently used for allocation of grants *within* States but not *between* States.

During 1997-98, the South Australian Local Government Grants Commission conducted a comprehensive review of the methods used to distribute the grants within the State. The changes are being phased in over a five-year period, beginning with the determination of grants for 1998-99.

Reform of local government

The Government is committed to broad based reform of local government in South Australia.

Boundary reform has reduced the number of councils in South Australia from 118 in 1996 to the present 68. Efficiency improvements identified by the councils involved include:

- improved use of resources through a reappraisal of service delivery to meet emerging community needs
- improved use of property, plant and equipment through elimination of duplicated council functions
- improved use of resources through rationalisation of surplus assets
- improved coordination of economic development initiatives, particularly tourism development
- increased capacity to manage, coordinate and focus expertise on major environmental issues
- improved and more consistent planning and development decisions.

During 1999-2000 a package of three inter-related Local Government Acts and five sets of regulations were brought into operation, replacing most of the *Local Government Act 1934* and 17 sets of regulations.

The new legislation particularly emphasises enhanced local accountability, transparency in council operations, and clear roles and responsibilities for elected bodies and administrations, to provide the flexibility needed for the diversity of South Australian councils.

Boundary and legislative reforms are sharpening the focus on the way councils deliver their services. Financially stronger, better resourced councils, which have the capacity and expertise to develop and implement regional priorities, provide the foundation for functional reform, the third major thrust of the reform program.

The objective of the functional reform strategy is to create and take up opportunities for changes in the activities of either or both spheres of government, where such changes have the potential to provide financial savings, increased employment opportunities or improved service provision to the South Australian community.

The State/Local Government Reform Fund, created in the early 1990s to facilitate the then current approach to functional reform between State and local government, was closed at the end of the financial year 1999-2000. Programs funded through the Reform Fund will now be found in the budgets of the relevant functional agencies. Specific appropriations for individual programs will improve transparency and more clearly locate accountability.

The State Government is exploring ways of showing more clearly the level of State support to local government. It is anticipated that this information will be included in future budget papers.

6.5. REFORM OF COMMONWEALTH–STATE FINANCIAL RELATIONS

Overview

A new era in Commonwealth–State relations began on 1 July 2000.

The changes in the financial relationships between the two tiers of government which took effect from this date were an integral component of national tax reform and are supported by the IGA, which was signed by the Prime Minister and all State leaders in June 1999. The IGA sets out the obligations of governments in the new financial arrangements.

The IGA reforms provide State governments with a more sustainable funding source which, over the medium to longer term, will improve their capacity to meet growing community demand for essential services. This is achieved by providing the States with the revenue generated by the GST from

1 July 2000. The GST replaces the FAGs previously provided by the Commonwealth to the States as a funding source. The broadly based GST will tend to grow in line with growth in the economy, whereas FAGs were only incremented recently in real per capita terms and were fundamentally subject to unilateral control by the Commonwealth Government.

The IGA also provides for reform of State taxation systems, although the ultimate scope of these reforms is a significantly curtailed version of the original proposals. The reforms to State taxes were scaled back with the changes to the GST negotiated by the Commonwealth Government to ensure passage of the legislation through the Commonwealth Parliament. More specifically, the GST-free treatment of basic foods significantly reduced GST revenues to State governments, diminishing their scope to abolish a range of stamp duties applied to business.

The financial arrangements do not provide immediate budgetary benefits to the States. The negative financial impact on the States of the abolition of FAGs and other Commonwealth grants, the abolition and reduction of some State taxes, the funding of the new FHOG scheme and other IGA commitments are greater than the benefits of the GST revenue streams in the initial years. The Commonwealth transitional guarantee to ensure that the States are no worse off as a result of the reforms involves a GMA calculation which dictates whether the ongoing financial impact of the IGA reforms has been budget negative or positive for individual States—and where it is negative the Commonwealth budget balancing assistance will ensure that the States are no worse off.

Over the medium to longer term the growth in GST revenues will outstrip the growth which would have occurred in FAGs, so that the States will experience net budgetary benefits and will no longer require the Commonwealth transitional assistance.

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

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

Reform measures—2000-01

The following IGA reforms began on 1 July 2000.

- The States began receiving GST revenue grants.
- The Commonwealth ceased paying FAGs to the States.
- The Commonwealth ceased paying revenue replacement payments to the States.
- The States ceased paying subsidies on off-road diesel fuel.
- The States began funding and administering the FHOG scheme.
- Accommodation taxes were abolished (New South Wales and the Northern Territory only).
- The States reduced taxes applied to gambling to offset the introduction of the GST on gambling.

- The States began reimbursing the Commonwealth for costs incurred by the ATO in administering the GST.
- The Commonwealth began budget balancing assistance to the States.

Reform measures—2001-02 and beyond

Further IGA reforms will begin on 1 July 2001, namely:

- the abolition of FID
- the abolition of stamp duty on quoted marketable securities
- the NTER for income tax equivalent obligations for significant State business activities.

The remaining IGA reforms are:

- the abolition of debits tax on 1 July 2005, subject to review by Ministerial Council
- a review by the Ministerial Council, to be conducted by 2005, of the need for the retention of 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, promissory notes
  - unquoted marketable securities.

First Home Owner Grant scheme

Each State is administering the FHOG scheme, which began on 1 July 2000, on a uniform basis according to criteria set out in the IGA. Eligible first home buyers can claim a $7000 grant through the scheme when purchasing either new or established housing for owner occupation.

On 9 March 2001 the Prime Minister announced, as a temporary initiative of the Commonwealth Government, that an additional $7000 grant would be available for first home buyers who are building or purchasing a new home which has not previously been occupied. The Commonwealth is funding this extended grant but it is delivered by the States through the existing FHOG structure. The extended grant is available for eligible transactions entered into between 9 March and 31 December 2001.

It is estimated that $102 million in FHOG payments will be made in South Australia for the full year 2000-01 to 14 200 recipients. This includes the cost of the extended ($14 000) Commonwealth grants.

GST administration costs

Under the IGA, the States are required to compensate the Commonwealth Government for the costs incurred by the ATO in administering the GST.

At the time of the 2000-01 State Budget it was estimated that South Australia’s share of the ATO administration costs would be $63 million for the 2000-01 financial year. In November 2000 the Federal Treasurer sought agreement from the States for an increase in the ATO GST administration cost payments. Nationally the additional funding required totalled $183 million in 2000-01 and $141 million in 2001-02, and was the result of a higher than anticipated volume of businesses registering for the GST which in turn generated increased levels of tax return processing, telephone enquiries and technical advice.

South Australia's share of GST administration costs is now estimated to be $77 million for 2000-01. This covers South Australia's share of the ATO GST administration costs for the year and for the pre-1 July establishment phase. Payments for 2001-02 are estimated to be $40 million.

The cost of compensating the Commonwealth Government for ATO GST administration costs is part of the GMA formula so is taken into consideration in the transitional guarantee by the Commonwealth to ensure that the States are no worse off as a result of the IGA reforms. As South Australia remains reliant on the transitional guarantee, the increased costs of ATO GST administration are offset by an increase in budget balancing assistance from the Commonwealth, with no net impact on the State Budget.

The requirement that the States compensate the Commonwealth for the costs incurred by the ATO in administering the GST reflects the fact that the ATO is collecting GST revenue on behalf of the States. A performance agreement is being developed to set out the accountability and performance arrangements between the ATO and the States. An interim agreement is expected to operate for the 2001-02 financial year before a final performance agreement is entered into between the Ministerial Council and the ATO from 1 July 2002.

National Tax Equivalent Regime

Under NCP auspices, and with the backing of the Statement of Policy Intent agreed at the 1994 Premiers' Conference, State governments have established tax equivalent regimes that are applied to significant government business activities to ensure that they could not be said to have competitive taxation advantages over actual or potential private sector competitors as a result of their public ownership. These regimes involve paying the equivalent of the full range of Commonwealth, State and local government taxes imposed on private sector businesses. The tax equivalent payments, however, are made to owner governments rather than the government which imposes the relevant tax. State bodies are specifically exempted from Commonwealth income tax (and pre-1 July 2000 from wholesale sales tax), and are often exempt from State and local taxes. However, the GST, which replaced wholesale sales tax, is applied to government bodies.

The IGA contains provisions which allow for the establishment of:

- an NTER for income tax
- direct reciprocal taxation between levels of government for other taxes—on a revenue neutral basis.

The NTER for income tax will begin on 1 July 2001. The IGA provided that the NTER would be established on 1 July 2000, but in March 2000 the Ministerial Council decided to delay its commencement for 12 months. During 2000-01 a working party proposed a structure for the NTER and in March 2001 the Ministerial Council approved its commencement.

The NTER is essentially a nationally administered income tax equivalent regime for significant State government business enterprises. Instead of the eight State and Territory governments separately administering an income tax equivalent regime for their commercial entities, the ATO will administer a national income tax equivalent regime. The NTER will ensure greater consistency in applying income tax equivalents between jurisdictions and relative to the application of the income tax laws to private sector bodies.

Under the proposed NTER structure approved by the Ministerial Council, each State will be able to decide which of its commercial entities will enter the NTER. The five South Australian entities participating in the NTER are:

- Ports Corporation (subject to privatisation)
- SA Water Corporation
- ForestrySA
- TransAdelaide
- Austrics.

South Australia has a further 24 commercial entities and business units which are liable for income tax equivalents under the tax equivalent regime. These entities will remain subject to a State administered income tax equivalent regime as they are smaller bodies with a simplified method for calculating their income tax equivalent liabilities based on accounting profits rather than the full application of the provisions of the *Income Tax Assessment Act 1999*.

The legal exemption from income tax for State bodies remains in place. Under the NTER the income tax equivalent liabilities will continue to be paid directly to owner State governments, not the ATO.

The IGA undertakings on negotiating a reciprocal taxation agreement for other taxes were intended to apply to all public sector activities, not just those of a significant commercial nature as is the case with tax equivalent regimes. With the advent of the GST, reciprocal taxation would be restricted to applying State taxes to Commonwealth Government entities.

Little progress has been made on the broader reciprocal taxation agenda over the past 12 to 18 months. Significant issues would need to be resolved before reciprocal taxation could come to fruition, including the mechanisms for ensuring revenue neutrality and the possible extension to local government activities.

Financial impact of the IGA reforms

2000-01 was the first year of the revised Commonwealth–State financial arrangements. Budgetary benefits were received in South Australia from:

- receipt of GST revenue grants from the Commonwealth
- cessation of off-road fuel subsidies
- cost savings from the reduced costs of purchasing goods and services.

These gains were offset by:

- cessation of FAGs and business franchise fee replacement grants from the Commonwealth
- reductions in gambling taxes
- cessation of wholesale sales tax equivalent collections from commercial government entities
- increased expenditures to fund the FHOG scheme and compensating the Commonwealth for the ATO's costs in administering the GST
- costs arising from implementation and administration of the GST on government agencies (note that these costs are borne by the State Government and do not form part of the calculation of the GMA).

From 1 July 2001 there will be additional negative impacts on the budget from the abolition of FID and quoted marketable securities duty.

In 2000-01 the GMA for South Australia is estimated to be $2546 million. This is $282 million higher than South Australia's estimated GST revenue grant of $2264 million. This shortfall will be received from the Commonwealth in 2000-01 as budget balancing assistance.

This assistance amount is expected to fall to $223 million in 2001-02—the difference between the estimated GMA of $2763 million and estimated GST revenue of $2540 million. The significant increase in GMA reflects abolition of FID and quoted marketable securities duty from 1 July 2001 and the full-year impact of abolishing revenue replacement payments. The growth in GST revenue from 2000-01 is affected by the many timing and transitional effects inherent in the first year's operation of the tax.

Table 6.3 shows the estimated net impact of the national tax reform package in South Australia until 2007-08.

Table 6.3 Estimated impact of National Tax Reform—South Australia

	GST Revenue *less* GMA $m	Budget Balancing Assistance $m	Net Impact $m
2000-01	(282.2)	282.2	—
2001-02	(222.6)	222.6	—
2002-03	(157.8)	157.8	—
2003-04	(95.2)	95.2	—
2004-05	(29.0)	29.0	—
2005-06	(52.5)	52.5	—
2006-07	12.2	—	12.2
2007-08	90.7	—	90.7

South Australia is estimated to gain from tax reform from 2006-07, as predicted at the time of last year's budget. It remains the case that the tax reform package will deliver medium and longer term benefits to the State from the receipt of revenue from a genuine growth tax in the form of the GST.

The timing of these estimated benefits from tax reform remains heavily dependent upon the actual level of GST revenue collected. It will be some time before GST revenue collections have stabilised sufficiently to enable accurate assessment of the timing of a net benefit from the tax reform arrangements.

7. MANAGING THE STATE'S ASSETS AND LIABILITIES

HIGHLIGHTS

- Net assets of the Government of South Australia increased by $1.4 billion in 1999-2000.
- Net debt has fallen from $7.7 billion at June 1999 to $3.3 billion at June 2001.
- Unfunded superannuation has fallen from almost $4 billion at June 1999 to $3.3 billion at June 2001.
- The commitment to fully fund superannuation liabilities remains on track.
- Sales of government businesses have contributed to a reduction in net debt of almost $7 billion since June 1993.

7.1. FINANCIAL POSITION—JUNE 2000

This section focuses on the financial position of the whole government at June 2000, as reported in the Consolidated Financial Statements released in May 2001. The statement of financial position provides an indication, at a point in time, of the nature and value of assets controlled by, and liabilities of, the Government of South Australia. 'Control' is defined as the capacity to dominate the financial and operating policies of another entity so as to enable that other entity to operate with the controlling entity in pursuing the controlling entity's own objectives. The statement of financial position excludes the assets and liabilities of local government bodies, universities, most marketing and professional regulatory authorities, the joint Houses of Parliament, and associations and financial institutions incorporated under State statute but not controlled by the Government (such as building societies and credit unions).

The financial position of the Government of South Australia as at June 2000, is shown in Table 7.1.

The value of physical assets and liabilities of the public sector as at June 2000 reduced from June 1999 levels primarily as a result of the electricity privatisation. Total assets initially increased by the difference between the book value of the assets disposed of ($2.3 billion), and proceeds received ($3.8 billion) in 1999–2000. Liabilities and assets reduced by the amount of proceeds applied to debt reduction ($2.4 billion as at 30 June 2000). Net assets have increased because proceeds received were greater than the holding value of electricity assets and liabilities. Included in the holding value of electricity net assets were liabilities for employee superannuation of $117 million which were assumed by the new operators. Borrowings decreased by $1.2 billion from June 1999 comprising a reduction in State debt (mainly due to the application of proceeds from the sale/lease of electricity assets) of $2.4 billion offset by an increase in FundsSA's liability to the superannuation funds of $1.2 billion. Investments increased by $2.7 billion from June 1999 comprising an increase in FundsSA's superannuation assets of $1.2 billion with the remainder due to other financial institutions, the largest contributors being SAFA ($600 million) and SAAMC ($500 million). The increase in FundsSA assets of $1.2 billion reflects their very good results in 1999-2000. The matching increase in their liabilities simply reflects that FundsSA manages the funds on behalf of the superannuation schemes.

The significantly above trend performance of FundsSA in 1999-2000 increased the level of assets it held. The unfunded superannuation liability reduced as a result, and net assets of the public sector increased.

The adoption of new actuarial assumptions relevant to the calculation of superannuation liabilities, will further reduce the State's unfunded superannuation liability as at June 2001 (see Table 7.6). This reduction is partially offset by expected lower than trend earnings by FundsSA in 2000-01.

Because the electricity privatisation proceeds were received over two financial years (1999-2000 and 2000-01), and the proceeds received as at 30 June 2000 had not been fully applied to gross debt reduction, the eventual impact on total assets and liabilities of the electricity privatisation are not fully apparent in the 2000 figures.

Table 7.1 Financial position of the Government of South Australia

	Financial Position			
	General Government Sector[a]	Non-financial Public Sector[a]	Whole of Government[a]	Whole of Government[a]
	30 June 2000 $m	30 June 2000 $m	30 June 2000 $m	30 June 1999 $m
Assets				
Cash	2 736	2 967	778	812
Investments	1 131	351	11 715	9 011
Receivables	1 693	484	3 292	3 999
Inventories	89	371	371	174
Physical assets	9 056	20 434	20 446	22 832
Other	100	138	295	256
Total assets	14 805	24 745	36 897	37 084
Liabilities				
Payables	2 285	768	2 560	2 925
Borrowings	6 072	7 476	15 943	17 145
Employee entitlements	935	1 016	1 017	1 028
Superannuation	3 476	3 550	3 551	3 909
Other	448	829	1 897	1 594
Total liabilities	13 216	13 639	24 968	26 601
Net assets	1 589	11 106	11 929	10 483

Source: Consolidated Financial Statements

(a) Excludes incorporated health units not audited by the Auditor-General as their financial statements were unavailable in time for consolidation

Superannuation related assets and liabilities are material in the context of the Government's financial position. Table 7.2 separately discloses FundsSA's superannuation assets and liabilities.

Table 7.3 sets out the composition and the value of the State's infrastructure assets based on deprival value principles (mainly replacement or recent acquisition cost).

Table 7.4 reconciles the change in net assets for the whole of government from 1999 to 2000. It reveals a decrease in operating surplus before net interest, depreciation and revaluations for the non-financial sector amounting to $72 million. Reductions in net interest and depreciation expense were a direct result of the sale/lease of electricity assets during the year.

Information on the financial position of South Australia and other mainland States is shown in Table 7.5. The net asset figures for each of the States is influenced by accumulated expenditure patterns over many years.

Table 7.2 Summarised statement of financial position of the Government of South Australia

	Financial Position	
	30 June 2000	30 June 1999
	$m	$m
Assets		
Cash and investments	7 578	6 009
FundsSA's superannuation assets[(a)]	4 916	3 996
Physical assets	20 816	22 825
Other	3 587	4 254
Total assets	36 897	37 084
Liabilities		
Borrowing	10 870	13 243
Employee entitlements	1 024	1 028
FundsSA's liability to superannuation plans[(a)]	5 117	3 945
Unfunded superannuation	3 543	3 909
Other	4 414	4 476
Total liabilities	24 968	26 601
Net assets	11 929	10 483

(a) The difference between FundsSA's superannuation assets and liabilities is due to the elimination on consolidation of balances with other controlled entities. Before eliminations, the total of FundsSA's superannuation assets held amounts to $5.1 billion, comprising $3.6 billion held against defined benefit plans, and $1.5 billion held against defined contribution plans. Of the total State liabilities for superannuation ($8.66 billion of which $5.1 billion is funded and $3.5 billion is unfunded), $7.2 billion represents defined benefit plans and $1.5 billion represents defined contribution plans.

Table 7.3 Non financial public sector infrastructure assets as at 30 June 2000

	Infrastructure Assets	
	Gross Value (Depreciation)	Net Value
	$m	$m
Power generation and transmission	976	
less Accumulated depreciation	(102)	874
Water, sewerage and drainage	8 646	
less Accumulated depreciation	(3 263)	5 383
Harbour and port facilities	52	
less Accumulated depreciation	(9)	43
Road network, rail and bus tracks	6 082	
less Accumulated depreciation	(2 569)	3 513
Total infrastructure assets		9 813

Table 7.4 Composition of change in Government of South Australia net assets

	30 June 2000 $m	30 June 1999 $m
Increase/(decrease) in net assets (after prior year adjustments)	1 439	(125)
less Change in net assets of financial institutions excluding dividends paid or payable to the non-financial sector	116	148
Increase/(decrease) in net assets of the non-financial sector before dividends from financial institutions	1 323	(273)
comprising		
Operating surplus before net interest, depreciation, and revaluations and excluding dividends from financial institutions	1 052	1 124
Net interest and financing expenses	(621)	(728)
Nominal interest expense on unfunded superannuation liability	(270)	(281)
Revaluation increments taken to reserve	345	216
Depreciation and amortisation expenses	(594)	(642)
subtotal Current cost comprehensive income before volatile revaluation items	(88)	(311)
Gains/(losses) on revaluations of unfunded superannuation liability	419	(55)
Net gains/(losses) on revaluation of physical and financial assets taken to operating statement and consolidation adjustments	992	93
	1 323	(273)

Table 7.5 Value of whole of government total assets and net assets per capita at 30 June

Jurisdiction	Total Assets per Capita 1999 $	Total Assets per Capita 2000 $	Net Assets per Capita 1999 $	Net Assets per Capita 2000 $
New South Wales	20 578	20 999	12 267	13 546
Victoria	16 740	17 402	7 958	8 643
Queensland	27 553	26 258	16 450	16 065
Western Australia	28 022	28 328	16 949	16 822
South Australia	24 848	24 637	7 024	7 965
Tasmania	28 035	n.a.	11 648	n.a.

Sources: Financial data for the jurisdictions from the AAS31 Whole of Government Consolidated Financial Statements

Population data from ABS Catalogue no. 3101.0

7.2. NET DEBT AND UNFUNDED SUPERANNUATION LIABILITIES

Table 7.6 sets out estimates of public sector net debt and unfunded superannuation liability.

The main points evident in the table are the significant fall in the level of net debt between June 1999 and June 2001 (est), and the significant fall in the level of the unfunded superannuation liability between June 1999 and June 2001.

Of the total proceeds received from the electricity privatisation process, $4.9 billion was applied to debt reduction. The fall in net debt between June 1999 and June 2001 is estimated to amount to $4.4 billion. The main reason for the $500 million difference is the realisation of previously unrealised book losses as a result of debt management activities (mainly related to the repayment of debt following the receipt of the electricity privatisation proceeds) amounting to around $200 million, and payments for targeted voluntary separation packages (TVSPs) amounting to $138 million. Net borrowings by the commercial sector, a non commercial sector deficit in 1999-2000, and movements in net advances paid over the period also contribute to the difference.

An independent actuary was used to perform the triennial actuarial review of SA superannuation schemes. On 2 September 2000 the Treasurer approved the adoption by the Department of Treasury and Finance of the assumptions underlying that review. A real earnings rate of 5% (formerly 4%) and a real salary growth of 1.5% (formerly 1%) have been assumed. The major financial implications arising from the adoption of the revised assumptions are:

- a reduction in the annual superannuation expense ('new service' expense) of the order of $15 million per annum
- a reduction of $618.5 million in the balance of the 'unfunded superannuation liability'.

Prepayments of the past service superannuation in previous years meant that no payment was required in 2000-01, to meet the 40-year target date for full funding. In addition, it is expected that FundsSA earnings in 2000-01 will be below the long term actuarial assumption. Consequently the unfunded liability rises in 2000-01 and this explains why the reduction in unfunded liability between June 2000 and June 2001 is less than the $618.5 million flowing from the changed actuarial calculations.

The fall in the unfunded liability between 1999 and 2000 partly reflects the earnings of FundsSA in that year, which were significantly above the long term actuarial assumed earnings rate. A reduction has also occurred as a result of the assumption of a component of the former ETSA superannuation unfunded liability by the new operators.

There is further discussion of superannuation assets and liabilities in Section 7.3.

Table 7.6 Total non financial public sector net debt and unfunded superannuation liability

	Net debt as at 30 June		
	SAFA and universities included in general government sector	SAFA and universities excluded from general government sector	Unfunded Superannuation Liability
	$m	$m	$m
1990	4 682	n.a.	2 892
1991	7 155	n.a.	3 231
1992	8 055	n.a.	3 545
1993	8 249	n.a.	4 291
1994	8 440	n.a.	4 272
1995	8 468	n.a.	4 270
1996	7 752	n.a.	4 234
1997	7 499	8 051	3 893
1998	7 237	7 589	4 001
1999	—	7 720	3 909
2000	—	4 355	3 543
2001(estimate) [(a)]	—	3 270	3 301
2002 (estimate) [(a)]	—	3 392	3 399

(a) Estimate of unfunded superannuation liability based on revised actuarial assumptions.

Net financial worth is a measure of a government's net holding of financial assets under accrual government finance statistics reporting adopted by the Australian Bureau of Statistics (ABS). It is calculated from the balance sheet as financial assets minus liabilities.

Net financial worth is a broader measure than net debt, in that it incorporates provisions for accrued future payments, mainly superannuation and long service leave, as well as equity interest in public trading and financial institutions. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

As non-financial assets are excluded from net financial worth, it is a narrower measure than net worth (or net assets as per Table 7.5). However, it avoids the concerns inherent with the net worth measure relating to the valuation of non-financial assets and their availability to offset liabilities.

An interstate comparison of net financial worth is presented in Table 7.7.

Table 7.7 General government sector net financial worth per capita at 30 June

Jurisdiction	Net Financial Worth per Capita 1999 $	2000 $
New South Wales	2 155	3 492
Victoria	806	1 192
Queensland	4 487	4 335
Western Australia	4 594	4 615
South Australia	1 264	1 994
Tasmania	1 085	n.a.

Sources: 1999 Financial data—ABS 2000-01 GFE
2000 Financial data—individual jurisdiction's 1999-2000 Outcomes reports
Population data from ABS Catalogue no. 3101.0

The improvement in South Australia's net financial worth per capita is a result of the accounting gain on the disposal of the Government's interest in the electricity entities and the beneficial impact of FundsSA's earnings in 1999-2000.

Contingent liabilities

Contingent liabilities are those that have not been recognised in the statement of financial position, but rather in notes to the accounts, for one of the following reasons:

- There is significant uncertainty as to whether a sacrifice of future economic benefits will be required.
- The amount of the liability cannot be measured reliably.
- There is significant uncertainty as to whether an obligation presently exists.

Contingent liabilities of the Government often arise as a result of legislative provisions that require the Government to guarantee the liabilities of a number of public sector organisations, particularly those in the financial institutions sector. The ordinary activities of the Government, for example taxation assessment and collection, may also give rise to disputes and subsequent litigation that remain unresolved at any given balance date. Any material losses occurring as a result of unfavourable legal decisions are recognised in the Government's financial statements as and when they crystallise.

Differences exist between the presentation of contingent liabilities in the budget papers and the Government's consolidated financial statements (CFS) prepared according to Australian accounting standards and concepts. The major differences relate to off balance sheet exposures and operating leases.

The value of off balance sheet exposures (mainly interest rate swaps) disclosed in the budget papers is the total of the net present value of the underlying cash flows of individual exposures after having an appropriate credit risk factor applied. Under the CFS presentation no account is taken of future cash flows.

In the case of operating leases the budget presentation discloses the net present value of future cash flows whereas the CFS discloses future cash flows in nominal terms classified according to maturity.

Table 7.8 outlines the guarantees and contingent liabilities of the Government of South Australia as at 30 June 2000, with comparative data for 30 June 1999. The decline in the value of guarantees for the year ended 30 June 2000 reflects the expiry or extinguishment of various exposures during the year.

Table 7.8 Contingent liabilities of the Government of South Australia to entities external to the public sector as at 30 June

	1999 $m[(a)]	2000 $m[(a)]
Guarantees [(b)]	1 163	592
Off balance sheet exposures [(c)]	1 136	1 036
Net present value of operating leases [(d)]	245	234
Other [(e)]	56	44
Total	2 600	1 906

(a) Valued at nominal values. No adjustments have been made to take into account the probability of actual liabilities occurring.
(b) Includes the total liabilities of the Local Government Finance Authority that are guaranteed by the Government of South Australia pursuant to the *Local Government Finance Authority Act 1983.*
(c) Interest rate and currency swaps, indemnities etc.
(d) Net present value (NPV) of operating leases with a NPV of $1 million or greater which includes the NPV of the operating lease of the EDS Building.
(e) Includes contingent liabilities for joint venture schemes.

