



The Treasury of South Australia

**ANNUAL REPORT
1988/89**



THE TREASURY

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The Hon J C Bannon BA LL B MP
Treasurer of South Australia
State Administration Centre
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Dear Treasurer

I have pleasure in submitting the Annual Report of the Treasury Department for the year ended 30 June 1989.

Yours sincerely

(A R Prowse)
UNDER TREASURER

TABLE OF CONTENTS

Chapter		Page
	Foreword	ii
I	Structure of Department	1
	Ministerial Portfolio Responsibilities of the Treasurer	5
	Legislative Measures 1988/89	6
	Treasury Organisation Chart	8
II	Financial and Economic Overview	9
III	Recent Developments in Financial Management	12
IV	Major Trends and Developments	24
V	Provision of Budgetary and Economic Advice	30 ✓
VI	Maintenance and Development of Accounting Policies and Systems	35 ✓
VII	Administration and Enforcement of State Taxation Legislation	40 ✓
VIII	Management of State Government Borrowing and Investment Activities	49 ✓
IX	Administration of Superannuation Schemes	55 ✓
X	Management of Superannuation Fund Investment Activities	61 ✓
XI	Provision of Actuarial Advice	63 ✓
XII	Support Services	65 ✓
XIII	Personnel Management Policies and Programs	66
XIV	Financial Information	69

FOREWORD

This is the third annual report of the Treasury. Like its predecessors it has been produced with the principal aim of being informative. We hope it is also interesting. We would welcome responses from those who might wish to discuss issues which it raises or seek clarification of the developments which it describes.

This is the first of our annual reports to be produced in the new format made possible by the acquisition of a desk-top publishing facility. In a sense, therefore, it is a reflection of the present preoccupation of managers in both public and private sectors with the methods (or systems) which are used to carry out tasks or to produce the information on which decisions are made. Indeed, this report provides details of important systems developments in virtually every branch of Treasury -

- in the Budget Branch certain of the budget papers are already produced internally and a major step forward is planned for 1989/90 with the development of an integrated system for budget monitoring and budget preparation
- in the Accounting Branch and the Accounting Policy and Systems Branch efforts are continually being made to improve the efficiency with which the Treasury Accounting System and the Computer Associates General Ledger System are used
- in the State Taxation Office various computerised systems were upgraded and funds have been provided for a consultancy on the future computing needs of the Office
- in SAFA computing systems developments were undertaken to support the management reporting requirement
- the new State Superannuation Administration System is nearing completion and work will then commence on a system to administer the Public Sector Employees Superannuation Scheme
- the computing facilities of the Public Actuary's Office were improved by the acquisition of a system for recording and report-

ing on property losses in the public sector and by the development of some general insurance programs.

All these developments are important and to be encouraged. In their various ways they improve the efficiency with which tasks are carried out and improve the flow of information for decision-making.

However systems improvements by themselves do not guarantee greater efficiency or better decision-making. The other important element is the quality of the people operating the systems and making the decisions.

Treasury has traditionally set high standards for its staff. A high level of commitment is expected and typically is freely given. This "culture" is very important to the success of the department in carrying out its important responsibilities. It is not something which can be demanded of people. Rather it is something which can be generated only by the example given by managers (at all levels) and by the willingness of staff to respond to that example. In this respect Treasury has been very fortunate. There are numerous examples of officers working very long hours in order to ensure that their jobs are properly done and that the service provided to the Government and to the people of South Australia is of a high standard. This sort of commitment is given on a continuing basis, of course, but with the preparation of the budget and the finalisation of end of year accounts providing long periods of heightened activity. However, in 1988-89 pressure was unusually severe in the superannuation area with the introduction of a new State scheme, the advent of the 3% productivity scheme, important changes to Commonwealth taxation legislation affecting superannuation and the development of new computer systems. In all these areas the people concerned responded to the challenge in a most impressive way.