7.3. MANAGEMENT OF ASSETS AND LIABILITIES

Government asset sale rationale

The Government's emphasis in its management of its assets and liabilities is on the appropriate return for the level of risk involved. The Government's asset sales program is based on this principle.

Using the proceeds of asset sales for debt reduction has the effect of immediately decreasing the Government's exposure to increases in interest rates and therefore interest costs. Asset sales also reduce the Government's exposure to the operational risk of those enterprises.

There is no guarantee of a stable income stream from any enterprise, and particularly for entities such as electricity generation and retailing where there is high or increasing competition. Capital investment in these enterprises is risky due to the possibility of rapid technical obsolescence. In addition, enterprises requiring large capital investment put a strain on the funds of taxpayers due to their 'lumpy' nature. The successful sale or lease of the Ports Corporation and the SA Totalizator Agency Board will mean the Government avoids significant business risks associated with these enterprises.

Therefore, although the sale of revenue producing assets may not immediately produce a significant 'bottom line' impact to the State's finances, it can result in an improvement in the long term through reduction in risks associated with the operations of the assets.

This aspect of the Government's asset sale program has been noted by the Auditor-General (Auditor-General's Report, 30 June 1999, page A.2–53.).

It is estimated that between 30 June 1993 and 30 June 2001 public sector net debt has reduced by almost $7 billion as a result of the sale of Government-owned businesses.

South Australian Asset Management Corporation

The South Australian Asset Management Corporation (SAAMC) was established on 1 July 1994 through the operation of the *State Bank (Corporatisation) Act 1994* and the *State Bank of South Australia Act 1983* by renaming the State Bank of South Australia and continuing its operations as a statutory authority guaranteed by the Government of South Australia.

SAAMC's primary focus has been to manage the non-core banking business and low quality assets of the former State Bank which were not vested in BankSA in the corporatisation process. SAAMC's mission is to manage and realise the residual assets and liabilities of the former State Bank to the best advantage of the State by:

- reducing SAAMC's balance sheet in a disciplined fashion
- generating earnings through the realisation of assets and prudent management of funding
- managing limited resources efficiently and productively, and in balance with downsizing
- meeting its long-term obligations and commitments
- pursuing and finalising statutory and other legal actions arising from the winding down of all the subsidiaries of the former State Bank of South Australia.

SAAMC continued through 2000-01 to successfully recover loans, which were previously written off, through legal actions and settlements. The total amount recovered by SAAMC in finalising these matters was over $20 million. The risk of any contingent liabilities arising from present or past actions of SAAMC is now very low. SAAMC was also successful in managing its balance sheet throughout the year and achieving significant returns on the assets held.

Over $260 million has been realised through the successful completion of legal actions since 1994.

Statutory requirements, obligations to long-term investors in former State Bank of South Australia bond issues, some of which mature as late as 2005, a significant contingent asset and two legal cases are the major matters outstanding. SAAMC has recently acquired Wakefield House which is tenanted by South Australian Government agencies.

Since it was established, SAAMC has scaled down its balance sheet from $8.4 billion to $1.6 billion. Net assets, reflected in capital and retained earnings, increased to $334 million as at 30 April 2001.

Pursuant to the provisions of Sections 20A and 22 of the *State Bank of South Australia Act 1983* (as amended), the Treasurer can repatriate capital from SAAMC (Section 20A) or determine that any surplus of SAAMC from any financial year is to be paid into the Consolidated Account or otherwise dealt with at the Treasurer's discretion (Section 22).

Risk management

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

SAICORP receives premiums from agencies for insurance cover provided under the Government's insurance and risk management arrangements. These premiums are credited to a dedicated fund which is used to:

- meet loss and claim payments above agreed levels of agency excesses
- provide a reserve to cover future losses and claims
- pay premiums for the Government's catastrophe reinsurance program and other insurances deemed necessary and appropriate in connection with the arrangements
- meet the cost of administering the insurance and risk management program
- pay consultants for advice and services as required in connection with the insurance and risk management program.

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

SAICORP's principal objectives are:

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

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

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

The current annual net premium cost of the program is approximately $5.6 million.

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

Estimated premium revenue received from client agencies for 2000-01 is $29.6 million ($31.9 million for 1999-2000).

SAICORP has a policy of accumulating reserves over time to meet the cost of retained risks. A free reserve target of $30 million in excess of reserves held against estimated liabilities had been set by the SAICORP Board. At 30 June 2000, SAICORP met this target for the first time, with free reserves of $35.5 million ($13.2 million as at 30 June 1999). The significant increase in free reserves from the previous year arose in part from an improved underwriting result and larger investment revenue which together led to an overall operating profit of $3.2 million before abnormal items and income tax ($5.4 million loss in 1998-1999). However, the predominant contribution was an abnormal item of $27.1 million being the net effect of the transfers of funds and liabilities for new insurance arrangements put in place during the year for the Department of Human Services to increase its administrative and financial responsibility for medical malpractice claims.

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

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

Non-financial asset management

The Government has in place policies designed to ensure that assets are procured, repaired and replaced to maximise the Government's service delivery to the community at minimum cost. Key policy documents include the *Strategic Asset Management Framework* and the *Guidelines for the Evaluation of Public Sector Initiatives*.

Further work is required on developing new and improved policies and processes for better management of non-financial assets.

Capital investment process

In this budget the Government has prepared a Three-Year Capital Investment Program of some 30 projects (including a number of programs within the Education and Human Services portfolios) with an estimated net cost to the Government over the period 2001-02 to 2003-04 in the order of $310 million. A number of projects are also under consideration as public–private partnerships (also known as private financing initiatives).

Further steps were taken in 2000-01 to increase the extent of monitoring of the performance of the Capital Investment Program. A database covering details of the projects included in the program was used to find how many time and cost targets set out in the budget were met. A more timely process in 2001-02, together with improved quality information, should provide an earlier indication of slippage and the potential for reallocating funding.

Strategic asset management plans

The *Strategic Asset Management Framework* sets out the components of a strategic asset management plan. Such a plan provides the link between an agency's corporate plan and service delivery strategies and the need for new or existing assets, and is therefore an essential element in providing a proper basis for allocating funds as part of the Capital Investment Program.

Information on portfolio strategic asset management plans was sought as part of the process for developing the Capital Investment Program.

In October 2000 Cabinet approved the development and implementation of the Strategic Asset Management Information System (SAMIS) for use initially by non commercial sector agencies. SAMIS is being developed as a web-enabled tool and will therefore be readily accessible to agencies on the internet to help decision making. Progressive implementation of the system is scheduled to begin in mid-2002. SAMIS will enable agencies to store up-to-date data on the physical state and performance of their built assets and generate portfolio strategic asset management plans in a consistent format. This will greatly facilitate the presentation and evaluation of capital investment proposals which address asset management issues in future budgets. It will also facilitate asset management in agencies where local management initiatives have been implemented. The Department for Administrative and Information Services is the lead agency for this major whole of government initiative. Major asset holding agencies are undertaking asset management improvement programs in conjunction with the SAMIS project to ensure that they will be appropriately prepared to use the new system to maximum effect.

Public–private partnerships

The private sector can play a significant role in the provision of infrastructure in South Australia. By engaging the private sector, the Government is able to harness the respective skills and expertise of the public and private sectors to provide high quality and cost-effective services to meet the Government's social and economic priorities. Like many other areas of Government service delivery, there is an increasing recognition of the need for a *partnership* between the public and private sector to maximise the economic and social benefits to the community from investment in infrastructure. The commercial discipline and entrepreneurial skills of the private sector are crucial to delivering innovative infrastructure solutions to meet the community's needs

The partnership arrangement rests upon a commercial agreement whereby the various risks in the development of infrastructure are allocated to the party best able to manage these risks efficiently. The private sector party is remunerated on the basis of its meeting pre-specified performance and quality standards, which provides a powerful incentive to deliver the infrastructure and services at a standard that meets community expectations.

The public sector's role in the partnership is to focus its resources on ensuring that service delivery is of the highest possible standard in view of available resources. In many areas of Government, public sector agencies are moving from owning and managing public assets towards being purchasers of services under long-term contractual arrangements. In essence, the change in focus is towards the effectiveness and quality of public sector outputs, rather than the quantity and cost of inputs.

The engagement of the private sector in public service provision is also becoming well established in Australia. Numerous large-scale projects have been completed, covering a wide spectrum of projects in diverse areas including transport, health, correctional services and purpose-built government facilities to name a few.

The Partnerships SA program is not simply an arrangement to gain access to private sector funding for infrastructure. The main benefit of successful partnership programs overseas has been a significant reduction in the ongoing cost of delivering government services. In order to achieve such outcomes experience has shown that it is essential for the private sector to be substantially exposed to the capital and operating risks of the project. The involvement of private sector capital also reduces the calls on the budget for capital investment.

The development of Partnerships SA means that the public sector will be operating in a rapidly changing environment, which will require complex processes and innovative approaches by Government. With this in mind, the Government has established a separate unit within the Department of Treasury and Finance to undertake policy development and responsibility for assisting portfolios in developing public–private partnerships as a viable procurement alternative. One of the main functions of the unit will be to work closely with relevant government departments and agencies to assist them in implementing the Partnerships SA program.

For more immediate developments, the Department of Treasury and Finance has reviewed the Government's three-year capital expenditure program to identify which projects, if any, may be brought to fruition through private sector participation. The projects that are selected for further investigation under the Partnerships SA program are:

- the upgrading of the Glenelg transport corridor and the procurement of new trams
- the development of a new State aquatic centre
- the development of a new Investigator Science and Technology Centre
- redevelopment of the Cavan Youth Training Centre
- a new regional hospital at Angaston and other hospital redevelopments
- new police stations in Mount Barker, Gawler, Victor Harbor, Port Adelaide and Port Lincoln
- a new women's prison.

Liability management

The key issue in debt management policy in 2000-01 was the receipt and management of the proceeds from the sale/lease of the State's electricity assets.

The Government's key priority for the sale/lease proceeds continued to be the orderly and efficient retirement of State debt.

The South Australian Government Financing Authority (SAFA), as the State's central borrowing authority, was charged with the responsibility of retiring Government external debt using the electricity asset sale/lease proceeds.

Management and use of lease proceeds

The Government is required by section 21(1) the *Electricity Corporations (Restructuring and Disposal) Act 1999* to apply the sale/lease proceeds to the retirement of State debt and to defined purposes including meeting costs of restructuring and lease of the electricity assets. For the purposes of the Act, State debt is the Government's indebtedness to external parties and includes derivative transactions associated with that debt.

SAFA managed its external funding liabilities to ensure a high proportion of debt matured during calendar year 2000 to enable a speedy reduction in debt following the receipt of proceeds. Proceeds not used immediately upon receipt were invested in high quality financial assets. Interest was paid on the account in which the lease proceeds were held and, in accordance with the Electricity Corporations (Restructuring and Disposal) Act, the interest income was also applied towards the reduction of State debt. All proceeds paid into the Electricity Sale/Lease Proceeds Account have been applied to the retirement of State debt.

Debt management benchmarks

The Government's debt management objective is to minimise the long term average interest cost of the State's non commercial sector debt, subject to acceptable levels of interest rate risk.

Book losses on debt management activities can occur when debt which was raised at interest rates higher than current rates is bought back or retired early. This leads to a reduction in future interest expense but adds to the nominal current debt level by an equivalent amount.

In light of the substantial debt retirement resulting from the lease/sale of the State's electricity assets, SAFA undertook a major debt retirement study in 1999-2000 to consider the most appropriate management framework to apply for the remaining non commercial sector debt.

In analysing alternatives for the debt management framework in the future, the study drew on work previously commissioned by the Department of Treasury and Finance from an independent expert.

The review resulted in a new benchmark structure and duration for the State's managed non commercial sector debt. Previously, the debt was managed to a benchmark with an average maturity (duration) of around 2.8 years, with SAFA given discretion to alter the duration by half a year either side of that figure. Under the revised framework, the debt is managed in a range of 1–1.5 years. There is no discretion to have an interest rate position outside that range.

The actual structure of the benchmark was also revised to more closely reflect the State's actual funding sources.

The new debt management framework resulting from the review was implemented in January 2001.

Debt of electricity entities

In December 2000 the remaining debt to SAFA of the residual electricity entities (approximately $306 million) was transferred to the Treasurer.

Commercial sector debt management

HomeStart Finance, Ports Corporation and SA Water Corporation manage their debt in accordance with policies approved by the Government, and these organisations undertake all financing transactions through SAFA.

Superannuation assets and liabilities

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

As an employer, the Government of South Australia meets the Commonwealth mandated superannuation guarantee arrangements by means of the Southern State Superannuation (Triple S) Scheme.

The Triple S Scheme is an accumulation scheme to which the employer contributes at a rate of 9% if members contribute at least 4.5% of salary. The employer rate for these members will increase to 10% when the Commonwealth Superannuation Guarantee contribution rate of 9% is attained in the financial year 2002-03. For non-contributory members or members who contribute less than 4.5% of salary, the employer contribution rate is the Guarantee Charge percentage—currently 8%.

The provision of superannuation gives rise to liabilities for payment of future benefits by employers. The extent of the liability of a superannuation scheme at a particular point in time will depend upon the nature of the scheme and the types of benefits it provides, including whether it is a defined benefit or a defined contribution scheme. The Government began a program in 1994-95 to fully fund all employer liabilities.

As part of the 1999-2000 budget strategy, the Government modified the funding program with the aim of having the defined benefit schemes fully funded by 2034.

According to the long-term actuarial assumptions used in the 1998 actuarial review of the State Superannuation Scheme, which the Treasurer has approved for adoption, superannuation liabilities represent the present value of estimated future benefit payments and are calculated assuming a real discount rate of 5% per annum, general real salary increases of 1.5% per annum and pension increases adjusted by the Consumer Price Index (CPI; assumed to be 2.5% per annum). Allowance has been made in the projection of benefit payments for the effect of the GST tax reforms on the CPI in 2000-01. Pensions are assumed to increase by 5.5% in October 2001.

Table 7.9 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 2001.

Table 7.9 Public sector superannuation liabilities as at 30 June 2001

	Accrued Liability $m	Assets $m	Net Liability $m
Schemes administered by SA Government [(a)]	8 454	5 162	3 292
Schemes administered—			
Statutory authorities[(b)]	138	146	(8)
Health units[(b)]	55	58	(3)
Public trading enterprises	18	21	(3)
Total schemes	8 665	5 387	3 278[(c)]

(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.

(c) Total unfunded liability of the non-financial sector after adjustment for internally invested assets (provisions) is $3301 million for 2001. The estimate of the net liability at 30 June 2000, based on the previous actuarial assumptions, was $3543 million.

Estimates of the superannuation liabilities and assets at 30 June 2001 are based on 2000 data together with available information on investment earnings in 2000-01. Table 7.10 details the components of the unfunded liability for the State Superannuation Scheme, the scheme with the largest unfunded liability. The Triple S scheme is fully funded and has been since 30 June 1998.

Under the funding program the accumulation schemes have been targeted to be fully funded first because they are the newest schemes and therefore have the smallest accrued liabilities. The older defined benefit schemes have the largest unfunded liabilities as its members have much longer periods of accrued membership.

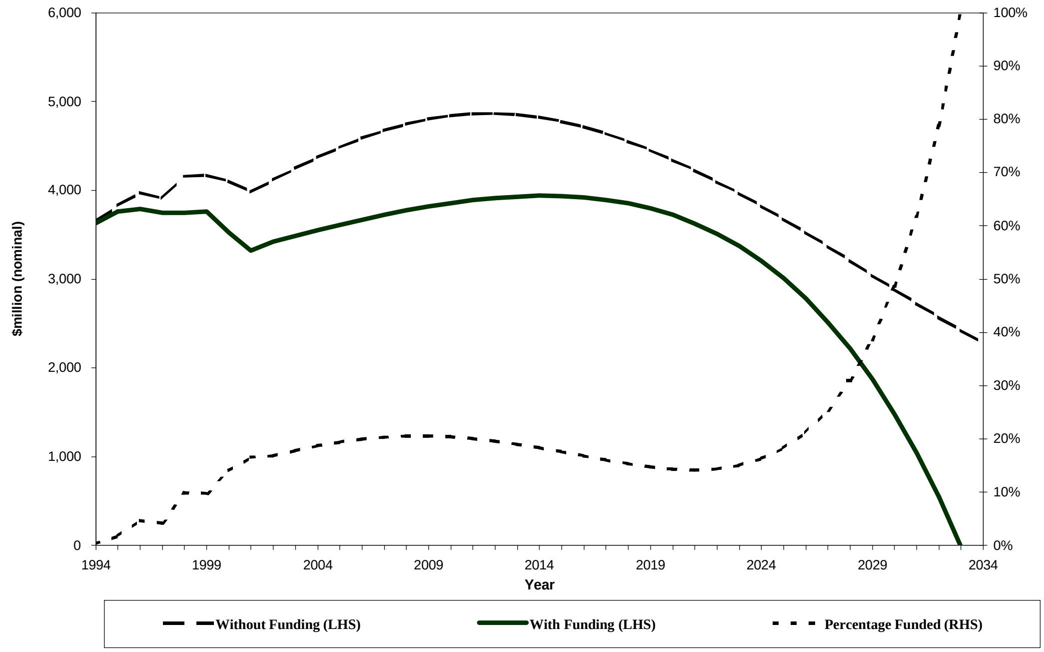
The unfunded liability benefited by a reduction of $43.4 million in 2000-01 ($117 million in 1999-2000) because the unfunded liability for current employees with ETSA enterprises that have been sold or leased was assumed by the new operators.

Table 7.10 State Superannuation Scheme as at 30 June 2001

	$m
Liabilities	
Pension Scheme	
Pensioners	2 680
Contributors	2 297
	4 977
Lump Sum Scheme	858
Gross liability	5 835
less	
Assets held by SA Superannuation Fund	1 543
Assets held by employer fund	1 355
	2 898
Unfunded liability	2 937

The impact of the current government policy on superannuation liabilities can be seen in Figure 7.1. It shows the difference between the results of the funding policy and meeting superannuation benefits as they arise over the period.

Figure 7.1 is based on projections of the accrued liabilities derived from estimates of the benefit payments, contributions, investment earnings and past service payments. The graph shows only the liabilities for the Government. All other liabilities of the closed schemes are either fully funded or have separate arrangements to fund future benefits.



Note: New actuarial assumptions have been applied from July 2000.

Figure 7.1 Superannuation liabilities for closed defined benefit schemes (employer contribution component) 40-year repayment schedule

The Government has retained its target of fully funding superannuation over a 40-year period (by 2034).

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

Management of superannuation assets

The Superannuation Funds Management Corporation of South Australia (FundsSA) was established on 1 July 1995 by the *Superannuation Funds Management Corporation of South Australia Act 1995* to assume responsibility for investing the funds of certain public sector superannuation schemes. This role was previously undertaken by the South Australian Superannuation Fund Investment Trust.

The function of FundsSA is to invest and manage public sector superannuation funds pursuant to strategies formulated by it after consultation with the Treasurer and superannuation boards.

The objective of FundsSA in performing its function is to achieve the highest possible return on investment funds while having proper regard for the need to manage risks at an acceptable level and maintain adequate liquidity to enable superannuation members' benefits to be paid.

Since its inception, FundsSA has been progressively increasing the proportion of its funds managed by external fund managers (from 35% in June 1995 to approximately 89% in March 2001). This is in keeping with its investment philosophy which emphasises the importance of diversification as a strategy for risk management and return enhancement.

FundsSA places great emphasis on the importance of establishing an appropriate strategic asset allocation for each scheme and then rigorously adhering to this allocation of funds through a rebalancing program. The broad characteristics of the investment strategy are a strategic asset allocation, a carefully selected combination of managers (using both active and index-matching management styles), and careful monitoring of sector and manager performance.

Highlights of FundsSA's activities in 2000-01 include:

- continued sound performance of funds under management with investment benchmarks being exceeded for all investment products over 1-year, 3-year and 5-year periods as at 30 April 2001, for instance, the defined product has returned 2% for the financial year to 30 April against its benchmark of 0.7%, while the balanced product has returned 2.8% for the financial year to 30 April against its benchmark of 1.6%
- further rationalisation of ASER assets, most notably through the sale of the Adelaide Casino in 2000 and the Riverside office building in January 2001
- successful implementation of new member investment choice products in partnership with the SA Superannuation Board.

8. GOVERNMENT BUSINESSES

HIGHLIGHTS

- Implementation of government business reforms is at an advanced stage in accordance with the timeframes agreed in the National Competition Policy agreements between the Commonwealth and the States and Territories.

- The level of distributions (dividends and income tax equivalents less subsidies) paid by government businesses is estimated to be $246.7 million in 2000-01 and $229.3 million in 2001-02.

8.1. INTRODUCTION

This chapter summarises the major developments of 2000-01 for South Australia's government businesses.

The Government of South Australia owns a number of businesses. It is important that all major State-owned government businesses operate efficiently to maximise the benefits that flow to the community from the investment of taxpayer funds in these businesses. It is also important to manage the level of risk that government businesses operate under. The level of distributions (dividends and income tax equivalents less subsidies) paid by government businesses is estimated to be $246.7 million in 2000-01 and $229.3 million in 2001-02. This decrease partly reflects the loss of electricity business dividends but must be viewed in light of interest savings on retired debt and reduced risk levels now that these businesses are no longer in public ownership.

The Government is continuing to review the corporate governance arrangements for many of its government business activities, in order to improve the quality, efficiency and effectiveness of their service delivery. These reforms are also consistent with the Government's commitment to the implementation of competitive neutrality policy associated with the Competition Principles Agreement (CPA). This chapter outlines progress with major reforms in 2000-01, as well as anticipated reform activity for 2001-02.

A major element of the Government's business reform program, and of the CPA, is structural reform of State utilities, which includes the long-term lease of ETSA utilities and reform of the gas industry.

8.2. COMPETITION PRINCIPLES AGREEMENT

The Government is reviewing the corporate governance arrangements for many of its government business activities to improve their efficiency and effectiveness, so that they can make the maximum contribution possible to the South Australian community and economy. These reforms are also consistent with the Government's commitment to the implementation of the policy components of the CPA.

The CPA has six broad policy components:

- prices oversight of government business enterprises
- competitive neutrality policy and principles
- structural reform of public monopolies

- legislation review
- access regimes
- application of the principles to local government.

Competitive neutrality policy and principles

As outlined in the Government's original competitive neutrality policy statement of June 1996 and revised policy statement of May 2000, competitive neutrality principles are being progressively applied to the Government's significant business activities.

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

In August 2000 Cabinet approved two submissions for the further implementation of competitive neutrality reforms. For Category 1 businesses (revenues greater than $2 million or assets greater than $20 million), six business activities were required to implement specific competitive neutrality measures and two organisations were required to undertake further reviews of the most appropriate competitive neutrality measure. For Category 2 businesses (revenues less than $2 million or assets less than $20 million), 17 business activities were required to implement cost reflective pricing.

A total of 27 Category 1 government businesses are now formally recognised as significant business activities in accordance with the GBE Act. There are currently 17 Category 2 significant business activities gazetted.

A Guide to the Implementation of Competitive Neutrality was prepared by the Department of Treasury and Finance in March 1998 to assist agencies responsible for implementing the principles of competitive neutrality. Considerable progress has been made in implementing these principles for the majority of Category 1 government businesses. Work is also in progress for a number of Category 2 government businesses, especially on implementing cost reflective pricing. A *Guide to the Implementation of Cost Reflective Pricing* was prepared in October 2000 by the Department of Treasury and Finance to assist agencies in implementing this reform to its smaller business activities.

To date, the following reforms have been implemented or are underway for Category 1 businesses:

- corporatisation of water and wastewater services, port and harbour operations and forestry operations in South Australia
- significant progress in the implementation of the corporatisation plans for Public Trustee, West Beach Trust, Enfield General Cemetery Trust and Police Security Services Branch
- the Department of Education, Training and Employment has begun a governance reform program that will implement certain commercialisation reforms in TAFE institutes.

In addition, the following reform activity has been undertaken or is currently in progress:

- sale/lease of electricity businesses to private sector operators
- the sales process for Ports Corporation is currently in progress and completion of the sales process is expected in the 2001-02 financial year
- Parliamentary approval has been obtained and bids sought for the sale of the South Australian TAB by way of a trade sale

From 1 July 2001 the new National Tax Equivalents Regime (NTER) will be introduced and applied to larger government businesses. For more information on the NTER arrangements refer to Chapter 6.

8.3. PROFILES OF KEY GOVERNMENT BUSINESSES

Government businesses are engaged in either the production of goods and services or the provision of financial services, with the aim of recovering a significant portion of costs through user charges.

Treasury and Finance, and the Office for Government Enterprises (OGE) monitor the commercial performance for major government businesses. Periodic performance monitoring reports are provided to the portfolio Minister and the Treasurer.

A list of government businesses, and their employment levels and distributions to government, is provided in Table 8.1 and this section provides information on, and analysis of, key government businesses. Table 8.1 is split into commercial and non commercial sector government businesses. Dividends received from commercial sector businesses represent a direct contribution to budget while the operating surpluses from non commercial sector businesses (rather than the dividends) contribute to the budget.

SA Water Corporation

SA Water was established under the *South Australian Water Corporation Act 1994* and is subject to the provisions of the *Public Corporations Act 1993*. The scope of SA Water's operations, as set out in its charter, is to:

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

For 1999-2000 the operating profit (before tax and abnormal items) was $205.3 million.

The estimated operating profit for 2000-01 is $205.0 million before year-end adjustments for actuarial assessment of leave/superannuation and provisioning. Distributions to Government (income tax equivalent and dividend payments) are estimated to be $225.3 million in 2000-01.

The budgeted operating profit for 2001-02 is $210.0 million. The budgeted contribution to Government for 2001-02 is $206.4 million.

SA Water undertakes several activities as community service obligations (CSOs) on behalf of other agencies. The CSO activities (and funding levels) budgeted for 2001-02 are:

- pricing subsidy for water and wastewater to country regions ($74.3 million)
- new and continuing capital investment in country water and wastewater systems ($4.2 million)
- administration of pensioner remission scheme ($500 000)
- water and wastewater rate concessions for churches, charities and public schools ($8.5 million)

Table 8.1 South Australian government businesses (preliminary estimates)

	Estimated Employment	Estimated Dividend/(Subsidy)		Estimated Income Tax Equivalent[(a)]	
	30 June 2001	2000-01	2001-02	2000-01	2001-02
	FTEs	$m	$m	$m	$m
Commercial sector government businesses					
ElectraNet SA[(b)]	—	—	—	5.5	—
Flinders Power[(b)]	—	—	—	4.5	—
Ports Corporation	144	5.2	6.5	4.7	5.5
SA Water Corporation	1 063	168.7	155.0	56.6	51.4
Industrial and Commercial Premises Corporation[(c)]	—	0.2	0.1	0.5	0.4
	1 207	174.1	161.6	71.8	57.3
Other government businesses					
Adelaide Convention Centre	195	(6.0)	(5.2)	—	—
Adelaide Entertainment Centre	45	—	—	—	—
Adelaide Festival Centre Trust	176	(4.9)	(4.9)	—	—
Enfield General Cemetery Trust	38	—	—	—	—
ForestrySA[(d)]	246	12.7	34.0	14.6	8.7
HomeStart Finance[(e)]	55	5.0	5.0	2.9	2.1
Land Management Corporation	57	1.8	3.0	2.9	1.7
Local Government Finance Authority of South Australia[(c)(f)]	—	—	—	1.1	1.0
Lotteries Commission of South Australia[(g)]	94	68.1	69.4	10.6	6.9
Motor Accident Commission	8	10.0	10.0	—	—
Playford Centre	9	—	—	—	—
Public Trustee	142	1.1	1.4	0.9	1.0
SA Community Housing Authority	28	(9.8)	(9.1)	—	—
SA Government Employee Residential Properties[(c)]	—	0.5	0.6	0.5	0.3
SA Housing Trust	610	(117.0)	(119.4)	0.2	0.2
SA Totalizator Agency Board[(h)]	365	13.2	12.5	2.8	1.0
TransAdelaide[(i)]	780	(11.3)	(10.1)	0.9	0.3
West Beach Trust	50	(1.1)	(1.1)	1.1	1.1
WorkCover Corporation[(j)]	397	—	—	—	—
Total	4 502	136.4	147.7	110.3	81.6

(a) Estimates do not include local government rate equivalent payments or wholesale sales tax equivalent payments. Accordingly, figures differ from those presented in the various tables in Chapter 5 which include both these payments.
(b) These businesses were in public ownership for part of the 2000-01 financial year. Due to their sale (part of the electricity sale/lease process) no full time equivalent (FTE) figures have been included and no dividend and income tax equivalent payments will be received in the 2001-02 financial year.
(c) FTE estimates not provided as entities either part of a host agency (Industrial and Commercial Premises Corporation (DAIS), SA Government Employee Residential Properties) or of the local government sector (Local Government Finance Authority of South Australia).
(d) ForestrySA has operated in the non commercial sector in 2000-01 but will move into the commercial sector from the commencement of the 2001-02 financial year. The 2001-02 dividend includes a $20 million return of equity.
(e) In accordance with the *Housing and Urban Development (Administrative Arrangements) Act 1995* distributions are paid to the Minister for Human Services and reallocated to other housing priorities.
(f) Tax equivalent payments are paid to a special deposit account for reimbursement to local government.
(g) The *State Lotteries Act 1966* prescribes distributions rather than dividends. The distributions and income tax equivalents for the Lotteries Commission of South Australia included in this table are directed to the Hospitals Fund.
(h) Distributions include unclaimed dividends and fractions.
(i) Input cost disabilities net of dividend payments. Contract payments from the Passenger Transport Board are not included.
(j) WorkCover Corporation does not pay dividends or income tax equivalents.

The capital investment target for 2001-02 is $133.7 million (excluding capitalised interest of $6.0 million) which will be directed towards improving the State's water supply and wastewater systems. SA Water is giving priority to the following areas:

- The environmental improvement program to reduce odour emissions, the volume of treated wastewater discharged to the marine environment and the nutrient levels in the discharge water, is continuing.
- Major works at the Bolivar, Christies Beach, Heathfield and Glenelg wastewater treatment plants are budgeted to cost $39.9 million in 2001-02. A further $18.0 million will be spent on major works at country wastewater treatment plants and works associated with the relocation of the Port Adelaide Wastewater Treatment Plant.
- Work on the Barossa water supply system upgrade to transport water licensed to Barossa Infrastructure Limited from the River Murray to the Barossa Valley using existing SA Water infrastructure is estimated to cost $6.3 million in 2001-02.
- The upgrade and expansion of country water supply systems to provide new supply, accommodate regional growth and extend the supply of filtered water to country towns is expected to cost $19.0 million in 2001-02.
- A dam safety program to ensure that current dam management guidelines are met and reliability of water supply is maintained is estimated to cost $8.8 million in 2001-02.
- A further $2.4 million is budgeted to be spent on upgrading water filtration plants to optimise existing strategies for providing increased protection against *Cryptosporidium* and *Giardia* organisms.

During 2000, SA Water charges for water supply and sewerage were reviewed. The Government has decided to amend water charges for commercial customers so as to remove the free water allowance for those customers and bring them into line with other customer classes in this respect. This will occur on a revenue neutral basis phased over five years. Thus all water supplied by SA Water to all customers will be subject to a volumetric charge. Access charges for commercial customers will continue to be based on property values, reflecting capacity to pay.

Sewerage charges are primarily property value based service charges. Unit load characteristics of most properties' wastewater discharge are minor compared with overall system costs. A unit load usage charge will however be phased in for large users (industrial) which have a significant impact on wastewater treatment operating costs.

SA Ports Corporation

SA Ports Corporation was established under the *South Australian Ports Corporation Act 1994* and is subject to the provisions of the Public Corporations Act.

The scope of the corporation's operations includes:

- managing the State's commercial ports vested in the corporation as a commercial enterprise
- promoting and facilitating the development of commercially viable trade through the use of the ports
- ensuring that orderly, efficient and reliable services are provided to the users of the corporation's ports including safe and secure cargo storage and handling facilities
- maximising the use and promoting (both inside and outside of Australia) the proper exploitation of the corporation's ports and related facilities
- undertaking such other activities as will encourage and facilitate the development of trade or commerce for the economic benefit of the State through the use of the corporation's ports and related facilities.

For 1999-2000 the operating profit (before tax and abnormal items) was $13.1 million.

The estimated operating profit for 2000-01 is $14.8 million. The total dividend payable for the 2000-01 year is estimated to be $5.2 million. Total tax equivalent payments are estimated to be $4.7 million.

The budgeted dividend to the Government for 2001-02 is $6.5 million with tax equivalent payments budgeted to be $5.5 million. New initiatives scheduled this financial year include the further development of e-commerce facilities.

Major initiatives planned for 2001-02 include investigations for the deepening of the Outer Harbor channel.

On 7 April 1999 the Government announced its in-principle decision to dispose of the assets and business of the corporation in a trade sale, subject to satisfactory and positive outcomes of further investigation and development. The decision to proceed with a trade sale follows the completion of a scoping review initiated by the Government in February 1998.

On 3 May 2000, the Government announced that it would offer a 99-year lease of the corporation's land, combined with a sale of the wharves, buildings, plant and equipment, and the ongoing business.

The *South Australian Ports (Disposal of Maritime Asset) Act 2000*, the *Harbors and Navigation (Control of Harbors) Amendment Act 2000* and the *Maritime Services (Access) Act 2000* were passed by both Houses of Parliament in December 2000. The first two Acts were proclaimed on 25 January 2001 and the latter Act will be proclaimed on or immediately before divestment completion.

The sale/lease process began on 7 March 2001 with the issue of an information brief seeking expressions of interest (EOI) from national and international organisations. EOIs closed on 2 April 2001, and the submission of unconditional final bids from shortlisted parties is targeted for 25 June 2001.

For sale or lease are the ports of Port Adelaide, Port Giles, Wallaroo, Port Pirie, Port Lincoln, Thevenard and Klein Point. The Kangaroo Island related ports of Kingscote, Penneshaw and Cape Jervis have been transferred from the corporation to the Department for Transport, Urban Planning and the Arts.

Lotteries Commission of South Australia

The Lotteries Commission of South Australia was established under the *State Lotteries Act 1966*.

The commission is charged with the responsibility for conducting lotteries effectively, efficiently and honestly, and for maximising the return to the community. The surplus from activities is directed to the Hospitals Fund for the provision, maintenance, development and improvement of public hospitals and their equipment, and to the Recreation and Sport Fund to assist sporting and leisure activities in South Australia.

For 1999-2000 the operating profit (before tax and abnormal items) was $84.9 million.

The estimated operating profit for 2000-01 is $75.5 million. The profit result for 2000-01 and thereafter is reduced by the GST which applies to gambling operators at $1/11^{th}$ of gambling revenue. The estimated contribution to the Government from the operating result for 2000-01 is $78.7 million.

The budgeted contribution to the Government from the operating result for 2001-02 is $76.3 million.

The major capital investment planned for 2001-02 is $2.0 million for the relocation and fit out of head office premises and $1.0 million on a new business system.

In March 2001, the Minister for Government Enterprises, through the OGE, established an inter-agency steering committee to examine various corporate reform options for the Lotteries Commission as an ongoing agency of Government. The Steering Committee will examine the commission's governance arrangements, regulatory framework and financial structure, before making recommendations to Cabinet.

SA Totalizator Agency Board

The SA Totalizator Agency Board (SA TAB) was established under the *Racing Act 1976*. The SA TAB's functions as set out in the Racing Act are to:

- conduct off-course totalizator betting on races held within or outside Australia
- act as the agent of an authorised racing club in the conduct by that club of on-course totalizator betting on races held within or outside Australia
- conduct totalizator betting on football results of matches held within or outside Australia
- conduct, with approval of the Minister, totalizator betting on results of any major sporting event held within or outside Australia (other than a race or football match)
- with the approval of the Minister, enter into an agreement with an interstate or overseas authority to act as the agent of the interstate or overseas authority in accepting fixed odds bets on sporting or other events (including football matches but not including races) by the interstate or overseas authority under the law of another State, Territory or country.

For 1999-2000 the operating profit (before tax and abnormal items) was $56.1 million.

The estimated operating profit for 2000-01 is $48.2 million. The profit result for 2000-01 and thereafter is reduced by the GST and the State Gambling Tax. The total distributable profit for 2000-01 is expected to be $37.9 million. Pursuant to the Racing Act, distribution recipients are the racing industry, the South Australian National Football League and the State Government. Total distributions to Government (including income tax equivalent payments, dividends, unclaimed dividends and fractions) for 2000-01 are expected to be $16.0 million.

The total distributable profit for 2001-2002 is estimated to be $38.8 million. Total distributions to Government (including income tax equivalent payments, dividends, unclaimed dividends and fractions) for 2001-02 are expected to be $13.5 million.

On 8 February 2000, the Government announced its in-principle decision to sell SA TAB by a trade sale. The Government's decision followed a comprehensive review of SA TAB, which highlighted the increasingly competitive gambling environment for the business, brought about by the privatisation of interstate TABs, technological developments and the associated emergence of new competitors and distribution outlets in the market.

In December 2000, the South Australian Parliament passed legislation enabling the sale of SA TAB and providing for the future regulatory environment of the industry.

Following the decision to sell, the range of sale preparations has included:

- agreeing with the South Australian racing industry a long-term commercial contract between the racing industry and SA TAB setting out the commercial and financial arrangements between the industry and SA TAB after the sale
- developing comprehensive transition arrangements for SA TAB employees
- preparing all relevant information to be provided to bidders during the sale process.

The formal sale process began in January 2001 and is being conducted in three stages—expressions of interest, indicative bids and final bids. The sale is expected to be completed by mid-2001.

Playford Centre

The Information Industries Development Centre (Playford Centre) was established under Regulations to the *Public Corporations Act 1993* in July 1996.

The centre's current role is to contribute to the achievement of the Government's IE2002 strategy by investing in potentially high growth information and communications technology (ICT) companies within South Australia.

The centre, along with its consortium partner Ngapartji Pty Ltd, has established a subsidiary company SA.BITS Funds Pty Ltd (SA.BITS) to invest $10 million of Commonwealth Government funding under the Building on Information Technology Strengths (BITS) program. SA.BITS will invest this funding in potentially high growth ICT companies, enabling the centre to continue its industry development role.

SA.BITS will invest in ICT companies that have the potential to develop world class IT products and services. It will also provide product and market development advice, market intelligence, strategic alliances including additional financing, and business support services through the Playford Centre, and its industry development partners including Ngapartji and the Business Centre.

For 1999-2000 the centre incurred an operating loss of $1.7 million, reflecting its industry development role and the lead times involved with its investment activities.

For 2000-01, the centre has estimated an operating loss of $800 000. The budgeted operating loss for 2001-02 is $86 000.

No dividend is payable in 2000-01 and 2001-02. The centre is not subject to the tax equivalents regime.

WorkCover Corporation

WorkCover Corporation was established in 1987 and is now constituted under the *WorkCover Corporation Act 1994*.

The corporation is charged with responsibility for delivering an occupational health, safety, rehabilitation and compensation system subject to the provisions of the *Occupational Health, Safety and Welfare Act 1986* and the *Workers Rehabilitation and Compensation Act 1986*.

WorkCover's vision is to save lives through the application of its *SafeWork* approach.

For the 1999-2000 year the operating surplus was $6.7 million, enabling the corporation to reduce the unfunded liability to $22.3 million from $29 million in June 1999. The continual reduction in the unfunded liability since the peak of $275 million in June 1995 has enabled the WorkCover Board to reduce the average levy rate for employers from 2.86% to 2.46% in the 2001-02 financial year.

WorkCover has implemented a business transformation project aimed at reviewing all business operations and developing customer and e-business focused improvements. The project began in 1999-2000 and will continue into 2001-02 at a cost of $10.3 million.

Industrial and Commercial Premises Corporation

The Industrial and Commercial Premises Corporation was established under Regulations to the Public Corporations Act in 1997.

The corporation manages the Industrial Premises Development Scheme, which induces locational investment decisions in favour of South Australia, and enables established industries to expand their operations where significant employment increases can be achieved, particularly in export-related or import-replacing enterprises. The scheme focuses on processing and manufacturing industries, and intellectual, knowledge-based industries.

For 1999-2000 the operating profit (before tax and abnormal items) was $316 000.

ICPC has been working on a number of potential projects with a total value of $34.7 million under the auspices of the scheme through the 2000-01 financial year. Final approvals and start dates are yet to be established.

For 2000-01 the corporation has estimated an operating loss of $1.1 million. The budgeted contribution (income tax equivalent payments and dividend) to the Government for 2000-01 is $654 000.

The budgeted operating profit for 2001-02 is $350 000. The budgeted contribution (tax equivalent payments) to the Government for 2001-02 is $553 000.

Land Management Corporation

Land Management Corporation (LMC) was established under Regulations to the Public Corporations Act in 1997. These regulations provide for the LMC to acquire, hold, manage, lease and dispose of surplus land of the Crown with a view to:

- managing the release of large areas of undeveloped (or underdeveloped) land
- holding land and other property to be made available, as appropriate, for commercial, industrial, residential and other purposes
- ensuring the orderly development of areas through the management and release of land, as appropriate
- ensuring that Technology Park has specific emphasis on using the assets to facilitate economic development.

For 1999-2000 the operating profit (before tax and abnormal items) was $14.9 million.

The corporation's estimated operating profit for 2000-01 is $4.4 million. The contribution to the Government in 2000-01 is estimated to be an income tax equivalent payment of $2.9 million and a dividend payment of $1.8 million.

The budgeted contribution to the Government for 2001-02 includes $1.7 million of income tax equivalent payments and a dividend of $3.0 million.

Budgeted capital expenditure for the 2001-02 financial year is $15.1 million, including projects administered by the corporation for other authorities. Under the budgeted capital program, work will continue on the Port Adelaide waterfront and Technology Park enhancement programs, as well as the provision of government infrastructure associated with the Mawson Lakes Economic Development program.

South Australian Forestry Corporation

The South Australian Forestry Corporation (trading under the name of ForestrySA) was established under the *South Australian Forestry Corporation Act 2000* and is subject to the provisions of the Public Corporations Act. ForestrySA has the key responsibilities of:

- managing State-owned plantation forests including harvesting and delivery of forest products to customers

- supporting and facilitating forestry industry development
- providing recreational access to forest reserves
- managing native forests for conservation purposes
- providing policy support and advice to Government, the industry and the community.

The corporation began operations on 1 January 2001. Before this date, ForestrySA operated as a business unit within the Department for Administrative and Information Services.

From 1 January 2001 ForestrySA is funded for a number of CSOs including forest industry development, forestry policy and legislative support, community use of forests, native forest management and community protection (including fire protection).

The estimated operating profit for 2000-01 is $22.5 million. This result includes $3.5 million in Government funding for CSOs not previously included in the budget. Excluding CSO funding, the estimated result is lower than budget, reflecting the current downturn within the building industry in Australia which has led to a subsequent fall in demand for sawlog.

Contributions to the Government (income tax equivalent and dividend payments) are estimated to be $27.3 million in 2000-01.

The budgeted operating profit before tax for 2001-02 is $22.4 million. The budgeted contribution to the Government for 2001-02 is $42.7 million, including a return of equity of $20 million.

ForestrySA has budgeted for $8.1 million in capital expenditure during 2001-02, including $3.0 million for the purchase of land for new plantations.

HomeStart Finance

HomeStart Finance was established in 1989 to provide affordable home finance to people earning low or moderate incomes in South Australia. It operates under the *Housing and Urban Development (Administrative and Urban Arrangements) Act 1995* and associated regulations.

HomeStart administers the HomeStart Program (lending at market related interest rates), and the concessional Home Ownership Made Easy (HOME) scheme which was closed to new borrowers on the introduction of the HomeStart Program in 1989. It also operates smaller schemes such as Seniors Loans, the Rental Purchase Program, the Mortgage Relief Program and the Advantage Loan Scheme. HomeStart has assisted over 30 000 South Australians to achieve home ownership.

HomeStart's lending is funded by borrowing at market related interest rates through SAFA and by HomeStart's own capital and reserves. Total assets at 30 June 2000 were $802 million with capital and reserves of $135.8 million.

Adelaide Festival Centre Trust

The Adelaide Festival Centre Trust (AFCT) is a statutory authority established under the *Adelaide Festival Centre Trust Act 1971*.

The vision of the AFCT is for the Adelaide Festival Centre to be consistently acknowledged as a world renowned performing arts centre. In attaining this, the AFCT's mission is to: exceed stakeholders' expectations in providing a world-class environment and support for the arts; provide a visible focus and stimulus for the development of the arts for South Australia; activate and support community cultural expression; excite everyone who visits the centre; effectively and efficiently use the personnel, financial resources and physical assets; and deliver and sustain mandated arts and community outcomes.

The 1999-2000 operating result was a surplus of $3.7 million.

In 2000-01 the AFCT estimates an operating deficit of $1.1 million (net loss of $4.3 million after depreciation). The AFCT will be discussing initiatives with ArtSA to return to breakeven in 2001-02.

Adelaide Convention Centre

The Adelaide Convention Centre aims to be the most professionally operated multi-purpose convention and exhibition venue in Australia. It provides a world-class level of service and is equipped with outstanding technology suitable for conventions, meetings and seminars, exhibitions, trade shows, banquets, events and other functions.

The charter of the Convention Centre is to competitively generate new business in South Australia and to enhance the tourism growth and economy of the State by:

- officially opening the major extension in late 2001 and continuing to maintain and upgrade facilities to the highest possible standard
- maintaining the venue's advanced technological capabilities
- providing excellent operational catering standards
- continuing to maintain common areas, including the Riverbank Promenade to a standard that satisfies users and occupants
- further developing human resources, occupational health, safety and welfare, and risk management strategies to maximise efficiency and ensure full use of staff expertise.

In May 1999 Cabinet approved an $85 million extension to the centre that, once completed, will provide an additional 7000 square metres of exhibition space together with banquet facilities for up to 4800 people. Work began in November 1999 and is expected to be completed in August 2001. There will be a marked increase in the number and size of events booked after September and the ability to provide these services to overseas and interstate visitors will generate economic benefits to the State through tourism.

The 1999-2000 year provided an operating surplus before abnormal items and income tax equivalent contribution of $1 million. In 2000-01 the Convention Centre had a lower than expected operating result due to the expansion interrupting trading. The operating result for 2001-02 will significantly increase once the extension is complete. However, given that the new facilities officially open in September 2001, there will effectively be only nine months available for trade. Management is confident that with a full 12 months available in the subsequent years, a positive return will be reported.

West Beach Trust

During 1999-2000 West Beach Trust adopted the brand name Adelaide Shores so it could provide marketing opportunities for the Adelaide Shores Boat Haven, Adelaide Shores Golf Park, Adelaide Shores Caravan Resort and the Adelaide Shores Holiday Village.

The trust is required, under the *West Beach Recreation Reserve Act 1987*, to administer and develop the West Beach Recreation Reserve as a sporting, cultural and recreational complex and as a tourist attraction and resort. It is also required to promote and encourage the use and enjoyment of the reserve by the public and to care for, control and manage that part of the foreshore that lies between the low water mark and the western boundary of the reserve that borders the sea.

The operating result for 1999-2000 was an operating surplus of $439 000 and the projected result for 2000-01 is an operating surplus of $844 000.

The trust did not pay a dividend to Government in 2000-01 and is not expected to pay a dividend in 2001-02. Estimated tax equivalent payments for 2000-01 and for 2001-02 are $1.1 million.

During 2000-01 the trust installed an additional 10 accommodation units, refurbished existing units and replaced playground equipment throughout recreational areas. In 2001-02, the trust is planning additional accommodation units, a backpackers facility, the start of construction of a public BMX track, transfer of its administration offices to the former Woolshed Building and a contribution to the installation of a treatment plant to provide Class A water for irrigation.

Enfield General Cemetery Trust

The Enfield General Cemetery Trust was established under the *Enfield General Cemetery Act 1944* initially to administer Enfield Memorial Park. In 1987, the trust took over the administration of the Cheltenham Cemetery from the Port Adelaide Enfield Council and in 1997 West Terrace Cemetery was placed under its administration.

The objectives of the trust are to:

- provide burial, cremation and memorialisation facilities to the general public at Enfield Memorial Park, Cheltenham and West Terrace cemeteries
- provide an environment of peace and reverence in which to conduct funerals
- provide a range of services to assist in the needs of the bereaved
- create a greater awareness within the general public of cemetery functions and procedures
- maximise its resources to ensure effective management and performance.

The trust’s operating result for the 1999-2000 financial year was $555 000 profit and a profit of $110 000 is anticipated for the 2000-01 financial year. For the 2000-01 and 2001-02 financial years it is not anticipated that the trust will pay a contribution to Government. The trust is currently not subject to the tax equivalent regime.

The construction of a $3 million mausoleum at the Enfield Memorial Park will begin in the 2001-02 financial year and should take approximately 18 months to complete. The mausoleum will be the first in the Adelaide metropolitan area and will have 550–600 crypt spaces.

Motor Accident Commission

In July 1995, following the sale of its general insurance businesses, the former State Government Insurance Commission was renamed the Motor Accident Commission (MAC) in accordance with the *Motor Accident Commission Act 1992,* which governs its operations.

MAC was established to:

- continue to operate and provide compulsory third party (CTP) insurance in South Australia
- take over, manage and where possible realise those assets and liabilities not included in the sale of the commission (included running off the residual insurance portfolios covering financial risk, commercial and mortgages guarantee, overseas inward reinsurance and residual value guarantees).

A charter for MAC was prepared pursuant to Section 18 of the Motor Accident Commission Act and is reviewed annually by the Minister.

Under the charter, the objectives of MAC, for CTP insurance, are to:

- improve the performance of CTP investments
- achieve a high standard of services to all insured parties

- ensure that CTP premiums are set at commercial levels that are also fair to the motorist insured (the independent CTP Premiums Committee ensures that premium levels are determined on a fair and reasonable basis and allows for appropriate levels of funding and return)
- achieve a high standard and efficient level of community service through sponsorships, road safety campaigns and other such promotions
- improve the potential value of the CTP Fund to the Government
- progressively move the net asset position of the CTP Fund towards the solvency requirement of the Australian Prudential Regulation Authority (15%).

During the three years from July 1995 to June 1998, the solvency of the CTP Fund increased from approximately 8.2% to 11.8%, but fell to 5.6% in 1999 principally as a result of an actuarial adjustment incorporating the impact of the New Tax System on outstanding claims costs and a prior period claim cost adjustment.

As at 30 June 2000 the CTP Fund solvency had increased slightly to 8.5%. For 2000-01 and 2001-02, MAC is planning to pay a dividend of $10 million per annum.

The rate of return on investments has remained relatively stable at 8.4% in 1995 and 8.9% in 2000 despite long-term interest rates falling from approximately 9% to 5% over the same period.

On 13 February 2001, the SA Government announced that MAC would not be privatised following a review of its operations under the National Competition Policy guidelines. The review demonstrated on cost–benefit grounds a sole Government CTP provider arrangement was superior to a multi-private sector provider arrangement. The Government determined that MAC will remain the sole provider of CTP insurance in South Australia and intends to amend legislation to confirm that MAC will operate as a ‘social fund’ and that provisions requiring the payment of income tax equivalent payments will be repealed.

TransAdelaide

As the Government’s sole commercial public passenger transport service operator, TransAdelaide has two significant business operations, the provision of tram and train services and the management of the tram and train infrastructure in the metropolitan area. Over the coming financial year, TransAdelaide will continue to focus on satisfying customer demand by providing more frequent services and upgrading train infrastructure to enhance passenger safety and comfort in order to attract new customers to public transport. TransAdelaide is funded under a five-year agreement with the Passenger Transport Board.

All passenger transport services are provided under contract to the Government through a combination of competitively tendered and negotiated contracts. The Passenger Transport Board is responsible for funding and regulating passenger transport, and administering the competitive tendering of bus routes.

TransAdelaide has undergone significant reform over the last five years as a result of the competitive tendering and negotiated contract environment. On 14 January 1999, TransAdelaide became a public corporation under its own legislation, the *TransAdelaide (Corporate Structure) Act 1998*, to which the provisions of the Public Corporations Act apply.

During 2000, TransAdelaide carried over 8 million passengers on its trains and 1.9 million on its trams. Its trains travelled over 6.5 million kilometres and its trams covered 752 000 kilometres.

TransAdelaide did not provide a dividend to the budget in 1999-2000 due to the costs arising from the loss of its metropolitan bus business in April 2000. Notwithstanding the dividends that TransAdelaide are expected to pay in 2000-01 from its operating activities of $1.1 million and $436 000 in 2001-02, TransAdelaide is a net recipient of funding from the budget of $11.3 million in 2000-01 and

$10.1 million in 2001-02. This funding is mainly provided to meet the costs of the surplus workforce which was left after the loss of the bus business.

RESIDUAL ELECTRICITY CORPORATIONS

RESI Corporation

The RESI Corporation is the parent company of Transmission Lessor Corporation.

The program of restructuring and privatisation of the State's electricity assets is now complete, resulting in proceeds of $5.3 billion.

Transmission Lessor Corporation

The main focus of the commercial operations of Transmission Lessor Corporation (which traded as ElectraNet SA and was formerly known as ETSA Transmission Corporation) was the transmission of electricity to customers. Following the privatisation of its business, Transmission Lessor Corporation has remained as owner and lessor of the State's transmission network. ElectraNet SA has been retained as the trading name of the privatised entity ElectraNet Pty Ltd.

Distribution Lessor Corporation

Distribution Lessor Corporation's (DLC) principal role is to act as the owner and lessor of the State's electricity distribution network. DLC is a subsidiary of the Treasurer, established in July 1999 as a body corporate subject to control and direction by the Treasurer.

Generation Lessor Corporation

The principal role of Generation Lessor Corporation (GLC) is to act as the owner and lessor of the State's power stations, the Leigh Creek railway line and the Leigh Creek township. GLC is a subsidiary of the Treasurer, established in July 1999 as a body corporate subject to control and direction by the Treasurer.

The current structure for the electricity entities associated with the former ETSA Corporation, and retained under Government control, is presented in Figure 8.1. The entities that appear shaded are either in the process of being deregistered or will be deregistered within the next 12 months.