It is an important task of management to encourage and to reward this attitude by offering opportunities for advancement. Treasury has always encouraged officers to undertake studies and to improve their skills, in recent years greatly increased attention has been given to this objective. In the future we hope to place our staff development activities on a further enhanced basis, so that our people are given guidance as well as encouragement in ways to improve their career prospects. In this way we hope to foster still further the "culture" which we regard as so important. In a service wide context Treasury is now devoting increased resources, including at senior levels, to a strengthened program of financial management improvement.

Finally, it is with pleasure that we record the co-operative and positive relationship Treasury now enjoys with the operating agencies with whom it deals. Indeed, through the financially stringent period of recent years the difficult task of managing the State's finances has been greatly facilitated by the co-operation of agencies, by their acceptance of the necessary constraints and broad financial objectives pursued, and by their support not only for the general strategies adopted but also for the budget process itself. We take this opportunity to place on record our deep appreciation of that support and co-operation.

CHAPTER I

STRUCTURE OF DEPARTMENT

The structure of the department reflects the programs which it administers. These are as follows -

PROGRAM	BRANCH
Provision of budgetary and economic advice.	Budget, Capital Works, Economic.
Maintenance and development of accounting policies.	Accounting, Systems.
Administration and enforcement of State taxation legislation.	State Taxation.
Management of State Government borrowing and investment activities.	SAFA
Administration of superannuation schemes.	Superannuation Administration and Support Services.
Management of superannuation fund investment activities.	SASFIT
Provision of actuarial advice	Public Actuary.
Support Services.	Administration and Support Services, Executive Management.

For budget purposes the Executive Management group comprises the Under Treasurer, the Deputy Under Treasurer, the Assistant Under Treasurer and their secretaries.

In practice all executive officers meet regularly as a management group to discuss policy issues and to review progress on work programs. These

meetings provide a very useful forum for the exchange of information and ideas but are not intended to be a focus for decision-making.

The essential functions of the Budget Branch are to advise the Treasurer and Cabinet on appropriate revenue, expenditure and borrowing targets, to provide analysis of agency budget bids and spending bids outside the Budget process, to coordinate the preparation of the State budget and to report regularly to the Treasurer during the year on progress against budget targets. In addition, the Budget Branch has an important role to play in advising on developments in Commonwealth-State financial relationships, which have a major impact on the South Australian budget.

The functions of the Capital Works Branch are very similar to those of the Budget Branch. Reflecting its different focus, there is rather more emphasis on the preparation of guidelines for future years and on monitoring the analytical techniques used by agencies to evaluate projects. The branch works in conjunction with the Capital Works Budget Committee which reports to the Treasurer.

The Economic Branch provides an advisory service to the Government through the preparation of briefings on a wide range of economic data as it becomes available. It also provides a monthly report on the latest international, national and local trends and conducts a monthly employment survey of major South Australian businesses. It contributes towards the development of the economic assumptions on which budget estimates are formulated.

The function of the Accounting Branch is to maintain the Government's central accounting records, to ensure that all expenditure is in accordance with legal appropriation authority and to produce the Government's financial statements. The Branch is responsible for the maintenance of the computerised Treasury Accounting System which provides the foundation for these activities.

The function of the Accounting Policy & Systems Branch is to ensure that the Treasury Accounting System is progressively modified to accommodate the latest enhancements and to educate departments to use the system to its full capability. It is also the responsibility of the branch to advise on the implications for Government accounting of other major systems developments within the Government and to coordinate the development of systems within Treasury. Primary responsibility for accounting policy issues resides with the Accounting Policy & Systems Branch but the Accounting Branch also contributes towards the development of accounting policy.

The State Taxation Office is responsible for the administration of most major state taxation legislation. It is required to monitor compliance with the legislation and to ensure that taxpayers meet their legal obligations. The Office also contributes to the development of taxation policy and to the preparation of tax legislation with particular reference to the development of measures to overcome tax avoidance and evasion.

The SAFA Branch has two main responsibilities:-

- the administration and operation of the South Australian Government Financing Authority (SAFA)
- the administration of the Australian Loan Council guidelines relating to State public sector borrowings.