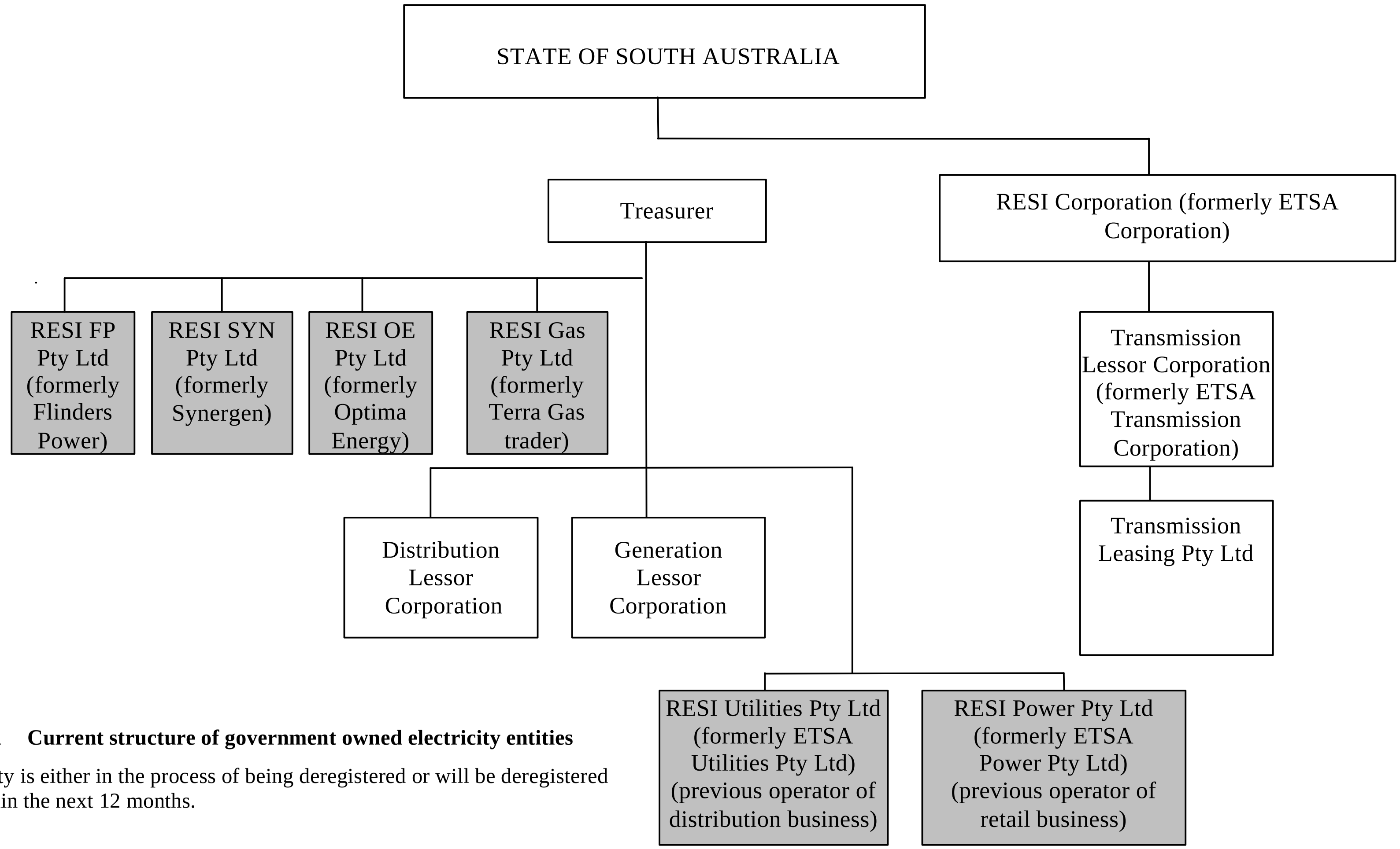


Figure 8.1 Current structure of government owned electricity entities

Entity is either in the process of being deregistered or will be deregistered within the next 12 months.

9. RISK STATEMENT

HIGHLIGHTS

- A range of financial risks could affect the fiscal position and outlook presented in the 2001-02 Budget.
- Financial risks can potentially adversely affect both revenue and expenditure levels. In practice, cumulative effects are likely to be lower than the sum of individual risks, as it is unlikely that all potential adverse developments would occur at once.
- Economic risks arise due to possible variances from the central case economic assumptions and expectations underpinning the 2001-02 Budget. Economic risks may arise due to changes in factors associated with general economic conditions or the structure of the South Australian economy.
- State revenues are not generally exposed to a strong cyclical component. The main areas of volatility are stamp duty on conveyances and royalties. The fiscal equalisation process means that the State's revenue position overall is more dependent on national than State specific economic conditions.
- The main expenditure risk relates to the future rates of growth of wages and salaries. This is as a result of wages and salaries being the largest single component of total expenditure. The expenditure outlook is also subject to a range of other risks associated with interest rates, various prices, contingent liabilities, capital costs and superannuation expenditures.

9.1. INTRODUCTION

The purpose of this chapter is to identify major financial risks that could affect the budget and forward estimate position. The chapter also identifies other sections of the Budget Statement where specific budgetary risks and their management are discussed in more detail.

Managing the State's finances implies giving consideration to uncertain future developments such as factors external to the State's control and new developments in issues relevant to public policy.

Budget estimates are predicated on assumptions and judgments based on information available at the time of their preparation. In practice, both revenues and expenses will be subject to change from budget, and the size of 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 both revenue and expenditure in the short or long term, and may be positive or negative, and not necessarily within the Government's control, for example natural disasters, economic activity fluctuations, and foreign exchange rates and prices.

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.

Budget and forward estimates can include allowances to assist in managing the potential adverse consequences of financial risk, for example allowances for wage and salary outcomes, and contingency provisions made within capital expenditure budgets.

The ultimate net financial impact of the many sources of risk is by definition uncertain, as positive, neutral and negative financial outcomes may eventuate in each specific area of risk. In practice, cumulative effects are likely to be lower than the sum of individual risks, as it is unlikely that all potential adverse developments would occur at once.

9.2. ECONOMIC RISKS

Economic estimates and forecasts within the 2001-02 Budget are set out in Chapter 10. Risks considered here are possible variances from those central case assumptions and expectations.

General economic conditions

International, national and state economic conditions

World growth forecasts for 2001 have been revised downwards significantly during the first quarter of 2001 and evidence suggests that the Australian economy slowed more sharply than was expected late in 2000. Expectations of growth for 2000-01 and 2001-02 have also been revised downwards: for example, the International Monetary Fund, in April 2001, downgraded its forecast of growth for Australia from 3.25% to 1.9% in 2001, but their forecast is for increased growth in 2002 of 3.5%.

Following economic growth above the long-term average in 1999-2000, the South Australian economy has slowed, mirroring the downturn in the national and world economies generally. Current forecasts reflect this downturn.

Any slowing beyond that already anticipated for the international economy would have implications for both Australian and South Australian economic growth prospects. Thus, although the trend unemployment rate is currently at its lowest level in a decade, the national and South Australian leading employment indicators point to a decline in the rate of jobs growth. Further, the dwelling construction industry has experienced a significant slump, following the pre-Goods and Services Tax (GST) pull-forward and the uncertain outlook for economic growth generally. This sector has significant flow-on effects on the broader economy. Economic forecasts in the budget are consistent with an expected improvement in this sector while recognising the expected lowering of employment growth.

The Australian dollar

The depreciation of the Australian dollar ($A) relative to the $US has increased earnings for Australian exporters. There are countervailing risks in changes to the exchange rate. A lower $A may feed into price pressure from imports and hence there is a risk of inflation above the Reserve Bank of Australia’s current target band of 2–3%. On the other hand, a higher $A would reduce Australia’s competitiveness at the international level and hence reduce exports, and encourage imports. To date, there has been little sign of a resurgence of inflationary pressures.

Oil prices

Late in 2000, rising oil prices prompted warnings that oil price increases could contribute to slowing world economic growth. Oil prices have since stabilised and the decision by OPEC to cut oil production from the beginning of 2001 appears to have placed little upward pressure on oil prices. Nevertheless, there remains a risk that unexpected developments in oil prices will impact on growth, through inflation, during this financial year.

Structure of the South Australian economy

Population—movements and projections

Economic forecasts are consistent with continuation of population growth below the national average. Stronger economic growth than projected is likely to be associated with higher population growth, particularly through the impact on net interstate migration flows. The Government commissioned study, Bringing Them Back Home: Factors Influencing Interstate Migration to and from South Australia, examined population trends in South Australia and suggested initiatives that could work to halt the leakage of population to other States and to attract interstate skilled workers to South Australia.

South Australia has an older age structure compared to the national average—and it has the highest aged-dependency ratio (ie the aged population as a proportion of the working-age population). Nevertheless, all States are experiencing ageing of their populations and face similar challenges in dealing with the impacts of an older workforce.

Demographic factors would tend to be relatively well anticipated over the period of the forward estimates.

Industry structure

The manufacturing sector plays a greater role in the South Australian economy than nationally, while the role of stronger growth sectors (eg information technology and financial services) are of lesser importance. The fastest growing sectors of the South Australian economy have been manufacturing, and finance, property and business services. Nationally, a more robust rate of growth has been observed for finance, property and business services than in South Australia, but the national rate of growth is slower in the manufacturing sector.

The growth in the relative importance of the services sector and slower growth of more traditional industrial sectors (such as agriculture and manufacturing) has been observed throughout the developed world over the last 20 years, and this pattern is expected to continue.

Volatility of economic growth

Smaller States' data are more volatile than national average data (in the past 10 years South Australia's Gross State Product growth has varied from –2.6% to +6.7% while national Gross Domestic Product growth has varied between –0.2% and +5.4%). The timing of a slowdown in growth in South Australia will correspond with a national slowdown but it can be expected that a trough will be deeper (although not necessarily lasting longer) and, conversely, a peak will generally be higher. Nevertheless, statistical volatility in economic variables (for example State final demand and employment), does not necessarily indicate volatility in the economy.

The impact of economic fluctuations flows through to budget revenue and to a lesser extent budget expenditures.

9.3. REVENUE RISKS

Commonwealth grants

General purpose payments

General purpose payments (GPPs) have typically been maintained in real per capita terms under the indexation arrangements applied by the Commonwealth—that is, they grow in dollar terms in line with inflation and population growth. On occasion this stability has not been achieved. For example, in the late 1990s, States and Territories were required to make contributions to assist the Commonwealth meet its own fiscal targets. These contributions took the form of reductions in GPPs as well as reductions in specific purpose payments (SPPs) for housing.

Real per capita maintenance will continue to underpin general purpose funding arrangements in the transitional period following the introduction of the GST. Eventually, when GST revenue exceeds guaranteed minimum funding levels, States and Territories will move into a Commonwealth grant funding environment which is exposed to general economic variability and potential changes in GST policy settings. The Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations (IGA) requires the unanimous support of State and Territory governments, and the passage of legislation through both Houses of the Commonwealth Parliament in order to give effect to a change in rate or base.

Under the terms of the IGA, transitional funding arrangements apply that guarantee a minimum level of funding. Key components in the calculation of this guaranteed minimum amount (GMA) are projected levels of Commonwealth funding under pre-GST arrangements, namely financial assistance grants and replacement grants for business franchise fees on tobacco, petrol and liquor, both of which are largely Consumer Price Index (CPI) driven. A 1% variance in CPI estimates equates to $21 million in GMA funding for the State.

Commonwealth grants are the vehicle for horizontal fiscal equalisation (HFE). However, possible variability in Grants Commission assessments of payments which are required to achieve HFE are most appropriately considered in the context of State own-source revenues and expenditures (see below).

Specific purpose payments

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

Taxation and royalties

Through the fiscal equalisation process which compensates States and Territories for differences in relative taxable capacities, each State effectively shares in the national collection of State taxes. Taxation and royalty revenue (including changes in share of Commonwealth grants) is therefore exposed to variability in the national and States' tax base and the national economy.

Local conditions can differ from the national experience and compensating revenue flows to States in GPPs—with a lag reflecting the Grants Commission's use of a five-year rolling average to calculate relativities.

The precision of the fiscal equalisation process is of course also subject to the risk of methodological and data error.

The broad conclusion is that State revenues do experience fluctuations according to national economic conditions including income/consumption levels and asset market activity and prices, although taxation revenues typically increase more slowly than broadly based indicators of economic activity because of the narrowness of many State tax bases.

Taxation revenues

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

- A variance of 1% in taxation revenue growth equates to about $21 million per annum.
- Tax is not particularly sensitive to movements in broad-based price measures, for example CPI. Rather, where there are price effects on taxation revenues, they tend to be specific to particular transactions, for example house values, motor vehicle values, and insurance values.

South Australia raises most of its taxation revenue from:

- payroll tax
- property taxes (conveyance stamp duties, land tax, Emergency Services Levy (ESL), water catchment levies)
- motor vehicle taxes (registration fees, stamp duties, mobile ESL)
- gambling taxes
- insurance (stamp duties).

Payroll tax receipts typically grow by about $30–35 million per annum. A 1% variation in employment or earnings would have an effect of $6 million per annum in payroll tax.

Property taxes are a mixture of relatively low growing tax bases (eg land tax, ESL, water catchment levies) and potentially volatile tax bases (eg stamp duty on conveyances) that reflect the dynamics of the property market.

However, because stamp duty from conveyances reflects the level of turnover in the property market and fluctuating asset prices, it is the most volatile of the State's revenue sources. Stamp duty on conveyances accounts for about $250 million in revenue annually. Following the asset price boom of the late 1980s, the property market settled into a more stable growth pattern during the 1990s. Even so, the year to year volatility in conveyance duty receipts is evident in this period, as Table 9.1 shows.

Table 9.1 Annual receipts from conveyance duty

	Annual change in conveyance duty receipts (excluding electricity asset sales and ex gratia transactions)
	$m
1994-95	+0.8
1995-96	-14.5
1996-97	-6.3
1997-98	+53.1
1998-99	+9.3
1999-2000	+49.5

The introduction of the GST on 1 July 2000 stimulated a pull-forward of activity pushing up property values. As a consequence, conveyance duty receipts were unusually high in 1999-2000 increasing by $49.5 million (excluding the sale of the State's electricity assets and ex gratia transactions).

Broadly, a 1% variance in either levels of property turnover or growth in asset values equates to about $2.5 million in conveyance duty receipts. Strengthening in the property market usually affects both turnover levels and property values. A 10% increase in both turnover and asset values would raise an additional $54 million in annual revenues.

Motor vehicle taxes are not strong growth taxes. They reflect growth in the total stock of licensed vehicles (for registration fees and the mobile ESL) and growth in the turnover and value of new and used vehicles (for stamp duty on motor vehicle registrations and transfers). A 1% variance in motor vehicle tax revenues equates to about $3.5 million per annum.

Gambling taxes have continued to grow strongly mainly reflecting growth in demand for gaming in hotels and clubs. Established forms of gambling—racing, lotteries, casino—do not generate strong revenue growth. Growth in total gambling tax receipts is expected to moderate given the emerging maturity of the gambling market and the introduction of the Government's responsible gaming policy measures. Each 1% variance in gambling tax revenues equates to about $3 million per annum.

Taxes on insurance typically generate revenue growth consistent with underlying inflation (inflation affects levels of insurance cover) but variance can occur if premiums fluctuate in line with worldwide risk acceptance capacity in the industry. Each 1% variance in insurance tax revenues equates to less than $2 million per annum.

Royalties

Mining royalties are possibly the State revenues most exposed to external economic forces affecting the international price of oil, copper, uranium and gold. As experience in 2000-01 has shown, royalty receipts are also sensitive to foreign exchange rate movements. The combination of high world prices for oil and a depreciated Australian dollar have largely been responsible for an expected $32 million improvement above budget in total South Australian royalty receipts in 2000-01.

In the longer term, the revenue stream from mining royalties is also dependent on production levels and extractive capacities of major mines. The scale of mining operations at Olympic Dam is expanding but Cooper Basin production is projected to decline as available reserves diminish.

Summary

State revenues are not generally exposed to a strong cyclical component. The main areas of volatility are stamp duty on conveyances and royalties. Even in these areas, the impact of cyclical influences is dampened through the fiscal equalisation process used to determine State shares of general purpose Commonwealth grants.

The fiscal equalisation process means that the State's revenue position overall is more dependent on national than State-specific economic conditions. If a cyclical upturn is weaker, or a downturn is stronger in South Australia relative to the national experience, the State will be compensated through the Grants Commission process resulting in a larger share of Commonwealth funding.

9.4. EXPENDITURE RISKS

This section identifies and describes key risks that could potentially lead to increased levels of State Government expenditure over the budget and forward estimates period. State Government expenditure variations that are not experienced nationally are potentially mitigated by fiscal equalisation but to a lesser degree of immediacy than revenues.

Wages and salaries

If wages and salaries for public sector employees increased on average by 1% more than is currently factored into the budget then wages and salary expenditure would increase by approximately $37 million per annum.

The total wage and salary base contained in the budget and forward estimates comprises:

- public sector employees whose wage and salary outcomes are known and reflect established enterprise bargaining agreements—these pose minimal risk to the fiscal outlook of deviation from wage and salary outcomes under these agreements
- public sector employees who will enter into new enterprise agreements over the course of the budget and forward estimates period—these pose a risk that actual wage and salary increases entered into under new agreements will differ from the assumptions made on likely rates of wage and salary increases in new agreements.

New enterprise agreements were established during 2000-01 for teachers, medical officers and nurses at a total cost of about $1.2 billion between 2000-01 and 2004-05. This cost estimate includes anticipated increments in employee on-costs such as superannuation and long service leave. In total the full cost of these enterprise agreements is funded within the 2001-02 Budget and forward estimates.

An enterprise agreement for police officers is due to be established before 1 July 2001 when the next pay increase for this employment category is due. An estimate of the expected costs of this agreement has been factored into the budget and forward estimates.

In addition to wage and salary increases, these enterprise agreements include significant non-wage remuneration increases. These increases include changes to classification structures, revised maternity leave arrangements, on-call recall allowances, 200 new nurses, and Fringe Benefits Tax for medical officers arising from changes in Commonwealth tax legislation. These non-wage items are expected to cost $211 million over the budget and forward estimate period.

The next round of remuneration increases within Government is expected as follows:

Public service executives	1 July 2001
Wages parity	1 October 2002
Teachers	1 October 2002
Medical officers	1 January 2003
Police	1 July 2004
Nurses	1 October 2004

Estimated costs have been factored into the forward estimates for these rounds of enterprise agreements.

Interest rates

A major reason for the Government's asset sales program is to reduce the potential financial risks to the budget associated with debt servicing obligations. Reduced levels of debt imply the State's fiscal outlook is less susceptible to unexpected increases in interest rates. Nevertheless, a 1% increase in interest rates will eventually increase public sector net interest payments by around $30 million per annum.

Price increases

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

Consumer price index

Based on the level of goods and services expenditure contained in the 2001-02 Budget, a CPI increase of 1% more than currently assumed in the budget estimates would result in an estimated increased expenditure of around $22 million in 2001-02. Higher inflation however will also be associated with higher revenues including higher CPI indexed Commonwealth grants.

Foreign exchange rates

According to Treasurer’s Instruction No. 23 public authorities are required to recognise and control foreign exchange risks 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.

Forward cover must be obtained through the South Australian Government Financing Authority (SAFA) unless prior approval of the Treasurer has been given for the public authority to obtain forward cover through a licensed foreign exchange dealer.

This instruction has the effect of limiting potential foreign exchange risks faced by the Government once acquisition decisions are made.

In addition, foreign exchange rate fluctuations can have an impact on the operational costs of portfolios that source supplies and services from overseas. This includes products such as pharmaceuticals within the hospital sector and the operation of overseas offices.

Other price rises

Higher than budgeted prices can raise expenditure for those areas of government activity that have a significant relevant cost component.

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

Contingent liabilities

Contingent liabilities represent items that are not included in the budget as there is significant uncertainty as to whether the Government would face future financial costs for these items. It is important for such contingencies to be recognised and managed where possible to mitigate their potential impact on the Government’s fiscal outlook. The Government of South Australia’s major contingent liabilities are discussed in more detail in Chapter 7.

Capital costs

In addition to any foreign exchange risks that may eventuate from capital imports, there are other financial risks associated with major government capital projects arising from circumstances such as project delays from industrial action or inclement weather. The inclusion of contingency provisions in the total cost of each capital project, provides the financial capacity for project managers to potentially meet financial risks realised during project delivery without the need for further appropriation.

Superannuation

A range of factors could, to differing extents, increase the level of current and future superannuation expenditures mainly for the defined benefit schemes.

If the actual number of retirements of public sector employees were greater than forecast in a period this would represent only a minor risk factor because each contributor’s accrued liability is already accounted for.

Economic factors that pose more significant risks to the superannuation expenditure outlook include:

- the possibility that investment returns over the long term fall short of the assumed rate of return
- the possibility that pension increases and salary inflation exceed actuarial assumptions.

The main demographic risk factors include:

- the mortality of pensioners decreasing faster than currently assumed
- a catastrophic event involving a large number of deaths of contributors.

The reasonable expectation that investment returns will be correlated with general inflation indicates that the main exposure derives from potential inadequate real returns (that is less than 5% real) and salary growth for non-retired members greater than 1.5% real.

9.5. OTHER RISKS

The other key risk factors discussed below could potentially impact on the budget and forward estimate position and are not raised elsewhere within this chapter or the Budget Statement.

Environmental risks

Poor environmental management and its consequences—whether manifested as site contamination, salinity, air quality or global warming—have potential direct and indirect consequences for the budget. For example a failure to manage watertables in a sustainable way increases the risk of salinity. In many regions this risk has now been realised, and significant new expenditures are made in the 2001-02 Budget to manage salinity impacts.

Natural disasters

Under the Australian Constitution, responsibility for the protection of communities from hazards lies with the States and Territories. Thus emergency (disaster) management planning is a State Government responsibility. Under the *State Disaster Act 1980*, the State Disaster Committee is required to prepare and maintain a State Disaster Plan (SDP). The SDP identifies the measures to be undertaken to monitor and respond to circumstances that may give rise to a disaster or major emergency and the measures (including response and recovery operations) to be undertaken in the event of a disaster or major emergency.

The Commonwealth has responsibility for the policy, funding and administration of the Natural Disaster Relief Arrangements (NDRA) including assessment and payment of States’ and Territories’

10. THE SOUTH AUSTRALIAN ECONOMY

HIGHLIGHTS

- Economic growth in South Australia is expected to be 2½% in 2001-02, following expected growth of 2¾% in 2000–01.
- The trend unemployment rate in South Australia was 7.2% in April 2001—a significant improvement from the 8.0% in April 2000. Trend unemployment in 2001 is approaching levels last experienced a decade ago.
- Overseas exports of goods from South Australia improved strongly, growing by 27% in the nine months to March 2001 compared to the nine months to March 2000.

10.1. ECONOMIC CONDITIONS

Introduction

The South Australian economy is continuing to show some resilience given the economic slowdown at both the national and international level. Real growth is estimated to be 2½% in 2001-02, down from an expected 2¾% in 2000-01. While the national economy recorded a contraction in Gross Domestic Product (GDP) in the December quarter 2000, available data for State Final Demand (SFD) suggests that South Australia's economy grew very strongly in that quarter. This strength is expected to be reflected in relatively strong economic growth in South Australia for the full financial year.

There have been a number of one-off impacts during 2000-01 which have caused major timing disruptions to economic activity, in particular, new dwelling construction, retail sales and motor vehicle sales. Nevertheless, activity in the new dwelling sector appears to have overcome the recent slowdown (due in part to reductions in official interest rates and the doubling of the First Home Owner Grant (FHOG) for construction of new dwellings until 31 December 2001), retail sales grew through the year to March at a faster rate than at the national level and overseas merchandise goods exports growth continues to be strong.

South Australia's trend unemployment rate was 7.2% in April 2001, compared to 8.0% in April 2000. Trend unemployment rates in the past six months have approached levels that were last experienced a decade ago. However, employment growth is estimated to rise by just ½% in 2000-01, but to increase to 1% in 2001-02.

After the post-GST slump in the dwelling construction industry, housing finance commitments and building approvals began to improve in the later months of 2000-01. Building approvals data, a key forward indicator, showed an increase in South Australian (seasonally adjusted) total new dwelling units in March 2001 of 22.5%—the first monthly increase after three consecutive monthly falls. Similarly, finance commitments for new dwelling construction increased very strongly—by 38% in the month.

Retail trade has contributed to overall growth in South Australia, growing by 2.4% through the year to the March quarter—this was above the national average and second highest of all the States. South Australia's trend registrations of new motor vehicles increased by 7.9% through the year to April—well above the national average of 4.9%.

Exports continue to bolster overall economic growth in South Australia. Notwithstanding the international slowdown, exporters strengthened their ties with established markets such as the USA, UK and the Middle East resulting in growth of 27% in the nine months to March 2001.

Economic outlook

In 2001-02, the Department of Treasury and Finance expects South Australia's Gross State Product (GSP) to grow by around 2½%, while national GDP is expected to rise by 3¼%. Lower population growth and industry composition factors tend to account for lower economic growth in South Australia.

SFD is expected to improve in 2001–02—both private dwelling investment (returning to more normal levels after the slump following the introduction of the Goods and Services Tax (GST)) and household spending are expected to improve by late 2001, following a slowdown in the early months of 2001.

However, overall economic growth (as measured by GSP) in South Australia is expected to be a quarter of a percentage point lower than in 2000-01, as export growth, while remaining positive, will return to more sustainable longer-term levels.

Employment growth is expected to remain subdued: the 2000-01 forecast has been revised downward to ½%, before improving to 1% in 2001-02 in line with improving SFD. National economic conditions remain the biggest influence on the South Australian economy.

Table 10.1 shows estimates, forecasts and projections based on the expectation that economic growth will continue to be moderate through the remainder of 2001 and into 2002. Forecasts for 2001-02 take into account current economic conditions and also the expectation that net exports will continue to provide a boost to the South Australian economy. Projections for 2002-03 and beyond are based on the expected performance of the South Australian economy over the medium term and relative population growth rates, indicating a projected output growth rate of 3% per annum.

Table 10.1 Key economic indicators—Australia and South Australia real growth rates (% per annum)

	2000-01 Estimate	2001-02 Forecast	2002-03 Projection	2003-04 Projection	2004-05 Projection
Australia[(a)]					
GDP	2	3¼	3½	3½	3½
Employment	2	1	2	2	2
CPI (as published by the ABS)	6	2	2½	2½	2½
CPI Excluding TNTS	3¼	2½	n.a.	n.a.	n.a.
South Australia[(b)]					
GSP[(b)]	2¾	2½	3	3	3
State Final Demand (SFD)	2¼	2½	3	3	3
Employment	½	1	1½	1½	1½
CPI (as published by the ABS)	5¾	2	2½	2½	2½
CPI Excluding TNTS	3	2½	n.a.	n.a.	n.a.

Source: South Australian Department of Treasury and Finance, and Commonwealth Budget.

(a) Commonwealth Treasury 2001-02 Budget estimates and projections.
(b) Forecasts and projections are based largely on underlying national economic and State population trends.

The Commonwealth Treasury forecast for national GDP growth of 3¼% in 2001-02 reflects an expected improvement from the (revised) 2% economic growth estimated in 2000-01. Growth in 2000-01 was weaker than initially expected, due primarily to the building industry slump following GST introduction. However, in South Australia there was some resilience in domestic spending and relatively strong growth in overseas goods exports in 2000-01. Although most analysts are expecting a slowdown in the rate of growth in household spending in the remainder of 2001, there is a wide divergence of opinions about the extent and duration of the slowdown.

External conditions

Global economic conditions have deteriorated markedly since the 2000-01 Budget was announced. The US economy is experiencing an economic slowdown following the impact of the correction in the sharemarket and interest rate increases in 2000. Economic growth in the European Union continues to be moderate, however, Japan has worsened and there is a general expectation of slower growth in Japan as it addresses a decade of bad debt and banking crises.

Although most Asian economies (with the exception of Indonesia and Japan) rapidly recovered from the Asian financial crisis of 1997-98, they are now experiencing a slowdown in line with the US and Japan. According to the International Monetary Fund (IMF), growth in China is expected to moderate slightly in 2001.

IMF projections in April 2001 point to global economic growth of 3.2% in 2001, a revision downwards from the October 2000 estimate of 4.2%. The IMF also notes that the risks for the current year now appear to be mainly on the down-side, given the slowdown in the US from 5% growth in 2000 to an expected 1.5% in 2001. The March 2001 quarter US GDP estimate shows an annualised rate for 2001 of 2%, however, Europe is expected to slow only slightly from its 2000 growth rate.

South Australia's overseas exports of goods remained remarkably strong throughout the Asian crisis and continued to show robust trends into 2001. Exporters strengthened their ties with established markets such as the USA, UK and the Middle East. The depreciation of the $A against the $US has fostered growth in exports by making Australian products more competitive. In the nine months to March 2001, the major contributors to growth in overseas exports were road vehicles, parts and accessories; wine; and metals and metal manufactures (Table 10.2).

Table 10.2 Value of South Australian overseas merchandise exports by selected commodity (original data)

Selected Commodity	9 months to March 2000 $m	9 months to March 2001 $m	% change	9 months to March 2001 (% of total exports)
Meat and meat preparations	111.1	184.6	66.1	3.1
Cereals and cereal preparations[(a)]	369.4	476.9	29.1	8.1
Wine	633.4	767.3	21.1	13.0
Wool and sheepskins	124.3	171.9	38.3	2.9
Machinery	260.7	278.1	6.7	4.7
Metals and metal manufactures	586.0	759.4	29.6	12.9
Fish and crustaceans	309.6	352.6	13.9	6.0
Road vehicles, parts and accessories	734.2	1 025.7	39.7	17.4
Petroleum and petroleum products	157.6	238.4	51.3	4.0
Other/confidential[(a)]	1 365.0	1 654.0	21.2	28.0
Total exports	4 651.2	5 908.9	27.0	100.0

Source: Australian Bureau of Statistics (ABS) South Australian Economic Indicators, Catalogue No. 1307.4.

(a) Barley is not included in Cereals and cereal preparations as it is a confidential item. It is included in Other/confidential.

Economic activity in South Australia

The most recent State Accounts data (produced on a financial year basis) show growth in GSP in South Australia of 3.5% in 1999-2000, following growth of 2.2% in 1998-99. National growth in GDP was higher at 4.3% in 1999-2000.

As GSP is not produced on a calendar year basis, SFD provides a more recent indication of current economic conditions in South Australia. Table 10.3 compares growth in expenditure aggregates in South Australia in the calendar years 1999 and 2000. SFD—the sum of all consumption and investment components—grew in real terms by 4.7% in 2000, after growth of 1.9% in 1999.

Table 10.3 Key expenditure aggregates—South Australia real growth rates—Calendar year (% per annum, original, chain volume data)

	1999	2000
Household consumption	2.3	3.9
Private dwelling investment	9.8	4.1
Total business investment	2.2	7.1
SFD	1.9	4.7

Source: ABS, Australian National Accounts: State Accounts, Catalogue No. 5206.0.40.001.

Note: GSP data is not available on a calendar year basis.

Total business investment was the strongest component of growth in SFD in 2000, increasing by 7.1%. Public and private investment is not reported separately, as the transfer of assets between the public and private sectors distorts relative changes.

Growth was evident in private dwelling investment during 2000 in South Australia (4.1%), however, this was slower than growth in 1999 (9.8%). This is predominantly the result of a pull-forward of activity in an effort to avoid perceived price increases associated with the introduction of the GST being followed by a slump after GST introduction as private dwelling investment dropped to below long-term levels. Dwelling approvals appear to have bottomed in September 2000. The recent easing of interest rates and the doubling of the FHOG new dwellings should assist a pick-up in dwelling investment in 2001.

Household consumption spending, which is by far the largest component of SFD (around 60%), grew by a solid 3.9% in 2000, after growing more modestly in 1999. In the first part of 2001, household consumption spending has been subdued as evidenced by a modest 0.8% (trend) increase in the March quarter (real) retail sales. Overseas exports are not included in SFD, but the particularly strong growth in the export of goods overseas will have a positive impact on GSP in 2000-01. It is expected that the low $A will continue to have a positive impact on the export sector. In the first three months of 2001 exports of goods from South Australia grew by 37.5% compared to national growth of 18.4% (original terms).

The partial economic indicators shown in Table 10.4 show that the South Australian economy is experiencing a slowdown in line with the national economy. The ANZ Bank job advertisement series shows job advertisements in South Australia are down for the twelfth consecutive month. However, retail spending has shown some resilience in South Australia, increasing by 2.4% through the year to the March quarter.

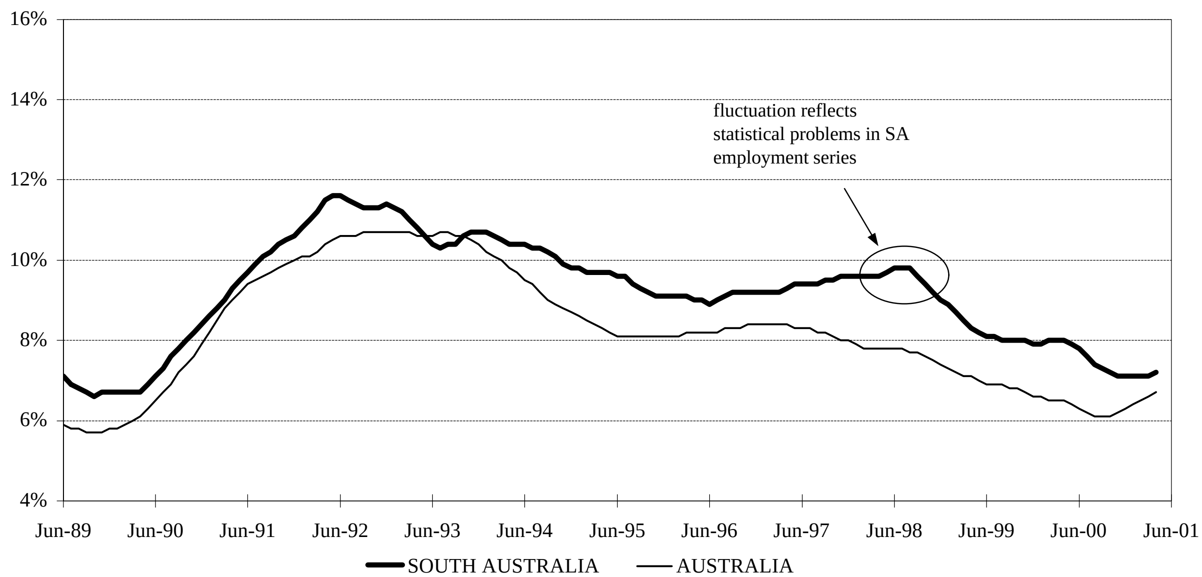
Table 10.4 Partial indicators of economic activity in South Australia (percentage growth)

	2000[(a)]	2001[(b)]
ANZ Bank job advertisements (trend)	-8.4	-21.0
Retail trade (chain volume terms) (seasonally adjusted)	1.8	2.4
New motor vehicle registrations (trend)	9.1	7.9
Building approvals (trend)	-45.0	-39.0

Source: ANZ Bank, ABS, Catalogue No. 8501.0, 9301.0, 8731.0.
(a) Through the year to December 2000.
(b) Through the year to latest data (motor vehicle registrations and ANZ through the year to April 2001, others through the year to March 2001).

Labour market trends

Despite the recent falls in trend total employment (down 1.4% since August 2000), South Australia's trend unemployment rate was 7.2% in April 2001 (after remaining static at 7.1% since November), down from 8% at the same time last year. As shown in Figure 10.1, trend unemployment rates in the past six months have approached levels that were last experienced a decade ago. However, this has been due, predominantly, to a gradual reduction in the (trend) participation rate, which has fallen to its lowest level since mid-1998.



Source: ABS, Labour Force Australia, Catalogue no. 6202.0.

Figure 10.1 Unemployment rates for South Australia and Australia—Trend estimates

In spite of South Australia's trend unemployment rate remaining just above 7% since November 2000, employment statistics are showing similar trends to job vacancy data, which has for some time been pointing towards a weakening in the labour market.

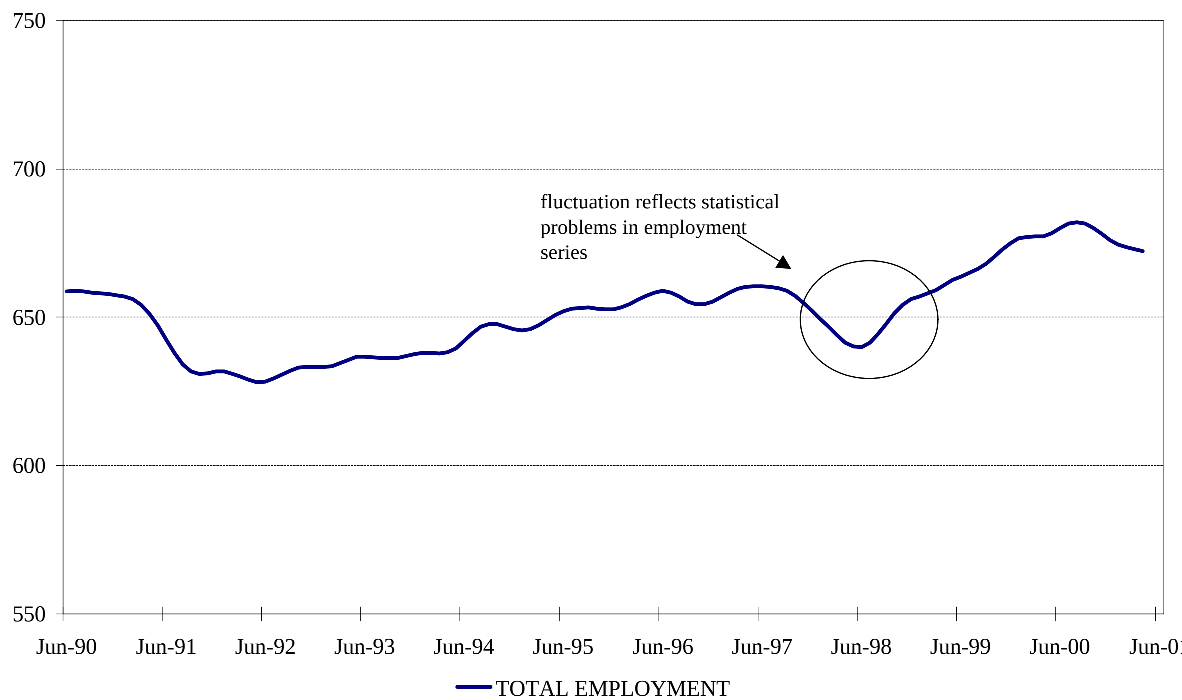
Estimated growth in employment has been revised downwards to ½% in 2000-01, before increasing to an estimated 1% in 2001-02. As Table 10.5 illustrates, through the year to April 2001, trend total employment fell by 0.7%, with 672 300 persons employed in April 2001. While the export of goods is expected to contribute to economic growth, the export sector is less labour intensive than the domestic sector and hence will not contribute significantly to employment growth.

Employment in South Australia typically grows around half a percentage point slower annually than national employment growth. In part this reflects the overall slower rate of economic and population growth evident in South Australia. A pattern of head office relocation and centralisation of financial activity in eastern State capitals has further detracted from South Australia's employment performance in recent years. However, total employment in the last 10 years has improved slightly (Figure 10.2).

Table 10.5 South Australian labour force—Trend data

		April 2000	April 2001	% change through the year
Full-time employment	no. (000s)	480.5	470.0	–2.2
Total employment	no. (000s)	677.3	672.3	–0.7
Unemployed	no. (000s)	59.0	51.9	–12.0
Unemployment rate	%	8.0	7.2	—
Participation rate	%	61.2	59.9	—

Source: ABS, Labour Force Australia, Catalogue no. 6202.0

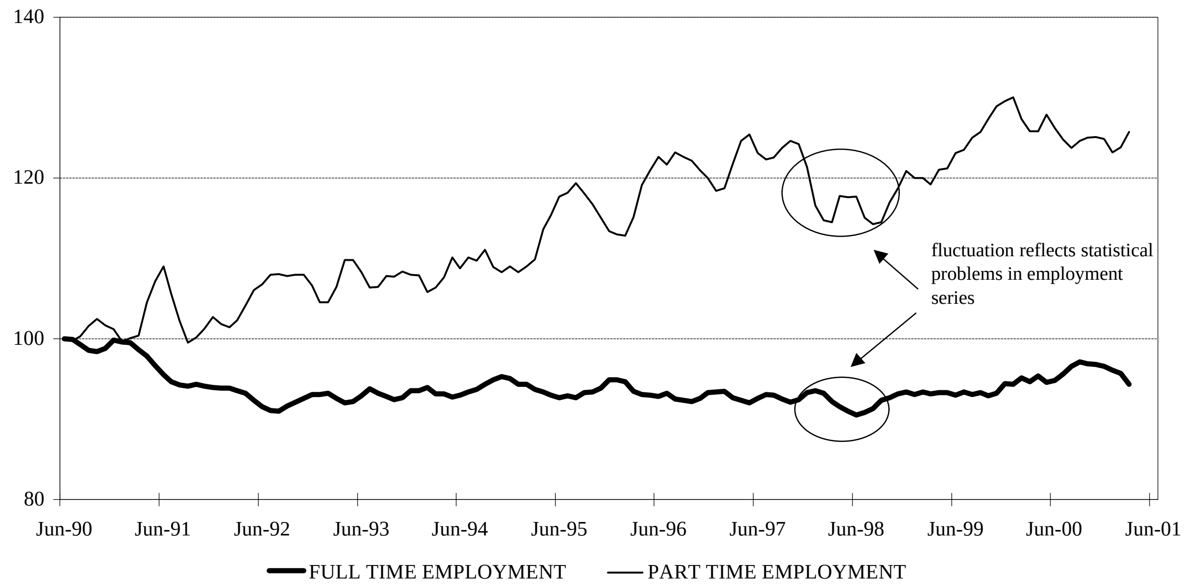


Source: ABS, Labour Force Australia, Catalogue no. 6202.0.

Figure 10.2 South Australian total employment—Trend estimates (000s)

Over the last decade, growth in employment in South Australia has been concentrated in part-time employment. The level of full-time employment still remains below the peak of the early 1990s (see Figure 10.3).

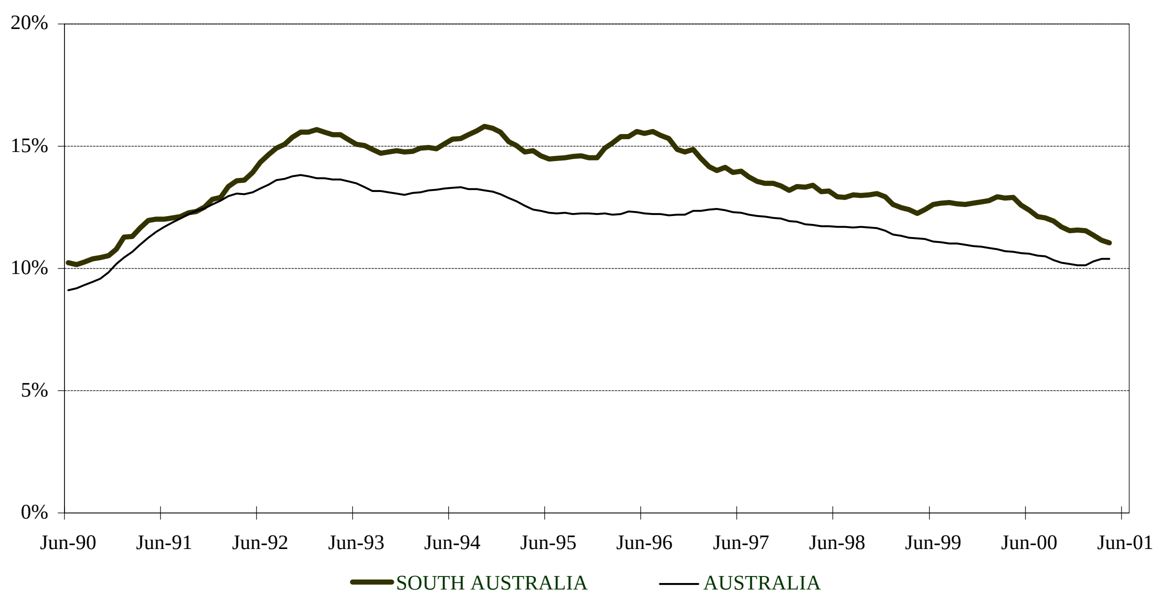
In April 2001, South Australia had the third lowest youth unemployment rate of all the States (17.8%). There were 10 500 15–19 year olds in April 2001 who were unemployed and looking for work. The full-time youth unemployment rate in South Australia during April 2001 was 23.9%, slightly above the national average of 23.2%, but well down from the 28.2% recorded in April 2000. The youth unemployment rate is the ratio of the number of 15–19 year olds who are unemployed and looking for full-time work compared with the number of 15–19 year olds who are either unemployed or in employment.



Source: ABS, Labour Force Australia, Catalogue no. 6202.0.

Figure 10.3 South Australian employment by full-time and part-time status—Moving quarterly average original estimates (index numbers—June 1989=100)

However, these unemployment rates are somewhat misleading. The youth unemployment to youth population ratio gives a more accurate picture of the labour force status of young people, most of whom are engaged in study and are not active in the labour force. In April 2001, the youth unemployment to population ratio in trend terms in South Australia was 11.0% compared to the national average of 10.4%. As shown in Figure 10.4, the gap between South Australia and the national average has narrowed and the youth unemployment to population ratio has fallen since the recessionary peak in 1992.



Source: ABS, Labour Force Australia, Catalogue no. 6202.0.

Figure 10.4 Ratio of full-time unemployed youth to youth population—Moving annual average original estimates.

Prices and incomes

In 1999-2000 the Adelaide Consumer Price Index (CPI) increased by 2.5%. In 2000-01, the increase in the CPI as published by the Australian Bureau of Statistics (ABS) is estimated to be

5¾% (Table 10.1). The large variation in the CPI between 1999-2000 and 2000-01 arises from the implementation on 1 July 2000 of The New Tax System (TNTS), in particular the introduction of the GST. Exclusive of the impact of TNTS, the CPI is estimated to increase by 3% in 2000-01. In comparison, the Commonwealth Government estimates that the TNTS exclusive (national) eight-Capitals CPI will increase by 3¼% in 2000-01.

In Adelaide through the year to March 2001, increases in the price of alcohol and tobacco (10.4%), clothing and footwear (8.4%) and communications (7.5%) have been the principal factors in the higher CPI of 5.8%.

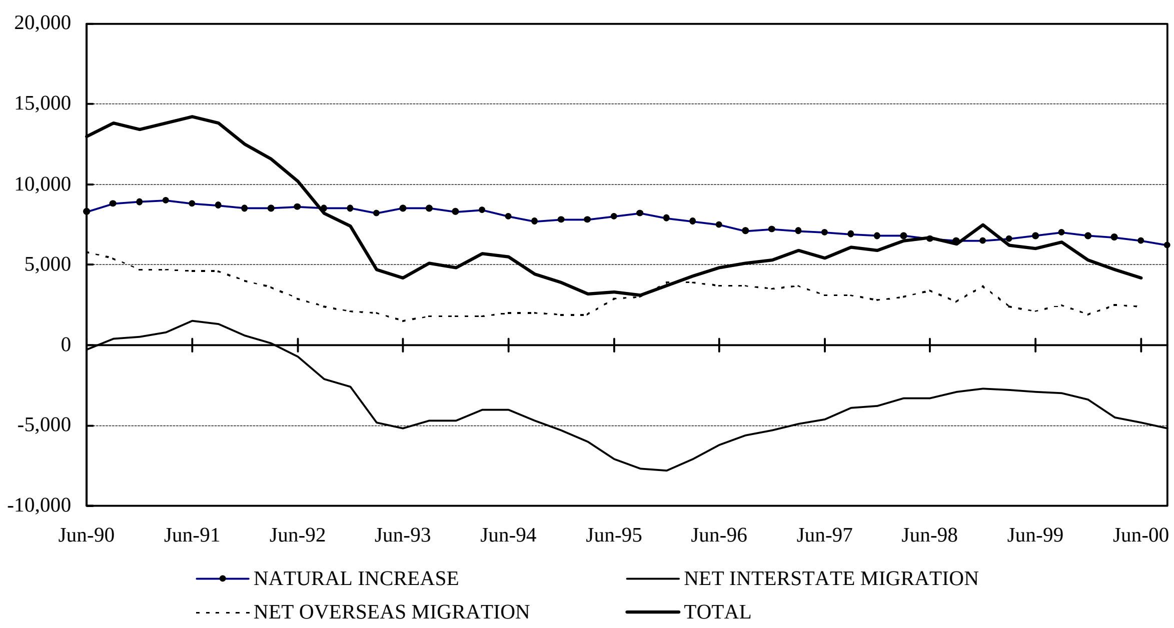
In 2001-02, the Adelaide CPI as published by the ABS is forecast to rise by 2%. However, it is estimated that the impact of TNTS will be responsible for putting downward pressure on prices and hence the TNTS exclusive CPI growth in 2001-02 is forecast to be 2½% the same as the forecast for the eight-Capitals.

Since early February, the Reserve Bank of Australia (RBA) has reduced the overnight cash rate by 125 basis points to 5%. The good inflation performance has given the RBA the flexibility to use monetary policy to stimulate the economy and minimise the risk of a prolonged economic slowdown.

Wages growth in South Australia was moderate over 1999-2000, with the Wage Cost Index showing an increase of 3.2% through the year to the June quarter 2000. The moderate wages growth has continued into the 2000-01 financial year, with through the year growth to the December quarter of 3.1%. In the 2001-02 Commonwealth Budget, average earnings growth (on a national account basis) is forecast to be 3¾% in 2001-02.

Population

Through the year to June 2000, South Australia's population growth rate was 0.4%, compared with the national annual population growth rate of 1.2%. South Australia's annual population growth rate, which has been between 0.3% and 0.5% for the last four years, is low by national standards but has increased since the mid-1990s.



Source: ABS, Australian Demographic Statistics, Catalogue no. 3101.0.
Note: Lack of net overseas migration data for the September quarter has resulted in no official total for the September quarter.

Figure 10.5 Sources of South Australian population growth—Persons, moving annual total

The main reason for South Australia's lower than average population growth rate is net interstate migration loss (Figure 10.5). Interstate migration losses abated in the late 1990s but are again increasing. In 1995, the net interstate migration loss was nearly 8000, then declined to 2700 in December 1998, but reached 5200 people in the year to September 2000. As Table 10.6 shows, in the year to June 2000, interstate migration detracted 0.32 percentage points from South Australia's population growth. New South Wales, Tasmania and Western Australia also experienced net migration losses to other States, while Victoria has recently started to gain population from interstate. Queensland continues to gain population from interstate.

South Australia has the highest median age of all States, which contributes to the lowest rate of natural increase (births minus deaths) of all States.

In addition, South Australia generally receives a very low share of overseas migrants (3.5% of national net migration in 1999-2000). The number of overseas migrants to South Australia was slightly below the net number of people who migrated interstate from South Australia in the year to June 2000 (Figure 10.5) resulting in a slight overall detraction from population growth from total migration.

The Department of Treasury and Finance has raised concerns with the ABS on difficulties in measuring interstate migration flows, particularly following the migration policy introduced in October 1999 which provides refugees with a special category of Visa (Temporary Protection Visa (TPV)) and access to all associated benefits such as Medicare and Centrelink.

It is understood that South Australia receives 25% of the refugees granted TPVs and that a TPV refugee is not required to formally register their arrival. TPV refugees may therefore not be captured as part of South Australia's overseas arrivals. It is thought that between 30 March 2000 and 20 December 2000 this amounted to 875 individuals. It is suggested that between 50-60% of the TPV refugees do not remain in South Australia. Because the ABS calculates interstate movements by using data supplied by Medicare, these TPV refugee movements may well be included. Consequently, the departure of these refugees may be captured, but their arrival may not. Therefore, South Australia's estimated residential population may be underestimated.

Table 10.6 Percentage points contribution to population growth—year to June 2000

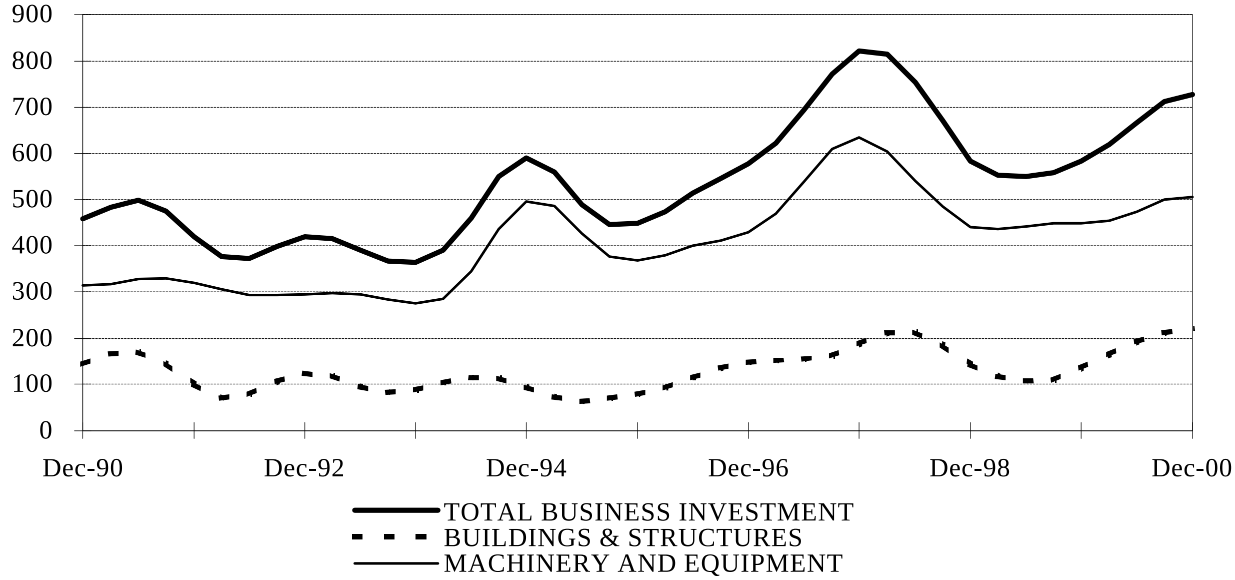
	NSW	VIC	QLD	SA	WA	TAS	AUS
Natural increase	0.65	0.57	0.69	0.44	0.75	0.46	0.64
Overseas migration	*0.64*	*0.53*	*0.46*	*0.23*	*0.70*	*0.08*	*0.52*
Interstate migration	*–0.24*	*0.14*	*0.54*	*–0.32*	*-0.04*	*–0.63*	—
Total migration	0.4	0.67	1.00	–0.09	0.66	–0.55	0.52
Total increase	1.04	1.24	1.70	0.35	1.41	–0.09	1.16

Source: ABS, Australian Demographic Statistics, Catalogue no. 3101.0.

Business investment

Private new capital expenditure in South Australia (which excludes issues arising from the transfer of ownership between the public and private sectors) grew strongly through the year to the December quarter 2000, up by 25% to reach $728 million (Figure 10.6). Nationally, there was a fall through the year of 2.5%, to $10 089 million.