The branch can be regarded as fulfilling the same role for the State public sector as a corporate Treasury department would for a large corporation. It provides practically all the capital funds for the State's statutory authorities and a major and increasing proportion of the State Government's capital funds required through the Consolidated Account.

The Superannuation Branch administers the two State Superannuation Schemes, which are voluntary schemes open to most Government employees and to staff of certain statutory authorities.

The SASFTT Branch is required to manage, control and invest the funds of the South Australian Superannuation Fund in accordance with the directions provided by the trustees of the South Australian Superannuation Fund Investment Trust. The Branch is also required to manage the Police Pensions Fund in a similar manner under delegation from the Treasurer.

The Public Actuary's Branch provides actuarial and policy advice on superannuation, general insurance, life insurance and related matters. The Superannuation Policy and Management Unit coordinates superannuation activity in the public sector, advises the Government on superannuation policy, monitors existing schemes and services the interdepartmental Superannuation Task Force. The Insurance and Risk Management Unit services the interdepartmental committee set up to rationalise existing insurance arrangements in the public sector and pays claims for fire damage to Government buildings and other insurance claims in excess of agreed limits.

The function of the Administration and Support Services Branch, is to provide a service to all other sections of the department on matters such as accommodation, supply, transport, keyboard and reception, correspondence and personnel. In addition, the Branch provides a Ministerial office service to the portfolio of the Treasurer by handling matters relating to the administration of certain Acts such as the Unclaimed Moneys Act the Lottery and Gaming Act and the Rural Advances Guarantee Act and by facilitating dealings between the Treasurer and the major statutory authorities for which he is responsible.

The Branch also administers the Public Sector Employees Superannuation Scheme which provides benefits to all Government and statutory authority employees in accordance with an agreement negotiated between the Government and the United Trades and Labor Council as a result of the 3% national productivity claim.

Table I shows expenditure incurred by each branch during 1988/89.

Table II shows the number of officers employed in each branch of Treasury in each month of 1988/89.

TABLE I
ACTUAL 1988/89 EXPENDITURE BY BRANCH

	Salaries and Related Payments \$	Goods and Services \$	Branch Total \$
Executive Management	214 191	21 638	235 829
Accounting Operations	596 474	1 047 545	1 644 019
Administration	569 613	1 245 169	1 814 782
Budget	812 681	95 939	908 620
Capital Works	245 101	6 014	251 115
Economic Branch	149 579	28 547	178 126
Public Actuary	385 115	220 877	605 992
Superannuation	719 636	350 293	1 069 929
Accounting Policy and Systems	404 979	381 383	786 362
State Taxation Office	3 481 242	1 053 979	4 535 221
SAFA	1 961 841	4 392 558	6 354 399
SASFIT	365 527	158 418	523 945
Small Lotteries	95 998	129 171	225 169
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Departmental Total	10 001 977	9 131 531	19 133 508
	=====	=====	=====

Source of Funds

Appropriated from

Consolidated Account	12 029 995
SAFA Deposit Account	6 354 399
SASFIT Deposit Account	523 945
Treasury Working Account	225 169

Notes

1. Administration - Salaries and Related Payments - includes \$188 863 for Terminal Leave
2. Administration - Goods and Services - includes \$1 017 800 for Accommodation
3. Accounting Operations - Goods and Services - includes \$868 772 for ADP Expenditure
4. Accounting Policy and Systems - Goods and Services - includes \$107 999 for ADP Expenditure