Building and structures has shown the greatest increase through the year to December 2000 (up 64%), reflecting the Pelican Point development. Investment in new equipment, plant and machinery increased by 13% through the year to December 2000.



Source: ABS, Australian National Accounts, State Estimates, Catalogue no. 5206.0.40.001.

Figure 10.6 Real business investment in South Australia—Trend ($m)

Business investment in South Australia during 2001-02 comprises a number of major investment projects— in progress or in prospect— including:

- Adelaide–Darwin rail link, an estimated total cost of about $1300 million—while the extension to the railway is all in the Northern Territory the construction is expected to have a major impact on South Australia
- continued work on the $450 million Port Adelaide waterfront development
- Holden's $400 million expansion of its car production facility at Elizabeth
- Amcor's new $130 million wine-bottle manufacturing plant
- redevelopment of the Royal Adelaide Hospital at a cost of $130 million
- incremental expansion of Olympic Dam, valued at $100 million
- proposed magnesium smelter at Port Pirie, an estimated total cost of $580 million.

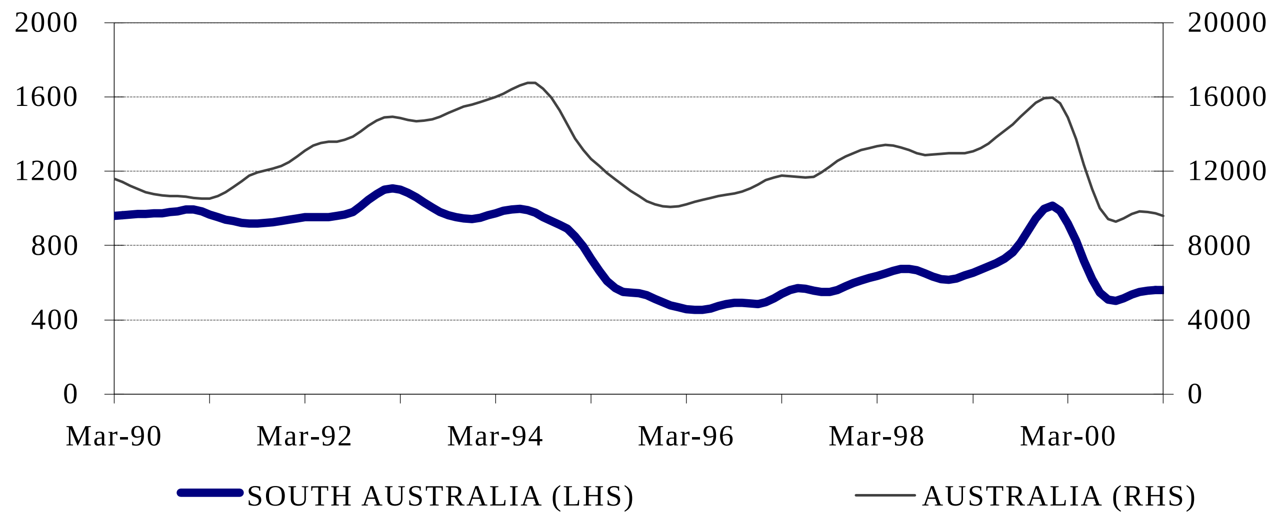
Housing sector

The dwelling construction industry has experienced a significant slump, largely the result of the pre-GST pull-forward effect. As expected, dwelling investment, as recorded in the State national accounts data, remained subdued in the December quarter. This was reflected in (seasonally adjusted) data for dwelling unit commencements, which fell through the year to the December quarter 2000 by 29% in South Australia and 30% nationally.

Building approvals, which tend to lead construction by between three to six months, in trend terms, fell by 36% nationally through the year to March 2001, while South Australia recorded a fall of 39% in the same period (Figure 10.7).

The number of housing finance commitments for first home buyers in South Australia increased by 17.8% in March 2001 and rose by 28.6% through the year to March 2001, compared with a rise of 5.4% nationally.

The downward trend in new building approvals appears to have bottomed, and is expected to improve following the changes to the FHOG and the most recent reductions in the official interest rates (in March and April) by the RBA.



Source: ABS, Building Approvals, Catalogue no. 8731.0 and 8731.4.

Figure 10.7 Number of building approvals in South Australia and Australia—Trend data

Regional economic conditions

Table 10.7 shows regional labour force data for South Australia. The Adelaide metropolitan area accounts for 74% of total South Australian employment and for around 73% of the total State population. It should be noted that employment and unemployment rate estimates for non-metropolitan areas of South Australia are prone to high sampling variability and large sampling errors because of the small populations. They could also hide significant levels of underemployment or hidden unemployment related to people no longer looking for work (or moving elsewhere) due to perceived limited employment opportunities in that region. In addition, there are people in regional areas who work for a small number of hours in a family business (for example on a farm) but may prefer to work more paid hours elsewhere.

Table 10.7 South Australian regional labour force data

	Adelaide	Outer Adelaide	Yorke & Lower North	Murray-lands	South East	Eyre	Northern	South Australia
Estimated residential population (no.)(a)	1 092 857	109 065	44 058	68 435	62 905	33 251	82 503	1 493 074
Unemployment rate (%)(b)	7.4	5.6	7.1	7.4	4.8	8.6	9.5	7.3
Total employment (no.)(b)	501 637	52 186	14 819	33 968	33 752	12 520	31 104	679 986

Source: Small Area Labour Markets, Department of Employment, Workplace Relations, and Small Business; ABS unpublished data

(a) As at June quarter 1999
(b) As at December quarter 2000

According to the latest Department of Employment, Workplace Relations and Small Business estimates (Table 10.7) the lowest unemployment rate within South Australia's regions in the December quarter 2000 (latest data) was in the South East statistical division (4.8%) and the highest unemployment rate was found in the Northern statistical division (9.5%).

Typically, the Adelaide metropolitan area had a higher unemployment rate than the rest of the State. Recently, however, the gap between the two unemployment rates has reduced with both trending downwards. In the December quarter 2000, according to the Department of Employment, Workplace Relations and Small Business, the Adelaide metropolitan unemployment rate was only 0.1 percentage points above the South Australian average.

Table 10.8 shows other economic indicators for regional areas within the State. The Murraylands region (which includes the Riverland) accounted for around $867.5 million or 27% of the total value of South Australia's agricultural production in 1998 (latest available data). Eyre statistical division had the highest value of agricultural production on a per capita basis—$13.1 million per 1000 persons. The Adelaide metropolitan region accounted for $14.1 billion or 77% of the total value of South Australia's manufacturing turnover, while the Northern and South East statistical divisions had the highest manufacturing turnover, on a per capita basis, in the State.

The Adelaide statistical division accounted for around 69% of the number of new dwellings approved in the year to June 1999, although the Outer Adelaide statistical division had the highest number of dwelling approvals per capita over this period.

Table 10.8 Other regional data—year ended 30 June 2000

	Adelaide	Outer Adelaide	Yorke & Lower North	Murray-lands	South East	Eyre	Northern	South Australia
No. of residential building approvals	5 381	1 031	277	310	285	217	294	7795
per 1000 persons	4.9	9.5	6.3	4.5	4.5	6.5	3.6	5.2
Value of residential building approvals ($m)	557.8	93.0	21.6	26.6	29.2	21.2	26.4	775.8
Manufacturing turnover ($m)[a]	14 124.8	1 050.7	119.3	668.1	954.8	83.9	1 407.5	18 409.1
per 1000 persons	12.9	9.6	2.7	9.8	15.2	2.5	17.1	12.3
Value of agricultural product ($m)[b]	148.9	467.2	492.4	867.5	548.3	436.5	203.3	3 164.1
per 1000 persons	0.1	4.3	11.2	12.7	8.7	13.1	2.5	2.1

Source: ABS unpublished data
(a) Year ended 30 June 1997
(b) Year ended 31 March 1998

UNIFORM PRESENTATION FRAMEWORK

A.1. INTRODUCTION

The presentation of South Australian Government financial information must serve the needs of many users, including the Parliament, the Government, individual government agencies, external analysts and commentators, and the general public.

No single budget presentation can serve all these needs. A variety of different budget presentations, based essentially on the same body of budget data, is therefore necessary.

The three main types of reporting requirements for public sector entities, and governments as a whole, are:

- general purpose financial reports
- modified Government Finance Statistics (GFS) based cash reporting
- Uniform Presentation Framework (UPF) reporting.

Each reporting type plays an important role in ensuring the accountability of the Government and its agencies to the Parliament and the public of South Australia, and in providing information to other users of government financial information. The following discussion provides an overview of each reporting type including the coverage of public sector entities. This is followed by an analysis of the differences in the treatment of certain transactions between the three types of reporting.

A.2. GENERAL PURPOSE FINANCIAL REPORTS

Consolidated general purpose financial reports are produced annually on an accrual accounting basis. Reporting frameworks for individual agencies are based on Australian Accounting Standards and in particular AAS29 *Financial Reporting by Government Departments*, while whole of government financial reporting is subject to AAS31 *Financial Reporting by Governments*.

Scope

Budget reporting

The Portfolio Statements present budget information for each portfolio on an accrual basis, in accordance with generally accepted accounting principles.

Actual reporting

To meet reporting requirements of AAS31, actual results for the preceding financial year are presented for the whole of government in the *Consolidated Financial Statements* publication, of all public sector entities that are controlled by the Government of South Australia. This coverage is wider than the non commercial sector and includes commercial sector entities and public financial corporations. A summary of the actual outcome for 1999-00 is presented in Chapter 7.

A.3. MODIFIED GFS BASED CASH REPORTING

The 2001-02 Budget is the fourth year of the four-year plan announced in the 1998-99 Budget. Following the recommendations of the Commission of Audit (1994), the fiscal measure adopted by the Government was the non commercial sector deficit, based on GFS principles as defined by the Australian Bureau of Statistics (ABS) at that time. The non commercial sector continues to be the focus of the 2001-02 Budget despite the introduction of accrual-based GFS by the ABS, in April 2000 (discussed in the following section).

Scope

Budget reporting

The 2001-02 Budget outlook and forward estimates for the non commercial sector deficit are presented in Chapter 2.

Actual reporting

Actual outcomes are presented on the modified GFS cash basis in the Budget Results document for the non commercial sector. This document is released in September/October each year.

Modified GFS

Under GFS cash-based reporting, net advances are included below the line as a financing transaction and thus excluded from the deficit figure. The South Australian underlying non commercial sector deficit measure includes net advances, but excludes asset sales and items considered abnormal, for example targeted voluntary separation package (TVSP) payments.

A.4. UNIFORM PRESENTATION FRAMEWORK

By agreement between the Commonwealth and the States, each jurisdiction presents financial information on a UPF basis with their budget papers, as well as a mid-year update for Loan Council purposes. The ABS also publishes annual government financial information for all Australian government jurisdictions on this basis each year. This document presents South Australian budget information on a uniform presentation framework basis, reflecting the scope and presentation outlined below.

The primary objective of the UPF is to ensure that Commonwealth, State and Territory governments provide a common ‘core’ of financial information in their budget papers to enable more meaningful comparisons of each government’s budget papers and financial results.

The UPF is based on the reporting standards of the ABS GFS framework. ABS format and standards are in turn derived from international GFS frameworks such as the International Monetary Fund draft manual of *Government Financial Statistics* and the *United Nations System of National Accounts 1993* (SNA93). The UPF was revised in April 2000 to adopt accrual reporting consistent with changes at the international level and is now presented within the three primary statements: operating statement, balance sheet and cash flow statement.

A.5. ACCRUAL GFS FISCAL MEASURES

The key measures in the GFS accrual framework are: GFS net operating balance, GFS net lending (fiscal balance), cash surplus, net debt, net worth, change in net worth, and net financial worth.

GFS net operating balance

The GFS net operating balance, or operating result, is the excess of GFS revenue over GFS expenses. The net operating balance excludes expenditure on the acquisition of capital assets, but includes non-cash costs such as accruing superannuation entitlements and the consumption of capital (depreciation).

The net operating balance is a flow measure on the operating statement.

GFS net lending

GFS net lending (sometimes referred to as fiscal balance), measures a government's investment-saving balance.

Net lending (which is recorded in the operating statement) differs from the net operating balance in relation to the treatment of capital expenditure. Unlike the net operating balance, net lending includes net capital expenditure, but not the use of capital (ie depreciation).

Net lending is the accrual counterpart of the deficit in the cash GFS framework. However, the two measures are unlikely to coincide because of the differences arising when transactions are recorded in cash and accrual terms.

Cash surplus

The GFS cash surplus (+)/deficit (-) is a flow measure reported in the cash flow statement.

The cash surplus has four components. The first is net cash received from operating activities (comprising tax revenue plus grants and subsidies received plus revenue from sales of goods and services, less payments for goods and services, interest costs and grants and subsidies paid). The second component is net cash inflow from sales and purchases of non-financial assets. The third component (in the case of public non financial corporations and public financial corporations) removes distributions paid. And the fourth component removes the initial increase in liability accruing at the beginning of finance leases and similar arrangements.

Net debt

The concept of the net debt is the same under cash and accrual-based financial reporting. Net debt comprises the stock of selected gross financial liabilities less financial assets.

Net debt is reported in the balance sheet and is the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Net worth

Net worth is calculated as total assets (both financial and non-financial) minus total liabilities, minus shares and other contributed capital. Net worth incorporates a government's non-financial assets such as land and other fixed assets which may be sold and used to repay debt, as well as certain financial assets and liabilities not captured by the net debt measure, most notably accrued employee superannuation liabilities, debtors and creditors.

The net worth measure can be obtained from the balance sheet.

Change in net worth

Change in net worth measures the variation in a government's accumulated assets and liabilities, and is the most inclusive measure of the change in a government's financial position over a given period.

Net financial worth

Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus liabilities.

Scope

The UPF groups the Australian public sector into three institutional sub-sectors: 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 bodies engaged in providing services free of charge or at prices significantly below their cost of production.

Public non financial corporations comprise bodies mainly engaged in the production of goods and services for sale in the market place at prices that aim to recover most of the costs involved. It includes some trading enterprises, including Passenger Transport Board and SA Housing Trust, classified as non commercial in the South Australian budget papers.

Public financial corporations are bodies primarily engaged in the provision of financial intermediation services and are able to incur financial liabilities on their own account.

Budget reporting

Under the new UPF agreement, all governments are required to present as part of their budget documentation an operating statement, balance sheet and cash flow statement for the general government sector, public non financial corporations sector and the non financial public sector. The non financial public sector is the consolidation of the general government and the public non financial corporations sectors. In addition, information is also presented on taxes, general government sector expenses by function and Loan Council allocations.

This information is presented in the tables at the end of this document.

APPENDIX A

Actual reporting

Actual outcomes to the tables are presented in the Budget Results document released in September/October each year. In addition to the tables presented at budget time, actual reporting also contains the accrual financial statements for the public financial corporations.

Table A.10: General Government Sector Expenses by Function

	2000-01 Estimated Result **$m**	2001-02 Budget **$m**
General public services	260	259
Defence	—	—
Public order and safety	758	761
Education	1 943	1 945
Health	1 876	2 014
Social security and welfare	372	383
Housing and community amenities	441	450
Recreation and culture	299	304
Fuel and energy	103	104
Agriculture, forestry, fishing and hunting	185	187
Mining, manufacturing and construction	53	53
Transport and communications	604	609
Other economic affairs	207	164
Other purposes	1 003	947
Total GFS expenses	**8 101**	**8 179**

A.7 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 each February, are intended to provide an indication of each government's probable call on financial markets over the forthcoming financial year. The Loan Council, having regard to each jurisdiction's fiscal position and reasonable infrastructure requirements, along with the macroeconomic implications of the aggregate figure, then considers the nominations.

Following the endorsement of LCA nominations, jurisdictions are further required to update their nominated LCAs at budget time, for changes in economic parameters and policy decisions, and also provide an LCA outcome at the end of the financial year. A tolerance limit of 2% of total public sector revenue, set at nomination time, applies between both the nomination and budget, and the budget and outcome LCAs. If the tolerance limit is exceeded, the Loan Council must be notified and a report detailing the reasons for change released publicly.

Nominated LCAs for 2001-02, for all jurisdictions and in aggregate, were reviewed and endorsed by the 140th meeting of the Australian Loan Council on 30 March 2001.

South Australia's nomination, budget and estimated outcome LCAs for 2000-01 are shown in Table A.11, with nomination and budget-time LCAs for 2001-02 shown in Table A.12. These tables are prepared in accordance with the requirements of the accrual UPF, endorsed by Loan Council in March 2000.

As Table A.12 indicates, South Australia is expecting an LCA surplus of $958 million for 2000-01. This is a significant increase over the 2000-01 Budget (May 2000) estimated surplus of $172 million, due primarily to the inclusion of proceeds received from the sale of South Australia's electricity retail operations, and lease of electricity distribution assets. On the basis of these estimates, South Australia's 2000-01 LCA outcome will exceed the lower bound of the 2% of total revenue tolerance limit applied to the May 2000 budget-time LCA.

Excluding the effects of the ETSA proceeds, the estimated LCA outcome for 2000-01 is a $321 million deficit. The change from the 2000-01 Budget primarily reflects revisions to the superannuation (reflecting expected lower returns from FundsSA), home finance schemes and operating leases memorandum items.

South Australia's 2001-02 Budget LCA is a $24 million surplus, detailed in Table A.13, which represents a fall from the LCA nomination surplus of $103 million, but is within the $172 million tolerance limit applied to the nomination LCA. The decreased surplus is primarily a result of a rise in the non financial public sector deficit.

Table A.12 Loan Council allocation 2000-01

	Nomination (Feb 2000) $m	Amended Budget[a] (May 2000) $m	Estimated Result (May 2001) $m
General government sector cash deficit/(surplus)	137	63	68
PNFC sector cash deficit/(surplus)	116	44	(1 187)
Total non financial public sector cash deficit/(surplus) [b]	253	91	(1 116)
Net cash flows from investments in financial assets for policy purposes [c]	(59)	(33)	7
Adjusted total non financial public sector deficit/(surplus)	194	58	(1 109)
Memorandum items			
Operating leases[d]	(48)	(48)	(8)
Recourse asset sales	0	0	0
Superannuation[e]	(212)	(195)	52
University borrowings[f]	n.a.	n.a.	n.a.
Local government	13	13	14
Home finance schemes	0	0	93
Total memorandum items	(247)	(230)	151
LCA deficit/(surplus) [g][h]	(53)	(172)	(958)
LCA excluding ETSA proceeds	(53)	(172)	321

(a) The 2000-01 amended budget reflects classification revisions following the release of ABS publication *5501.0 Government Financial Estimates, Australia 2000-01* on 2 November 2000.

(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) Increase/(decrease) in the net present value (NPV) of operating leases with an NPV of $5 million or greater.

(e) Includes both ‘payments in excess of emerging costs of superannuation’ and ‘interest earnings on employer balances’.

(f) Data on universities are no longer available.

(g) The 2% of total revenue tolerance limit around South Australia’s 2000-01 LCA is $138 million.

(h) South Australia has one infrastructure project with private sector involvement to report for 2000-01: the Alice Springs–Darwin Rail Project is a joint project involving the South Australian, Northern Territory and Commonwealth Governments and the private sector in constructing approximately 1410 km of rail line between Alice Springs and Darwin. The project has an estimated asset value of $1.3 billion, which is to be financed with contributions from the Commonwealth, Northern Territory and South Australia (South Australia’s contribution includes loan arrangements of approx $51 million), with the remainder to be provided by the successful private sector consortium. An agreement was signed in April 2001 for a 50 year build own operate transfer arrangement, under which the Government would be required to meet termination liabilities only in very limited circumstances.

Table A.13 Loan Council allocation 2001-02

	Nomination (Feb 2001) $m	Budget (May 2001) $m
General government sector cash deficit/(surplus)	31	59
PNFC sector cash deficit/(surplus)	(18)	76
Total non financial public sector cash deficit/(surplus) [(a)]	13	134
Net cash flows from investments in financial assets for policy purposes [(b)]	(1)	(6)
Adjusted total non financial public sector deficit/(surplus)	12	128
Memorandum items		
Operating leases[(c)]	(36)	(36)
Recourse asset sales	0	0
Superannuation[(d)]	(116)	(158)
University borrowings[(e)]	n.a.	n.a.
Local government	19	19
Home finance schemes	19	23
Total memorandum items	(115)	(152)
LCA deficit/(surplus) [(f)(g)]	(103)	(24)

(a) 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.

(b) This item is the negative of net advances paid under a cash accounting framework.

(c) Increase/(decrease) in the net present value (NPV) of operating leases with an NPV of $5 million or greater.

(d) Includes both ‘payments in excess of emerging costs of superannuation’ and ‘interest earnings on employer balances’.

(e) Data on universities are no longer available.

(f) The 2% of total revenue tolerance limit around South Australia’s 2001-02 LCA is $172 million.

(g) South Australia has one infrastructure project with private sector involvement that meets the recognition criteria for 2001-02. A contract to construct a third Port River bridge (approx $60m, as part of the proposed Port River expressway) is expected to be signed during 2001-02. The timing and nature of the private sector involvement is yet to be determined.

IMPACT OF THE BUDGET ON FAMILIES

The Government of South Australia recognises that many factors impact on the well-being of families. Social and community expenditure, particularly on health and education, taxation, economic performance, employment levels and business and consumer confidence all play a part.

The State Government will continue to support and encourage South Australian families by implementing and pursuing a number of key initiatives in 2001-02 which will help maintain an environment that upholds the importance of the family.

It is long-standing government policy that proposals considered by Cabinet outline any impacts on South Australian families by way of a Family Impact Statement. In recognising that proposals have a varying impact on different sections of the community, the State Government has expanded this requirement to ensure that particular attention is paid to any decisions which may have a substantial impact on families, regional development or the small business sector.

Some of the Government's key priorities for 2001-02 relating to families include:

- positively influencing the balance and flexibility between employee work commitments and family and carer responsibilities in both the public and private sectors
- implementing an across-government State illicit drug strategy
- supporting and assisting families of diverse cultural and linguistic backgrounds, including indigenous families, with programs such as the Aboriginal Family Well Being Program
- increasing the sense of security and harmony in the community, and improving outcomes for families through crime prevention and reduction strategies and support for victims of crime
- continuing the increased involvement of parents in local education site management through Partnerships 21.

In preparing this year's budget, all Ministers have been required to provide information about initiatives which will impact on families. These initiatives are outlined in detail, by portfolio, below.

B.1 PREMIER AND CABINET

A program aiming to increase interstate migration will be developed to attract people to SA through targeted promotion of the State as lifestyle and family friendly. A tailored service will be developed providing information and access to job opportunities, and helping people make decisions to return to South Australia. The primary target group is younger working-aged people who would be attracted to the lifestyle and family friendly approach.

South Australia has committed $278 000 per year for the next five years to the National Depression Initiative (Beyond Blue). As identified in the report *National Health Priority Areas—Mental Health 1998*, almost 700 000 Australians, or over 5% of the population have been diagnosed with depression, which accounts for almost one third of total mental disorders. Funds will be used to enhance focused mental health programs in South Australia benefiting families across the State affected by mental illness.

Families from culturally and linguistically diverse backgrounds will benefit from government consultations with ethnic communities on issues of significance including matters relating to the well-being of families and the promotion of access and equity through regional advisory committees.

On 9 October 2000, the Commissioner for Public Employment issued *Determination 5: Voluntary Flexible Working Arrangements* which provides a range of benefits to families of employees in the SA public sector. The arrangements help make workplaces more family friendly and enable employees to better plan and combine their work and family responsibilities. They are particularly helpful to employees with responsibilities for children and for elder care and include the following:

- *Purchased leave* arrangements (in which an employee exchanges an agreed reduction in salary in return for extra periods of leave) enable parents of school age children to cover school holidays, or take extended holidays with families.

- *Flexitime* (in which an employee negotiates how and when hours will be worked within agreed limits) helps employees meet family responsibilities.

The redevelopment of North Terrace will see:

- an attractive, exciting place for families to visit and enjoy

- synergies, and lively and safe links, to attract people between city retail, cultural/civic and river park areas

- a range of seating including armrests and child-sized seats

- public art to lead families to institutions such as the Adelaide Zoo, SA Museum and Adelaide Botanic Gardens.

The South Australian Tourism Commission (SATC) marketing division will aim to bolster the intrastate and interstate visiting friends and relatives market by encouraging South Australians to holiday at home and tour as families. The *Secrets* magazine is distributed by direct mail to over half a million households in Sydney, Melbourne, regional Victoria and South East Queensland, and is supplemented by cinema and press advertising. Previous editions of the magazine have covered ‘what’s on for kids and teenagers’.

The year round program of major events managed and supported by SATC and the smaller regional festivals and events program aim to cater for all market segments, particularly families. Specific activities for children are programmed into many of these events including Tasting Australia, Womadelaide, the Jacob’s Creek Tour Down Under, the Mitsubishi Adelaide International Horse Trials and most significantly the Credit Union Christmas Pageant.

B.2 PRIMARY INDUSTRIES AND RESOURCES

As a key economic development agency, PIRSA works directly with the community and industry to deliver prosperity and employment for the benefit of all South Australians. PIRSA has developed strategies to accelerate industry growth, build a globally competitive industry environment and deliver integrated, customer-focused services which will lead to strong, self-reliant and viable rural and remote communities. Family-based partnerships are a feature of many agricultural properties and other businesses with which PIRSA works and, while benefits from the agency’s activities flow to the whole community, these families benefit most directly from PIRSA programs.

In 2001-02, key initiatives include extending the Farmed Seafood initiative and FarmBis, and an increased focus on sustainable and renewable energy. These initiatives, together with ongoing PIRSA programs across primary industries and resources sectors will deliver significant opportunities and benefits to families.

B.3 TREASURY AND FINANCE

The Department of Treasury and Finance, through the implementation of sound budgetary policy for State government finances, is working to ensure the services delivered to families are efficient and financially viable.

This is complemented by the reduction in the debt burden on future generations of South Australians following the divestment of the electricity assets, corporatisation of a number of government businesses and the effective management of the remaining State debt.

The financial and economic policies in place are designed to lift the State's economic performance and provide an environment favourable for investment, which will boost employment prospects and the welfare of our families.

Within the department itself, a number of initiatives designed to support staff with family responsibilities have been implemented, including the broadening of flexible working hours, the provision of facilities for breast-feeding mothers, and policies on working from home and part-time work.

B.4 INDUSTRY AND TRADE

The outcomes expected from the Department of Industry and Trade's budget will favourably impact on families. The improved levels of employment, investment and exports will directly and indirectly benefit all families across the State.

B.5 JUSTICE

Specific strategies to address the interests of families include:

- enhancing community safety through a holistic approach to policing based on partnerships, joint problem solving, community consultation and the identification of specific issues of crime and disorder that are important to communities

- contributing to the development of an across-government State drug strategy, to inform and improve policy development and service provision

- improving access to support for victims of crime in regional areas

- appointing a victims of crime coordinator to improve the coordination of support and government responses to victims of crime throughout South Australia

- improving information for victims of crime from non English speaking backgrounds and with disabilities

- piloting a drug court in which participants are provided with close supervision, treatment and support to address their drug habit and offending; this initiative involves agencies within the Justice Portfolio, the Department of Human Services and other service providers in the non-government sector

- developing options to enable more flexible arrangements for assessing and treating drug offenders, and appropriately integrating with other health and community support systems and services

- promoting greater awareness of issues impacting on consumers and businesses through the use of technology and innovative approaches to education such as the *South Australian Good Business Guide* on fair trading laws

- developing an integrated approach to the justice related problems faced by Aboriginal people, and particularly improving Justice Portfolio coordination and consultation with Aboriginal groups

- developing the Aboriginal Justice Officer Program which assists the Aboriginal community to better relate to the Criminal Justice System; the officers liaise with Aboriginal defendants and are an important link between the courts, other agencies and Aboriginal communities

- extending the Aboriginal Court days to Murray Bridge and Port Augusta based on the success of the Aboriginal Court days held at the Port Adelaide Magistrates Court in conjunction with the Aboriginal Justice Officer Program
- continuing the operation of the pilot Magistrates Court Diversion Program which aims to identify people with a mental impairment, assist courts with the management of their cases and facilitate access to treatment and support services to prevent their offending
- continuing the violence intervention projects and related domestic violence courts at Adelaide and Elizabeth
- implementing the restructure of community legal centres with the aim of improving the number of access points, quality of services and resources to areas of high need.

B.6 HUMAN SERVICES

This budget provides extra support to all types of families over a lifetime: from young parents with children and households of single people to retired couples and elderly people living alone.

An additional $2.7 million in State funds has been provided which will supplement Commonwealth HACC funding and enable increased support for frail, older people and young people with disabilities to remain living and contributing to their local community close to the support of families and friends. The implementation of the Moving Ahead plan, which aims to encourage healthy ageing in older South Australians, is also funded to progress this year.

A men's health and well-being framework has been developed which recognises that men have shorter life spans, and access care and support less frequently and at a later stage, and that they need to enjoy their involvement in families and communities unencumbered by illness or disability. The framework aims to invest in prevention, early detection and intervention strategies that ensure accessible, accurate and current information on medical issues and lifestyle choices is provided to vulnerable men.

Families coping with mental illness will benefit: $2 million has been provided to implement the recommendations of the mental health review which will ensure improved services and support for individuals and families coping with mental illness. Further, the capital works program includes $14.5 million over three years for new and more accessible mental health facilities at metropolitan hospitals.

The government recognises the stress borne by families seeking care for ageing and frail relatives, particularly in the country, and has allocated $18.6 million over two years for the redevelopment of hospitals and associated aged care beds in a number of regional centres.

The very successful Parenting SA program which supports parents with information and advice is being extended.

Families of all types will benefit from the record housing program, which includes $93.4 million from the capital budget and $25.5 million in recurrent grants to community housing organisations through the SA Community Housing Authority. Together these will provide for 277 new houses, purchase of 45 homes and renovation of 1735 homes across the public, community and Aboriginal housing sectors.

B.7 TRANSPORT, URBAN PLANNING AND THE ARTS

Policies, initiatives and programs of the Department for Transport, Urban Planning and the Arts will address the interests and needs of families by:

- a continued bus replacement program and more frequent train, tram and bus services and a safer public transport network that is designed to increase patronage and assist families
- Metro ticket continue to provide the best value for money in Australia
- providing a new concessional scheme for unemployed people using regional bus services from 2001-02
- increasing accessible transport services for people with disabilities
- improving all-weather road access in rural and remote communities
- encouraging improved service delivery and easy and safe access to a range of services (business, recreational and community) tailored to families' needs through planning for Centres of Activity
- developing an urban design charter to improve the quality of urban design in public realms
- providing affordable and accessible housing through the staged release of land and encouraging housing design that better meets the needs of families at all stages of their life cycle and meets building standards
- increasing educational and entertainment opportunities associated with the upgrade of the cultural institutions along North Terrace
- providing opportunities to emerging artists, generally younger people
- scheduling more performances on Sundays (a more family convenient time) to enable more South Australians to attend events
- providing a community arts program to encourage community organisations to develop high quality arts, which will promote greater community involvement for people of all ages
- exploring initiatives with the Passenger Transport Board to encourage more young people to access art in theatres and galleries
- continuing to support the Council of Aboriginal Elders of South Australia (CAESA)
- ensuring up-to-date information is disseminated to government agencies enabling issues that relate to young Aboriginal people, and impact on their families, to be addressed
- reducing road related trauma, particularly through the new 'safer roads' infrastructure program
- improving safety for cyclist and pedestrians
- maintaining the Work and Family Program.

B.8 ADMINISTRATIVE AND INFORMATION SERVICES

The Department for Administrative and Information Services (DAIS) is providing assistance to families in the following areas:

- The Networks for You project, which is a rural project conducted in partnership with the Federal Government and local councils, is delivering internet awareness and skills to rural and remote families. Through the project, parents are informed about safe and appropriate internet use, and how to deal with this issue in the family context. Networks for You is also offering opportunities for young people to become volunteers and mentors within their families and communities as they pass on their IT skills to those older than themselves.

- In conjunction with the Department of Education, Training and Employment, DAIS was successful in winning Commonwealth funds to provide satellite internet access for the School of the Air. This project not only provides a significant resource to rural and remote families to educate their children but also exposes them to the rich communication medium offered by the internet for the pursuit of business, community and personal interests.

- DAIS has participated with business groups in a campaign to raise awareness need for family friendly measures in the workplace. This campaign is supported by the publication *Balancing Work and Family* which provides information on the workplace benefits of introducing family friendly work practices.

- As part of its response to the Bringing Them Home Inquiry the department has published a substantial guide that identifies records in its collection relevant to Aboriginal people. In addition, the Aboriginal Name Index has been significantly expanded. These resources are playing a major part in helping reunite Aboriginal families.

- DAIS provides facilities and applies technology to make accessible the historically significant records of the State Government to family historians. An extensive guide, *Ancestors in Archives*, was published in December 2000 and proved to be extremely popular with family historians.

DAIS will continue to support and encourage South Australian families and assist in creating an environment where the importance of family is upheld.

B.9 EDUCATION, TRAINING AND EMPLOYMENT

Families will benefit from:

- increasing parental involvement in local education site management through Partnerships 21, which provides for a strong local voice in local policy, strategic planning and budget issues, and gives greater accountability to parents, through partnerships with parents, business and community groups

- continuing implementation of the plan for Aboriginal education in early childhood and schooling 1999–2003 which is increasing the involvement of Aboriginal families and communities in decision-making forums in centres and schools

- developing learning difficulties support services for the families of children and students with learning difficulties and disabilities such as training and development courses for parents, and advisory services

- continuing to respond to the education and training demands created by the Commonwealth's youth allowance and enhanced mutual obligations arrangements

- adjusting service provision according to demographic forecasts and school reviews by opening new schools, restructuring and/or upgrading existing schools to better suit local needs

- maximising young people's employment skills through the Enterprise and Vocational Education in Schools Strategy which includes vocational education and training, vocational learning and student support services

- strengthening the first years of a child's development and learning through working with parents in initiatives such as the Early Years Strategy

- continuing to support the provision of flexible, accessible childcare for metropolitan, regional and rural consumers to facilitate parent choice in taking up training and employment options

- reporting to parents on their children's learning, in particular literacy and numeracy learning outcomes at years 3, 5 and 7
- increasing the number of young people employed under contracts of training through the implementation of the New Apprenticeship Scheme
- increasing the numbers of Aboriginal people enrolled in Aboriginal education programs by promoting numeracy and literacy through entry level training programs
- further assisting Aboriginal people to achieve personal well-being and self-determination by promoting and delivering the Family Well-Being Training Course in major Aboriginal communities across the State
- increasing involvement of Aboriginal parents and communities in governing councils of Partnerships 21 schools and preschools
- implementing the new curriculum in 2001, the South Australian Curriculum, Standards and Accountability (SACSA) Framework, that will provide a seamless curriculum for children and students from birth to year 12 and assist with transition from one level of care and schooling to the next
- developing programs such as the Aboriginal Family Well Being Program which promote personal development self esteem and life skills necessary to obtain and retain employment
- improving excellence, participation and completion of the SACE through a Senior Secondary Strategy
- developing employment programs that focus on areas of inter-generational unemployment and high needs groups such as newly arrived migrants.

B.10 ENVIRONMENT AND HERITAGE

The Department for Environment and Heritage (DEH) is working to secure a future characterised by a healthy environment, healthy communities and healthy people.

- In the year to come DEH will, with community participation, further enhance the value of the State's natural environment by supporting biodiversity conservation programs such as those under the Natural Heritage Trust and through organisations such as Friends of Parks. Sporting and recreation clubs and associations will be supported through a variety of development grants and families will be able to take advantage of a number of participation programs and development projects.
- Families will benefit from improved visitor facilities and services in key national parks such as Gawler Ranges National Park and Flinders Chase National Park. The creation of the Greater Mt Lofty Parklands–Yurrebilla will facilitate greater opportunities for metropolitan Adelaide to access and enjoy recreational opportunities in bushland settings close to Adelaide. DEH is also working on improving opportunities for family recreation in botanical settings, such as the very successful Womad festival. With the continuation of visitor statistics and survey programs this year, families have the opportunity to provide feedback to the department on their needs and provide input to services provided.
- Walking trails upgrading will continue with the implementation of the Greenways legislation and additional capital investment funding for trails. Sporting facilities will continue to be maintained and managed on behalf of all South Australians and, in particular, additional grants funding in 2001-02 will be provided for community sporting and recreational infrastructure.
- South Australian families can also continue to be assured of environmental protection in the State through programs planned to further improve waste management and air quality, protect our key marine, coastal, catchment and water resource assets, and promote pollution prevention. The focus

on environment protection and natural resource management in our policy and legislative programs improves the lives of families by ensuring the protection of our natural heritage for future generations and by enhancing our quality of life now.

- Access to our services will continue to improve through the further development of The Environment Shop and the department's internet site.
- Within the agency, DEH acknowledges families in policy and programs and aims to provide opportunities for all employees to improve work–life balance through the development of family friendly policies.

B.11 WATER RESOURCES

During 2001-02 the Department for Water Resources (DWR) will develop and consolidate its role as the lead government portfolio for policy formulation, regulation and the management of the State's water resources. The objective will be to achieve a strong, consistent and collaborative focus on water issues for the benefit of South Australia by continuing to draw together the key water-related activities of Government into the portfolio. At the national level, the portfolio will further develop strategies to ensure that South Australia's interests are recognised and protected in water reform initiatives and the water resources shared with other States. The portfolio will also ensure that the State takes a lead role in managing water resources in the Murray–Darling Basin, the Lake Eyre Basin and the Great Artesian Basin.

In its formulation of policy advice for the Minister for Water Resources and the Government, and in its delivery of services, the portfolio will support families in urban, regional and remote communities across the State. A principal focus will be the continual supply of good quality water for all South Australians from the Murray–Darling Basin and the State's surface water and groundwater systems, an approach that will provide both short-term and long-term benefits for families.

As part of its ongoing administration of the Murray–Darling 2001 Program, the portfolio will provide information, advice and Natural Heritage Trust grants to community groups involved in water resource rehabilitation and management projects. While these services are open to the whole community, they are also likely to encourage and support an increased participation by families in the projects.

In its policies, planning and management practices, DWR will continue to positively influence and support employees to achieve and maintain a balance between their work commitments and family and carer responsibilities. This includes:

- promoting responsive employment conditions that will attract and retain staff
- implementing flexible working arrangements that will balance DWR's business requirements with individual needs
- reinforcing prevention as the key to managing safe work practices and avoiding potential occupational health and safety issues
- addressing work group and individual training needs

which will form integral parts of the portfolio's revised Human Resources Plan and the implementation of its Managing Diversity responsibilities.

During the year the portfolio will complete the piloting of a working from home policy for its refinement and implementation across the organisation. DWR will implement its occupational health and safety management system involving a series of policies and strategies covering diverse issues such as the management of difficult customer relations and the implementation of improved work practices in high risk areas. The portfolio will also continue to implement its Employee Assistance Program which provides facilities for employees and their families to receive counselling and support services.

IMPACT OF THE BUDGET ON WOMEN

The Government is committed to ensuring that its policies and programs improve the status and well-being of women in South Australia and that women's needs are taken into account in the development and implementation of Government policies and programs.

The Government's goals to advance the status of women are to:

- provide women with the opportunity to participate fully and equally in all spheres of our society
- encourage women to contribute their skills to the growth of the State's economy and ensure women enjoy the benefits of economic recovery and a safe environment
- value the contribution of work undertaken by women in the home, in child rearing, in caring for older family members and in voluntary community activities
- eliminate discrimination against women
- ensure a fair allocation of resources to women's specific needs.

The Government will provide a total of $1 568 000 for the Status of Women budget in 2001-02, with $502 000 allocated for the Women's Information Service and $100 000 for the Women's Advisory Council.

Specific activities for 2001-02 include the following:

- Focus on Young Women—The Women's Advisory Council will establish a Young Women's standing committee to ensure young women have input into policy formation. Financial information specifically tailored for young women will also be made available.
- Focus on Older Women in Rural and Regional Areas—A pilot program to familiarise older women with using ATMs, eftpos and banking on the internet, will be extended to cater for women in rural and regional centres in South Australia.
- Information Services for Rural Women—The Women's Information Service will continue to expand the delivery of information services to women in rural, remote and regional South Australia and coordinate visits to regional areas by women's service providers. In addition, rural internet access will continue to be maintained in four rural sites, the Mallee, Eyre Peninsula, Riverland and South East, in partnership with local women's groups and services.

Ongoing activities include:

- contributing to policy development on issues impacting on women, including domestic violence and sexual assault
- promoting best practice models of balancing work and family, including family friendly workplace initiatives, flexible working arrangements and vacation care
- celebrating the contribution made by volunteers to the Women's Information Service, as part of the celebration of the International Year of Volunteers
- providing accurate and timely information to women in South Australia to enable their full and equal participation in the community.

C.1. PREMIER AND CABINET

The South Australian Women's Trust has been allocated $150 000 for *Look at Us Now!*, a major project taking place 13–21 October as part of South Australia's national centrepiece event to mark the

Centenary of Federation. The project brings together women's organisations across the State to mount a weeklong series of events and activities in Rundle Mall, including an exhibition at the David Jones Gallery to highlight how South Australian women have been, and are, influenced by Federation. The exhibition will be an inspirational insight into women's personal and historical experiences over the past 100 years through photographs. The celebration will extend to regional South Australia through links with technology and a regional tour of the exhibition.

The South Australian Country Women's Association has been allocated $16 000 for an exhibition of contemporary works which looks at attitudes of 'belonging' in Australia, called *Home is where the heart is—The Australian Home 1901-2001*. The exhibition focuses on the work of women and explores issues of identity, gender, nationality and place.

A function at Government House will celebrate the *International Year of Volunteers* and will include a group of dedicated volunteers from regional South Australia where two-thirds of volunteers are women.

Through consultative mechanisms, the Government will be alerted to significant issues affecting women in the multicultural population.

The Department of the Premier and Cabinet will continue to advise and collaborate with the Office for the Status of Women and other agencies to improve gender balance and outcomes for women on government boards and committees. The *Guidelines for Agencies and Board Directors*, issued in November 2000, reinforces the Government's commitment to gender balance on government boards and committees.

LeadershipSA Phase2 will support leadership and management development for public sector managers. Public sector staff will have access to development opportunities including courses, coaching and an online learning environment based on the leadership capabilities for the public sector. The Office for the Commissioner for Public Employment (OCPE) will fund development for several hundred employees and facilitate program places for staff funded by their own portfolio. At the first line-manager level there is a high proportion of female employees. By offering a diploma level course, participants who traditionally have not gained formal educational qualifications will have the opportunity to gain accreditation.

Women represent only 20% of employees in the Public Service at senior manager level. OCPE funded places for leadership development will be allocated to both males and females with an intention to distribute 50% of the places to females.

Internally during 2001-02 funds will be allocated to review and develop human resources management polices covering equal employment opportunity, home based work, children in the workplace, breastfeeding, security and flexible hours of duty. A successful working from home pilot was conducted by SATC in the first half of 1999 and working from home arrangements are now in place for women returning early from maternity leave. SATC will also host approximately eight young female trainees as part of the SA Government's Youth Traineeship Program and one female marketing graduate from Adelaide TAFE Centre for Tourism Studies. The SATC workforce includes 67% females including three women on the Executive team and specific training programs are offered to women at all levels to assist in their career development.

The proposed North Terrace redevelopment will address the safety needs of women along various parts of the terrace by designing street spaces where people can feel safe throughout the day/night, and where potential for crime is reduced.

C.2. PRIMARY INDUSTRIES AND RESOURCES

Women and families are an important consideration in PIRSA's outcomes and strategies. Most agricultural properties are operated by family partnerships involving women, and women make up one-third of the population classifying itself as farmers.

PIRSA has developed strategies to accelerate industry growth, build a globally competitive industry environment and deliver integrated customer-focused services which will lead to strong self-reliant and viable rural and remote communities, all of which impact positively on women as farm partners.

Strategies particularly relating to women include:

- monitoring, reviewing and updating the State and National Action Plan for Women in Agriculture and Resource Management
- supporting women in agriculture and business organisations
- supporting the SA Rural Network
- coordinating the SA Rural Women's gatherings
- supporting the Rural Industry Research and Development Corp, Rural Women's Award
- coordinating the South Australian Rural Leadership Program
- coordinating Shaping the Future, a program for rural women.

In 2001-02, PIRSA will develop a women and diversity strategy to assist women in decision-making processes. In addition, PIRSA continues with programs introduced in 1999-2000 aimed at creating a more supportive environment for women in PIRSA. Specific programs that will continue in 2001-02 include:

- support for women accessing the Springboard training for ASO-1 to ASO-4 classification levels
- a purpose built internal program, Women in Leadership for women at the ASO-5 level and above
- Careers in the 21st Century—career planning for people at different stages in their career with one course specifically designed for women
- managers' forums—developing managers through strategic discussions (women in management roles are well represented)
- capabilities profiling of all staff—will enable women to compete better in recruitment and selection processes.

In addition, the Executive monitors quarterly reports on workforce trends including statistics on gender and age. This will enable the performance of the organisation in relation to the percentage of women in management to be mapped.

C.3. TREASURY AND FINANCE

A review of the causes of under-representation of women at senior management levels of the department in 1999 led to the department adopting the following strategy for 2000-03: "Implement programs which encourage and support full participation by women at all levels and in all areas of the organisation and which aim to increase their representation at senior levels".

To support this strategy, a Women's Development Group (WDG) was formed that reports directly to the Executive Management Group (EMG). The WDG developed, in close consultation with the EMG, a work program to be implemented over the period, which covers three main areas: culture change, career progression and support mechanisms for women.

Some achievements during 2000-01 have included:

- establishment of a women's intranet site with information on all the 'Women in Treasury' initiatives
- courses to encourage women to gain the skills for greater participation and/or career progression
- series of information/discussion sessions on a range of people issues, including balancing work and family and managing stress
- establishment of a nursing mothers' room
- establishment of a family room
- development and promulgation of an information kit on parenting leave.

Initiatives for 2001-02 include developing a mentoring program across the department, providing further training opportunities for women and continuing to support the recruitment of women into senior positions. The Women in Treasury program monitors and reviews progress and regularly reports to the EMG with recommendations for continued improvement.

There has been an increase in numbers of women in ASO4 to ASO7 range from around 20% in 1998 to 42% by February 2001 (women make up 47% of ASO7 classification).

In addition to the Women in Treasury initiative, a number of policies have been introduced to provide more flexible working arrangements for all staff, which are likely to have significant benefits for women with carer's responsibilities. These policies cover working from home, part-time work and flexible hours.

C.4. INDUSTRY AND TRADE

The outcomes expected from the Department of Industry and Trade's budget will impact favourably on women. The improved levels of employment, investment and exports will directly and indirectly benefit all women across the State.

C.5. JUSTICE

Specific strategies to address the interests of women include:

- developing a Statewide domestic violence prevention plan, which incorporates a strategic response to domestic and family violence by the agencies in the criminal justice system and others, such as Human Services, providing services
- continuing the violence intervention projects and related domestic violence courts in the Adelaide and Elizabeth areas, which aim to reduce the incidence of domestic violence and improve the safety of women and children
- trialling in the Port Adelaide and South Coast local service areas a domestic violence program based on early police intervention, which aims to reduce repeat incidents through a series of escalating interventions focusing on both the victim and the perpetrator

- implementing the Code of Practice for the interviewing of children alleged to be the victims of abuse and / or neglect; by developing and delivering a training program in conjunction with TAFE to ensure those dealing with child witnesses use the guidelines effectively

- developing a comprehensive illicit drug strategy, which emphasises supply, demand and harm reduction strategies to encourage users to address their drug problems, and focuses on vulnerable women, youth and Aboriginal people.

C.6. HUMAN SERVICES

This budget recognises that women are central to South Australian families. In December 2000 the department released a consultation paper on women's health and well-being which identified major health and well-being impacts on women and highlighted key population groups of women. Statewide consultations have been conducted in metropolitan and country regions with key service providers, peak agencies and women's services. This paper was a first step in developing a DHS policy and planning framework for women's health and well-being that recognises the many and varied roles and responsibilities of women.

The very successful Parenting SA program which supports parents with information and advice is being extended. Women are the predominant users of this service.

Women with mental illness will benefit from the $2 million provided to implement the recommendations of the mental health review. Further, the capital works program includes $14.5 million over three years for new and more accessible mental health facilities at metropolitan hospitals.

Women make up the majority of the frail aged population in South Australia. The department is focused on improving the health and well-being of older South Australians in a proactive way through the Moving Ahead plan which aims to encourage healthy ageing. Older people in acute care settings are experiencing difficulty in accessing residential care. As one strategy to improve the transition of older people to an appropriate aged care setting, $18.6 million has been allocated over two years for the redevelopment of hospitals and associated aged care beds in a number of regional centres.

The department is implementing a Healthy Start plan that provides a new framework for the provision of birthing, parenting and sexual health services for women and their families. It includes the Implementation Plan for Obstetric, Neonatal and Gynaecology Services in South Australia and the establishment of new networks that will deliver integrated services in the metropolitan area and will see antenatal and postnatal care provided locally.

The plan moves the approach from 'having a baby' to 'creating a family'. It has a greater focus on locally based services, greater choice through a greater variety of care options, the involvement of clients in service planning and enhanced programs for Aboriginal women and women with varied cultural backgrounds. The plan aims to maintain the potential for teaching and research and the role of local GPs.

C.7. TRANSPORT, URBAN PLANNING AND THE ARTS

The policies and programs of the Department for Transport, Urban Planning and the Arts will address the interests and needs of women by:

- making roads safe and sealing rural arterial roads will improve access for women and reduce vehicle costs and road trauma

- ensuring a safer public transport system with more passenger transport assistants on train and infrastructure upgrades at train, tram and bus stops

- more frequent public transport services from July 2001 will benefit women, who comprise the majority of public transport users

- more community transport networks in country South Australia will enable more women to access regional services

- providing better access to transport links, to contribute to the amenity and safety of neighbourhoods and increase access to local jobs

- encouraging women's involvement in decisions about the built environment and urban design and nominated urban regeneration projects

- contributing towards the advancement and increased participation of women in the engineering workforce and generally raising the profile of women in engineering

- increasing the level of availability and accessibility of social and infrastructure services in established suburbs

- meeting the needs of current and changing populations in urban areas more effectively by assessing the demographics and tailoring services to better meet current local/regional demand

- promoting the use of centres for uses other than retailing, such as civic or community

- ensuring that new industries, services and infrastructure are developed to meet the changing needs of women

- promoting crime prevention and community safety through environmental design

- nurturing women artists in visual arts and craft, music, literature and theatre

- increasing women's representation on government boards and committees

- continuing to support the Aboriginal Women's Statewide Advisory Council (AWSAC) which provides information to Government on matters of concern within the Aboriginal community.

C.8. ADMINISTRATIVE AND INFORMATION SERVICES

Through its activities, the Department for Administrative and Information Services (DAIS) deals both directly and indirectly with a wide range of issues that have an impact on women. Some of the most significant of its programs are outlined below.

- As part of the Networks for You project special programs focused on women are undertaken within many rural communities, such as the Millicent Women Online project, in cooperation with the Wattle Range Council and a range of other programs such as those with local Country Women's Association groups and parents groups. The participation of women in the information economy is a target of the Networks for You project.

- Exemplar women in information economy businesses have been identified and their outstanding achievements have been promoted to other women in small businesses or those thinking of entering online businesses.

- The department is working with the Department of Education Training and Employment and others, to develop projects and promotions to encourage more girls and women into IT careers. An example of this is the Website in One Day competition, where girls will be specifically targeted for participation. Through this project girls will learn web development skills.

- The implementation of the State DNA database has enabled the extraction and analysis of DNA in up to 480 sexual assaults against women dating back to 1989. This has provided the Justice Portfolio with critical investigative evidence to assist with bringing sexual assault offenders to justice.

- The Zadow Awards for Excellence in Occupational Health and Safety continue to formally recognise excellence in addressing and/or implementing health and safety solutions in the workplace. The awards have a particular focus on recognising the contributions that women make in improving health and safety outcomes for women in the workplace. The annual awards honour the pioneering work of the first female Inspector of Factories in South Australia, Augusta Zadow, who played a crucial role in securing better working conditions for employees in factories, particularly women and minors.

- DAIS has provided financial and editorial assistance to produce a new edition of the booklet *Workers Rights—A guide for employees* which is designed with a particular focus on women. This useful publication outlines the minimum terms and conditions of employment and entitlements and include topics such as, rates of pay, leave entitlements, workplace health and safety, superannuation, sexual harassment, different types of employment and workplace bullying. The booklet is a joint initiative between the Legal Services Commission of SA, the Working Women's Centre and DAIS.

As well as these specific programs DAIS remains dedicated to improving the profile of women and will continue to undertake activities and programs in support of this aim.

C.9. EDUCATION, TRAINING AND EMPLOYMENT

Women will benefit from:

- initiatives such as the Enterprise and Vocational Education Strategy which supports regional groups to improve school to work transition outcomes for young women

- the School to Work program which aims at increasing the participation of students at risk, with a focus on Aboriginal young women and young women with disabilities

- improved attainment, participation and completion of the South Australian Certificate of Education (SACE), particularly in less traditional subjects, by young women and girls through the Senior Secondary Strategy

- initiatives which increase the number of school-based traineeships and apprenticeships, and support young women to enter jobs traditionally dominated by males, such as viticulture, information technology, electronics and engineering

- the South Australian Women in VET Strategy: 2000 and Beyond, which aims to increase women's participation in vocational education and training, increase their participation across the broad range of industry areas, and increase the level of courses undertaken to improve employment outcomes

- equity grants focusing on areas in which women have traditionally been under-represented and in which there are considered to be good employment opportunities

- career advisory initiatives which support young women in their entry into a range of job areas and increase their pathway options

- opportunities for accredited training to support women to start their own business as family day care providers through the implementation of the Community Services Training Package

- professional development of staff who work with young women to ensure this targeted group are given opportunities to participate in a broad range of VET in Schools programs

- an increased number of young women participating at school in accredited certificate level courses and receiving dual accreditation within the Australian Qualifications Framework (AQF) and SACE

- the Managing for Equity and Diversity program which will result in gender inclusive teaching and management practices

- policy weighting incentives to group training companies who employ women in non-traditional apprenticeships and traineeships

- programs which support Aboriginal women in issues such as health, housing, family relationships and violence.