TABLE II

TREASURY DEPARTMENT STAFF STATISTICS - 1988/89

DIVISION/BRANCH SECTION	AFTE Budget	AFTE Actual	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FTE Target For 30/6/89
TREASURY OFFICE															
Executive Management	6.0	5.8	5.0	5.0	5.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Accounting Operations	19.7	19.1	20.5	20.5	19.5	19.5	18.5	18.5	19.5	18.5	19.0	18.5	19.5	17.5	19.5
Administration	12.5	13.3	14.0	14.0	15.0	14.0	13.0	14.0	13.0	12.0	12.0	12.0	12.0	13.0	3.0
Budget	20.5	19.6	18.0	18.0	18.0	18.0	19.0	18.0	20.0	20.0	20.0	22.0	22.0	22.0	21.0
Capital Works	6.1	5.7	4.0	4.0	4.0	4.0	5.0	5.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Economic Branch	3.5	3.5	4.0	4.0	3.5	3.5	3.5	2.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Public Actuary	8.8	8.3	6.9	6.9	6.9	6.9	6.9	7.9	8.7	8.7	10.0	10.0	10.0	10.0	9.9
Superannuation	24.5	27.8	21.0	24.0	25.0	25.0	28.0	27.0	32.0	32.0	30.0	34.0	28.0	28.0	27.0
Accounting Policy & Systems ..	9.5	9.6	10.0	10.0	10.0	10.0	10.0	10.0	10.0	9.0	9.0	9.0	9.0	9.0	7.0
SUB TOTAL	111.1	112.7	103.4	106.4	106.9	106.9	109.9	108.9	119.7	116.7	116.5	122.0	117.0	116.0	113.9
STATE TAXATION	135.7	127.2	120.4	120.4	118.3	120.3	126.3	134.9	135.3	130.4	127.6	130.6	128.6	133.8	134.6
SUB TOTAL	246.8	239.9	223.8	226.8	225.2	227.2	236.2	243.8	255.0	247.1	244.1	252.6	245.6	249.8	248.5
DEPOSIT FUNDED															
SAFA	37.0	44.2	40.0	40.0	41.0	43.0	41.0	42.0	42.0	44.0	47.0	47.0	50.0	53.0	37.0
SASFIT	8.0	7.7	7.0	7.0	7.0	6.0	8.0	8.0	8.0	7.0	8.0	8.0	9.0	9.0	8.0
Small Lotteries	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
TOTAL FTE	294.8	294.8	273.8	276.8	276.2	279.2	288.2	296.8	308.0	301.1	302.1	310.6	307.6	314.8	296.5
GOODS AND SERVICES	4.4	2.6	3.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	4.4
TOTAL	299.2	297.4	277.2	279.3	278.7	281.7	290.7	299.3	310.5	303.6	304.6	313.1	310.1	317.3	300.9

MINISTERIAL PORTFOLIO RESPONSIBILITIES OF THE TREASURER

CASINO SUPERVISORY AUTHORITY	STATE BANK OF SA	SA GOVERNMENT FINANCING AUTHORITY	PUBLIC ACTUARY * COMMISSIONER OF STATE TAXATION *	SA SUPERANNUATION BOARD	SA SUPERANNUATION FUND INVESTMENT TRUST	LOTTERIES COMMISSION OF SA	STATE GOVERNMENT INSURANCE COMMISSION
Supervise the operation of the licensed casino.	Provide Savings and Trading Bank service to the community. As the Treasurer's agent, administer certain Acts providing loans for particular purposes.	Act as a central borrowing authority for the SA Public Sector. Engage in other activities relating to the finances of the Government and semi-Government authorities.	* In some respects, these officers are responsible directly to Parliament.	Administer State Superannuation Schemes.	Manage and invest employee contributions to the SA Superannuation Fund.	Promote and conduct lotteries.	Undertake general and life insurance business. Operate the Compulsory Third Party (Bodily Injury) Scheme.