Women within the Department of Education, Training and Employment will benefit from:

- access to merit selection training, and application writing workshops, which assist women to increase their representation in a range of promotion positions

- an annual department report, focused on women's representation across all employment categories, which assists in identifying special measures to redress employment disadvantage

- equal employment opportunity programs which provide women with enhanced access to short term leadership experience in schools and institutes; and positions in non-traditional areas which are advertised, in the first instance, for women only

- continued access to a broad range of professional development opportunities, which support career development and provide status in postgraduate study, including programs offered through flexible delivery, the Pathways project, and the SA Centre for Leaders in Education

- opportunities for PSM Act, and other administrative support staff, to gain recognition of current competency and credit towards vocational qualifications

- a confidential advisory and support service on issues such as pregnancy, family leave provisions, part-time employment and sexual harassment.

C.10. ENVIRONMENT AND HERITAGE

The Department for Environment and Heritage (DEH) recognises and supports the valuable contribution to this State made by the women of South Australia.

DEH, which includes the Office for Recreation and Sport (ORS), benefits through the paid and unpaid work undertaken by a significant core of dedicated women. They are enthusiastic volunteers (such as Friends of Parks and sport officials and coaches), influential advisers in peak interest bodies and non-government organisations, and committed participants in consultative committees, forums and boards.

As part of the department's services to South Australia's sporting women, ORS provides a variety of support functions to sporting and recreation bodies. General assistance is provided to sporting clubs and associations to support and boost women's participation in sport; for example, ORS is working with the Equal Opportunity Commission to develop information, guidelines, training tools and policy in relation to the *Equal Opportunity Act 1984*. Programs such as the South Australian Sports Institute netball program, hockey program and mentoring program for women in sport and recreation focus on the development of women's sport specifically. A mentoring program has also been developed for further community application (in conjunction with local government) to focus on women from diverse cultural and linguistic backgrounds.

Sport and Recreation Management Development Grants provide financial assistance to a number of women's sporting groups, while the Wendy Ey Memorial Coaching Scholarship for Women will again offer recipients the opportunity to develop their coaching knowledge and accreditation in 2001-02.

DEH will continue to consider departmental issues for women when developing policies and programs in 2001-02, including:

- the Springboard women's development program, designed to develop the careers of women employees in lower level administrative positions, which will have a particular focus on regional areas in 2001-02 with programs in the South East region (Mount Gambier) and North region (Port Augusta)
- development of the existing agency mentoring program to focus on women as a target group
- discrimination and harassment awareness raising sessions for all staff and continuation of the Discrimination and Harassment Complaints Management System as an outcome of the policy developed to protect merit and equity
- finalisation of family friendly policies, and finalisation of the *Flexible Working Arrangements Guidelines*.

C.11. WATER RESOURCES

The portfolio recognises and supports the valuable contributions to the State and the Department for Water Resources (DWR) made by women. A broad range of benefits are provided by a significant core of dedicated women comprising DWR staff and managers, members on government boards and committees, catchment water management boards and planning committees; and participants in various forums and consultative committees. The portfolio will promote and foster their participation and influence in shaping the State's future, particularly through their roles in the portfolio and its associated boards, consultative forums and networks.

As part of its administration of the Murray–Darling 2001 Program, the portfolio will provide information, advice and Natural Heritage Trust grants to community groups involved in water resource rehabilitation and management projects. While these services are open to the whole community, they are also likely to encourage and support an increased participation by women in these projects.

Within the portfolio, DWR will continue to consider issues and formulate management and training policies relevant to women, their roles within the organisation, and their personal development. In particular, the portfolio will foster and promote responsive employment conditions that will attract and retain women and respond to their particular needs by:

- positively influencing and supporting employees to achieve and maintain a balance between their work commitments and family and carer responsibilities
- implementing flexible working arrangements that will balance DWR's business requirements with individual needs
- completing a pilot working from home project for its refinement and implementation across the organisation
- reinforcing prevention as the key to managing safe work practices and avoiding potential occupational health and safety issues
- addressing work group and individual training needs.

While the adoption of these policies and strategies will potentially benefit all staff, they are likely to have a beneficial impact on those women with parenting and carer responsibilities and all women in their career development.

During the year the portfolio will also support and encourage its women through its Employee Assistance Program and its appointed discrimination and harassment contact officers. DWR will also link its Human Resources Plan to the Leadership SA initiative managed by the Office for the Commissioner for Public Employment (OCPE) and support the participation of women employees in this management development program, particularly providing opportunities for women with senior management responsibilities to participate in targeted leadership training. This development will aim to increase the opportunities for DWR women to move to executive level positions. Additionally, women who are not represented at the senior management level will be provided with the opportunity to undertake middle management and competency-based first line management training to further enhance their career options.

SOUTH AUSTRALIAN STATE PUBLIC SECTOR ORGANISATIONS AND FUNDS

	Non Commercial Sector			
	General Govt Sector	NCPTE [a][b] Sector	Financial Institutions Sector	Commercial Sector
Aboriginal Housing Authority		*		
Adelaide Convention Centre		*		
Adelaide Entertainments Corporation		*		
Adelaide Festival Centre Trust		*		
Adelaide Festival Corporation	*			
Administration and Information Services, Department for	*			
Agents Indemnity Fund	*			
Animal and Plant Control Commission	*			
Arid Areas Catchment Water Management Board	*			
Art Gallery Board of South Australia	*			
Attorney-General's Department	*			
Auditor-General's Department	*			
Board of the Botanic Gardens	*			
Carrick Hill Trust	*			
Charitable and Social Welfare Fund	*			
Community Development Fund	*			
Community Emergency Services Fund	*			
Correctional Services, Department for	*			
Country Fire Service Board	*			
Courts Administration Authority	*			
Criminal Injuries Compensation Fund	*			
Dairy Authority of South Australia	*			
Distribution Lessor Corporation				*
Education Adelaide	*			
Education, Training and Employment, Department of	*			
Electricity Reform and Sales Unit	*			
Electricity Supply Industry Planning Council	*			
Emergency Services Administrative Unit	*			
Enfield General Cemetery Trust		*		
Environment and Heritage, Department for	*			
Fire Equipment Services SA	*			
ForestrySA[c]				*
FundsSA			*	
Gamblers Rehabilitation Fund	*			
Gaming Supervisory Authority	*			
Generation Lessor Corporation				*
Government Workers Rehabilitation and Compensation Fund	*			
History Trust of South Australia	*			
Home Builders Account No 2	*			
Home Purchase Assistance Account	*			
HomeStart Finance			*	

	Non Commercial Sector			
	General Govt Sector	NCPTE [(a)(b)] Sector	Financial Institutions Sector	Commercial Sector
Hospitals Fund	*			
House of Assembly	*			
Housing Loans Redemption Fund	*			
Human Services, Department of [(d)]	*			
Industrial and Commercial Premises Corporation				*
Industry and Trade, Department of	*			
Information Industries Development Corporation	*			
Jam Factory Craft and Design Centre Inc	*			
Joint Parliamentary Services	*			
Justice, Department of	*			
Justice Information System	*			
Land Management Corporation		*		
Legislative Council	*			
Libraries Board of South Australia	*			
Local Government Disaster Fund	*			
Lotteries Commission of South Australia		*		
Motor Accident Commission			*	
National Wine Centre	*			
Natural Gas Authority of SA		*		
Northern Adelaide and Barossa Catchment Water Management Board	*			
Onkaparinga Catchment Water Management Board	*			
Outback Areas Community Development Trust	*			
Passenger Transport Board		*		
Patawalonga Catchment Water Board	*			
Playford Computer Enterprise Centre	*			
Premier and Cabinet, Department of the	*			
Primary Industries and Resources SA	*			
Public Trustee[(e)]		*		
Racing Industry Development Authority	*			
Recreation and Sport Fund	*			
RESI Corporation				*
RESI FLP Pty Ltd				*
RESI Gas Pty Ltd				*
RESI OE Pty Ltd				*
RESI SYN Pty Ltd				*
River Murray Catchment Water Management Board	*			
SA Water Corporation				*
SAGRIC International Pty Ltd		*		
School Loans Scheme Deposit Account	*			
Senior Secondary Assessment Board of South Australia	*			
South Australian Asset Management Corporation			*	
South Australian Community Housing Authority			*	
South Australian Country Arts Trust	*			
South Australian Film Corporation	*			

	Non Commercial Sector			
	General Govt Sector	NCPTE [(a)(b)] Sector	Financial Institutions Sector	Commercial Sector
South Australian Finance Trust Limited (Group)............			*	
South Australian Government Captive Insurance Corporation	*			
South Australian Government Employee Residential Properties		*		
South Australian Government Financing Authority.........			*	
SA Health Commission..	*			
South Australian Housing Trust[(d)]..................................		*		
South Australian Independent Industry Regulator	*			
South Australian Local Government Grants Commission	*			
South Australian Metropolitan Fire Service	*			
South Australian Motor Sport Board		*		
South Australian Museum Board...................................	*			
South Australia Police Department................................	*			
South Australian Ports Corporation				*
South Australian Totalizator Agency Board		*		
South Australian Tourism Commission..........................	*			
South East Catchment Water Management Board...........	*			
South Eastern Water Conservation and Drainage Board ..	*			
Sport and Recreation Fund..	*			
State Disaster Relief Fund...	*			
State Electoral Office..	*			
State Governor's Establishment.....................................	*			
State Opera of South Australia	*			
State Theatre Company of South Australia	*			
Superannuation Funds Management Corporation of South Australia..			*	
Technical Regulator	*			
Torrens Catchment Water Management Board	*			
TransAdelaide		*		
Transmission Lessor Corporation				*
Transport, Urban Planning and the Arts, Department for .	*			
Treasury and Finance, Department of	*			
Water Resources, Department for	*			
West Beach Trust..		*		
WorkCover..			*	

(a) Non Commercial Public Trading Enterprises

(b) Following the 1994 Commission of Audit recommendations, South Australia classifies entities into the non commercial and commercial sectors. The non commercial sector includes general government, trading enterprises located in Government Departments and other trading enterprises supported in significant part by the Budget and/or integrated into social policy functions of the Government. The commercial sector comprises residual electricity generation, transmission, distribution and retail entities, ForestrySA, Ports Corporation, SA Water and Industrial and Commercial Premises Corporation. For the purpose of the Uniform Presentation Framework, the public non financial corporation sector consists of the non commercial public trading enterprises sector and the commercial sector

(c) Forestry SA, previously shown as a non commercial public trading enterprise, will be corporatised from 1 July 2001.

(d) Human Services includes the South Australian Housing Trust which is a non commercial public trading enterprise. The rest of Human Services is classified as part of the general government sector.

(e) The Public Trustee will be corporatised from 1 July 2002.

TAX EXPENDITURE STATEMENT

E.1 INTRODUCTION

This statement represents the first attempt to provide a tax expenditure statement for the South Australian Government.

E.2 WHAT ARE TAX EXPENDITURES?

In the design of expenditure and revenue policy, Governments observe various principles of fairness and equity. Such principles apply to decisions on taxation policies as well as decisions that underpin the direction of public expenditure. As a result, a number of differential tax treatments across a broad spectrum of taxpayers and particular activities may arise.

In designing a fair and equitable tax system regard must be paid to differences in capacity to pay. Thus there are differences in the tax treatment of particular groups of taxpayers and particular activities. Recognition of differential capacities to pay is, for example, embedded in progressive income tax structures which exempt very low incomes and apply differential marginal tax rates that rise with income levels. Differential tax treatment of this kind is considered integral to the design and structure of the tax system.

Other forms of differential tax treatment, however, may more appropriately be characterised as preferential; they are motivated by other policy objectives, be they social, economic or political. By providing tax concessions, the tax system can be used as an alternative to the direct provision of financial support.

The term ‘tax expenditure’ refers to this second category of differential tax treatment where the difference constitutes a departure from the tax standard or benchmark.

Examples of tax expenditures can include:

- tax exemptions
- reduced rates of taxation
- tax rebates or deductions
- deferral of the payment of tax liabilities.

Thus a tax expenditure is a reduction in tax revenue resulting from ‘preferential’ tax treatment. In practice, differentiating preferential tax treatment from tax differences that are integral to efficient revenue-raising design is not always straightforward.

E.3 WHY MEASURE TAX EXPENDITURES?

The immediate and direct impact of tax relief is to reduce the revenue yield from a given tax. In the absence of concessions and exemptions, Governments would be able to support a higher level of government spending *or* reduce the severity of their tax rates *or*, if expenditures and revenues remain unchanged, reduce their borrowing requirements. The provision of tax relief is indisputably a cost to the budget and may also impose additional costs on non-favoured taxpayers; it is often a hidden cost. Whereas direct government expenditures (eg on education, health and law and order) are subject to regular scrutiny and evaluation through the budgetary and parliamentary processes, tax expenditures are not exposed to the same degree of critical appraisal. If the community is informed about the full range of expenditures being incurred (including tax expenditures), the Government should be better placed to ensure that resources, in total, are committed to the areas that more clearly reflect policy priorities. Actual expenditure decisions by Government may differ depending on whether or not those decisions are taken in the knowledge of ongoing commitments, the relative merits of which may have altered over time.

Concessions given in response to a specific situation may be allowed to continue long after the need for relief has diminished or, in some cases, disappeared. A precedent can also operate as ‘the thin end of the wedge’ with the result that concessions which start out as small, in terms of their revenue cost, and subject to stringent eligibility requirements, over time become broader in their application and more revenue costly.

In practice, it is often the case that taxes which are applied to private sector activities are not applied to government activities. While in recent years commercial government businesses have been required to pay taxes and tax ‘equivalents’ to put them on a more compatible footing with private sector competitors, non-commercial government activities tend to be, by and large, exempt from many taxes. While such exemptions are part of the tax expenditure family, their implications are somewhat different from private sector tax concessions. Removal of government tax exemptions would arguably not impact on the net budgetary position, as the additional costs faced by non commercial agencies would need to be matched by additional funding to maintain service levels. Rather, tax expenditures which relate to the non commercial sector of government are of interest from the perspective that they reveal the extent to which expenditure on public services would be higher in the absence of tax concessions, rather than indicating net budgetary impacts.

E.4 VALUATION OF TAX EXPENDITURES

There are a number of possible alternative approaches which can be taken to quantify tax expenditures. These include:

- *the revenue forgone* method which involves applying the general structure of a tax to a tax base (that is, a group of people or activities) which is currently exempt from the tax or subject to concessional treatment; this static approach does not take into account possible behavioural changes which may result from the removal of a tax concession

- *the revenue gain* method which estimates the increase in revenue which might arise if existing concessions were abolished, taking into account possible behavioural effects flowing from the removal of the concession.

Notwithstanding the merits of the revenue gain approach, the simplicity of the revenue forgone method results in this being the most commonly used methodology in measuring tax expenditures in other jurisdictions, including the Commonwealth Government.

One of the deficiencies of this approach lies in the assumption that taxpayer behaviour will remain unchanged if concessions are removed. Therefore, tax expenditures measured using this approach are likely to be only a broad indication of actual revenue impacts and, more specifically, this approach is likely to overstate the actual revenue forgone as a result of an individual tax concession. For example, in using the revenue forgone methodology to estimate the tax expenditure associated with the payroll tax threshold, the estimated revenue cost takes no account of the possibility of small firms’ share of employment being reduced if the threshold were abolished. Therefore, the revenue-forgone methodology may give rise to a higher estimate than would be the actual revenue gained from the abolition of the threshold.

Despite this, the revenue-forgone methodology has been used as the basis for the estimates contained in this tax expenditure statement.

E.5 BENCHMARK FOR MEASURING TAX EXPENDITURES

Tax expenditures should be quantified by comparing the existing tax structure with a benchmark tax structure based entirely on taxation design principles. In practice deciding on such a structure does involve some judgements. For example the benchmark structure used for payroll tax is a flat tax at the current rate with no threshold. There is no particular merit in the current rate from the point of view of tax design but it has been adopted because it is the existing rate. Further a zero threshold would probably not be desirable from a tax design point of view because the administrative costs of collecting revenue from very small employers might well exceed the revenue collected. However, for the sake of simplicity, a zero threshold has been adopted in this exercise.

For land tax a proportional rate without any threshold has been adopted as the benchmark. The rate has been chosen so as to be revenue neutral with current arrangements in respect of landholdings which are currently taxable. This approach has been adopted, rather than the payroll tax approach, because land tax includes a number of marginal rates. These marginal rates would be hard to justify in terms of tax design principles alone.

E.6 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 which 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.2 below do 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 2000-01 ($358 million) represents 50% 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 in 2000-01 applied at a rate of 6% above an annual threshold of $456 000. The threshold exemption means many small businesses are not liable for payroll tax. In addition, those businesses which are liable for payroll tax do not have tax liabilities on annual wages below the threshold.

It is estimated that the tax revenue forgone because of the threshold is $240 million for 2000-01 for private sector employers. This comprises $162 million in revenue forgone from small businesses who are not liable for payroll tax, and $78 million for employers who are liable for payroll tax but not on the first $456 000 of payroll 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 is the exemption for public hospitals, estimated to amount to $50 million in 2000-01. Others include local government councils ($17 million), non-profit schools ($16 million) and non-profit hospitals and providers of health services ($13 million). The Government also offers schemes whereby businesses can claim payroll tax rebates for trainees ($12 million) and export activity ($4 million).

The Government also provides payroll tax relief to firms under various business assistance programs.

Stamp duties

Stamp duties apply to a range of transactions including conveyances, mortgages, leases, insurance and rental transactions. There are a large number of exemptions contained in stamp duty legislation, many of which cannot be quantified. Of those that have been quantified, conveyance duty and stamp duty on the renewal certificate for motor vehicle registration/third party insurance have the largest tax expenditures. The total tax expenditure in 2000-01 for stamp duties ($59 million) is equivalent to 9% of stamp duty revenues.

Total tax expenditures for conveyance duty amount to $19 million in 2000-01. The major tax expenditure is in relation to first home owners concessions totalling $12 million. First home owners are eligible for a full stamp duty concession (up to $2 130) on home purchases valued up to $80 000. A partial concession applies for first home purchases valued between $80 000 and $130 000. The stamp duty exemption for family farm transfers is estimated to have cost $4 million in 2000-01.

Approximately $28 million worth of stamp duty tax expenditures in 2000-01 relate to concessions given for the $60 stamp duty fee payable on the renewal certificate for vehicle registration and compulsory third party (CTP) insurance. Of this, the largest exemptions relate to trailers ($11 million) and pensioners and State Concession Card holders ($11 million).

At present, hire purchase arrangements are exempt from rental duty liabilities. The tax expenditure arising from this exemption is estimated to cost $12 million in 2000-01.

Land tax

Total land tax expenditures are estimated at $180 million in 2000-01. This represents 238% 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 site value of landholdings increases.

Land tax expenditures have been calculated by reference to a flat tax rate of 0.49% of site value with no threshold. A proportional tax rate structure has been used as the benchmark rather than the existing variable rate structure in order to identify tax expenditures that apply to low marginal rate land value ranges as well as the zero rate value ranges (that is land values below the threshold). This methodology also produces negative tax expenditures for the high rate land value ranges which would be subject to a lower tax burden under a proportional rate structure.

The 0.49% rate represents the tax rate that would be required to achieve a revenue neutral change from the existing structure to one which involved no threshold or marginal rates. While this would collect the same aggregate level of tax from those landholdings which are currently taxable, it would reduce tax liabilities for those with total landholdings above $355 000 (site value), and increase tax liabilities for those taxpayers with total landholdings below $355 000 (site value).

Based on this benchmark, the tax expenditure associated with the $50 000 general threshold is estimated to be $23 million in 2000-01.

Tax expenditures on specific land use categories that are exempt from land tax have also been estimated by applying the proportional tax rate of 0.49% to the aggregate site value of each exempt category.

The exemption from land tax for land used as the principal place of residence (provided the land is owned by a natural person as distinct from a corporate body) is estimated to cost $107 million in 2000-01.

Land used for primary production, provided it meets certain criteria, is also exempted from land tax liabilities. Total tax expenditure in relation to this exemption is estimated at $43 million in 2000-01.

Finally, there are many other exemptions from land tax liabilities as specified in Section 4 of the *Land Tax Act 1936*. These include land used for religious purposes, State subsidised hospitals, libraries, park lands, conservation of native flora and fauna, sporting activities and so on. These tax expenditures amount to approximately $6 million in 2000-01.

Gambling taxes

Tax expenditures for gambling taxes arise due to the differential treatment of clubs and hotels in relation to gaming machine taxation. In South Australia, clubs are subject to a tax structure which is relatively less severe than that applicable to hotels (Table E.1).

Table E.1 Gambling tax structure

Tax Base (gross profit)	Clubs	Hotels
Less than $399 000	20.91%	25.91%
$399 000 – $945 000	25.91% of excess + $83 430.90	34.41% of excess + $103 380.90
Above $945 000	30.91% of excess + $224 899.50	40.91% of excess + $291 259.50

In 2000-01, the benefit to clubs of the relatively less severe tax structure is estimated to be $3.5 million or 1% of total gambling tax collections.

Financial transaction taxes

Financial transaction taxes include financial institutions duty (FID) and debits tax. Total tax expenditures for financial transaction taxes were $3.3 million in 2000-01, representing 2% of total revenue collected from such taxes. Estimated tax expenditures for FID amount to $3.3 million in 2000-01, the bulk of which ($3.2 million) relates to concessions granted to pensioners whereby the receipt of Commonwealth Government pensions via direct credit into a designated bank account, and other similar payments, are exempt from FID. In addition, a similar concession exists for payments made under the First Home Owner Grant (FHOG) scheme, which is estimated to cost $66 000.

While debits tax legislation does contain a number of exemptions, no expenditures for debits tax were able to be quantified.

Emergency Services Levy

The Emergency Services Levy (ESL) is designed to provide a comprehensive method of funding all emergency services by spreading the burden across all property holders. In the 2000-01 Budget, the Government extended the range of exemptions and concessions, bringing the total tax expenditure for the ESL to $60 million in 2000-01 (74% of total ESL revenue), of which $45 million relates to fixed property (land and buildings), $9.5 million to mobile property (motor vehicles etc) and $6 million is relief provided to pensioners.

Petroleum and liquor subsidies

Table E.2 includes, as memorandum items, expenditure on petroleum and liquor subsidies. While these subsidies are outlays rather than tax concessions, they are shown as memorandum items to the Tax Expenditure Statement because of their historical linkage to taxation. Until October 1997 the States and Territories imposed taxes (called business franchise fees) on petroleum, liquor and tobacco. A High Court decision threw into doubt the constitutional validity of these taxes, leading to their abolition. In order to protect State revenues, the Commonwealth imposed surcharges on its taxes on these products and returned the additional revenue generated to the States and Territories. To ensure that the effective tax burden remained unchanged as a result of these arrangements, the States and Territories funded subsidies out of their revenues to replicate the concessional treatment applied to some activities under the business franchise fee system. As part of the changes to Commonwealth–State financial arrangements which began with the introduction of the GST from 1 July 2001, the business franchise fee replacement grants from the Commonwealth have ceased, but the States continue to provide most of the previously provided subsidies.

In South Australia petrol subsidies of $19 million in 2000-01 provide support for non-metropolitan petroleum users replicating the zonal tax system that had applied prior to October 1997 (petrol subsidies totalled $49 million in 1999-2000 but this also included subsidies for off-road diesel use which were abolished at the beginning of 2000-01 when the Commonwealth introduced a 100% excise rebate for most forms of off-road diesel use). Liquor subsidies of $13 million in 2000-01 are provided in support of low alcohol beer and wine, and cellar door and mail order sales of wine.

Table E.2 Summary of tax expenditures

Tax Expenditures	1999-2000 ($m)	2000-01 ($m)
PAYROLL TAX		
Threshold exemption	236.9	240.3
of which: *benefit to existing taxpayers with payrolls above $456 000*	*75.7*	*77.9*
benefit to employers with payrolls below $456 000	*161.2*	*162.4*
Export rebates	3.7	4.0
Trainee rebates	16.8	12.0
Youth employment rebates	0.3	0.1
Firm specific relief	4.5	5.3
Public hospitals exemption	48.5	49.7
Non-profit hospital and health providers exemption	12.6	12.9
Non-profit school exemption	15.5	15.9
Local government council exemption	17.0	17.4
TOTAL FOR PAYROLL TAX	**355.9**	**357.6**
STAMP DUTIES		
Conveyance Duty	*19.5*	*18.8*
Family farm exemption	*7.9*	*4.2*
First home owners concessions (a)	*7.8*	*12.3*
Sale of electricity assets—ex gratia relief	*1.3*	*0.0*
Inner city housing rebate	*0.1*	*0.2*
Other	*2.5*	*2.1*
Mortgage Duty	14.6	1.3
Primary producer loans and rural branch bank closures	*0.2*	*0.2*
Dairy Structural Adjustment Program	*0.0*	*0.2*
Sale of electricity assets—ex gratia relief	*14.3*	*0.0*
General remissions	*0.0*	*0.9*
Stamp duty on renewal certificate for motor vehicle registration and compulsory third party insurance (CTP)	27.9	27.6
Trailers	*11.1*	*11.0*
The Crown and vehicles registered under the Continuous Government Registration Scheme	*1.3*	*1.2*
Hire vehicles with greater than 12 seats	*0.1*	*0.1*
Councils	*0.3*	*0.3*
Conditionally registered vehicles	*4.5*	*4.5*
Incapacitated ex-servicemen and other persons	*0.1*	*0.1*
Pensioners and State concession card holders	*10.6*	*10.5*
Other	*0.0*	*0.0*
Rental Duty — exemption of hire purchase arrangements	10.4	11.6
TOTAL FOR STAMP DUTIES	**72.4**	**59.4**
LAND TAX(b)		
Threshold exemption (value of exemption to land holdings below the threshold)	20.7	23.3
Effect of actual land tax structure vis a vis proportional rate benchmark:		
for landholdings less than $355 000	*38.4*	*43.2*
for landholdings greater than $355 000	*-38.4*	*-43.2*
Principal place of residence	95.6	107.4
Primary production	38.2	42.9
Other exemptions (c)	5.4	6.1
TOTAL FOR LAND TAX	**160.0**	**179.7**

Tax Expenditures	1999-2000 ($m)	2000-01 ($m)
GAMBLING TAXES		
Differential taxation treatment of clubs	3.2	3.5
TOTAL FOR GAMBLING TAXES	**3.2**	**3.5**
FINANCIAL TRANSACTION TAXES		
FID — Exemptions for pensioners	2.8	3.2
FID — Receipt of FHOG	na	0.1
TOTAL FOR FINANCIAL TRANSACTION TAXES	**2.8**	**3.3**
EMERGENCY SERVICES LEVY		
Pensioner concessions	5.5	6.0
General concessions		
of which:		
fixed property	19.8	44.8
mobile property	0.0	9.5
TOTAL FOR EMERGENCY SERVICES LEVY	**25.4**	**60.3**
MEMORANDUM ITEMS		
Liquor subsidies (d)	15.2	12.8
Petroleum subsidies (d)	48.8	18.5
TOTAL FOR LIQUOR AND PETROLEUM SUBSIDIES	**64.0**	**31.3**

n.a. not applicable

(a) Relates to the first home owner stamp duty relief scheme. In addition, since July 2000 in accordance with undertakings under the Intergovernment Agreement, the State Government administers and funds grants under the FHOG scheme. These grants are reported on the expenditure side of the budget.

(b) Calculated by applying a revenue neutral proportional rate to the aggregate site value of exempt land use categories and land holdings below the threshold.

(c) Includes a wide range of exemptions provided to land use for a number of specific activities under section 4 of the land tax Act. 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) Subsidies for petroleum and liquor are reported on the expenditure side of the budget, but nonetheless are presented as memorandum items in the Tax Expenditure Statement. State subsidy schemes were introduced in late 1997 as part of the replacement arrangements for State petrol and liquor franchise fees after their constitutional validity was thrown into doubt by a High Court decision.