ACTS ADMINISTERED BY THE TREASURER

Advances to Settlers Act 1930	Financial Institutions Duty Act 1983	Lottery & Gaming Act 1936	Student Hostels (Advances) Act 1961
Amending Financial Agreement Acts 1944 & 1966	Friendly Societies Act 1919	Parliamentary Superannuation Act 1974	Succession Duties Act 1929
Appropriation Acts	Gift Duties Act 1968	Pawnbrokers Act 1888	Superannuation Act 1974
Benefit Associations Act 1958	Government Financing Authority Act 1982	Pay-Roll Tax Act 1971	Supplementary Financial Agreement (Soldier Settlement Loans) Act 1934
Business Franchise (Petroleum Products) Act 1979	Governors' Pensions Act 1976	Public Finance and Audit Act 1987	Supply Acts
Casino Act 1983	Housing Loans Redemption Fund Act 1962	Rural Advances Guarantee Act 1963	Taxation (Reciprocal Powers) Act 1989
Collections for Charitable Purposes Act 1939	Interest on Crown Advances & Leases Act 1944	Stamp Duties Act 1923	Tobacco Products (Licensing Act) 1986
Crown Rates & Taxes Recovery Act 1945	Judges' Pensions Act 1971	State Bank of South Australia Act 1983	Treasurer's Incorporation Act 1949
Financial Agreement Act 1927	Land Tax Act 1936	State Government Insurance Commission Act 1970	Unclaimed Moneys Act 1891
	Loans for Fencing & Water-Piping Act 1938	State Lotteries Act 1966	
	Loans to Producers Act 1927		

LEGISLATIVE MEASURES 1988/89

Advances to Settlers Act Amendment Act 1988

Made several minor amendments to the Act to allow the Regulations under the Act to expire on 1 January 1989.

Assented to : 15/09/88

Commencement : On Assent

Appropriation Act 1988

Gave effect to the Government's budget proposals for 1988/89.

Assented to : 10/11/88

Commencement : 01/07/88

Business Franchise (Petroleum Products) Act Amendment Act 1989

Increased the annual Class B licence fee from \$50 to \$100 to cover the cost of administering the Motor Fuel Distribution Act.

Assented to : 09/03/89

Commencement : 01/10/89

Friendly Societies Act Amendment Act 1989

Allowed Friendly Societies in South Australia to broaden their investment powers and at the same time redressed some inadequate and inappropriate areas of the Act.

Assented to : 04/05/89

Commencement : On Assent

Land Tax Act Amendment Act 1988

Reduced the number of steps in the land tax scale from six to three, producing a lower liability for tax at all levels.

Assented to : 27/10/88

Commencement : 30/06/88

Loans to Producers Act Amendment Act 1988

Removed the requirement to prescribe by regulation the form of application and the particulars required to be supplied with applications. These matters were considered to be of an administrative nature best left to the discretion of the State Bank.

Assented to : 10/11/88

Commencement : On Assent

Lottery and Gaming Act Amendment Act (No 2) 1988

Increased the pecuniary penalties incurred by a person who acts as a bookmaker without being licensed or by a person who holds a licence but fails to comply with the conditions of the licence.

Assented to : 08/09/88

Commencement : On Assent

Pay-Roll Tax Act Amendment Act 1988

Provided for increases in the exemption level - from \$270 000 to \$300 000 from 1 October 1988 and to \$330 000 from 1 April 1989.

Assented to : 27/10/88

Commencement : 01/07/88

Parliamentary Superannuation Act Amendment Act 1989

Provided for the establishment of a Board (replacing the previous Trustees) and for the Government to meet its liabilities for the payment of pensions and other benefits from the Consolidated Account.

Assented to : 27/04/89

Commencement : 11/05/89

**Rural Advances Guarantee Act
Amendment Act 1988**

Transferred to the Director-General of Agriculture responsibilities under the Act formerly carried out by the Land Board.

Assented to : 15/09/88
Commencement : On Assent

Stamp Duties Act Amendment Act 1989

Extended the first home buyers stamp duty concessions to tenants of the South Australian Housing Trust wishing to purchase either full or part equity in the home in which they reside.

Assented to : 16/03/89
Commencement : 01/02/88

**Superannuation Act Amendment
Act 1989**

Made a series of technical amendments to the Superannuation Act 1988 to ensure the smooth operation of the Superannuation schemes.

Assented to : 30/03/89
Commencement : 20/04/89 (except paragraph (b) of S9 & S14 - date of operation of Principal Act (01/07/88))

Supply Act (No 1) 1989

Provided appropriation to enable the Public Service to carry out its normal functions during the early months of the 1989/90 financial year.

Assented to : 20/04/89
Commencement : On Assent

Supply Act (No 2) 1988

Provided appropriation to enable the Public Service to carry out its normal functions during the months of September and October 1988.

Assented to : 15/09/88
Commencement : On Assent

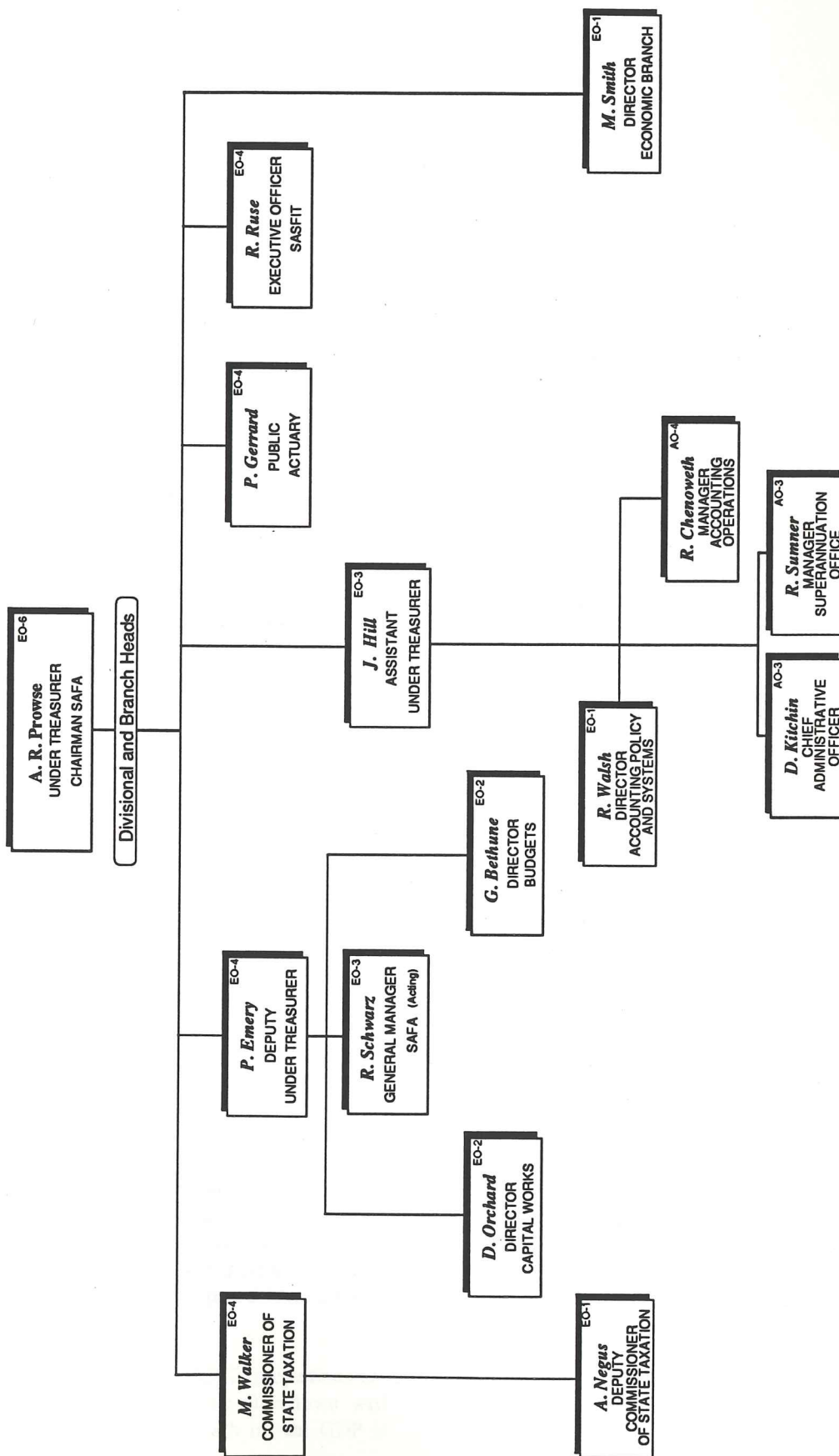
Taxation (Reciprocal Powers) Act 1989

Provides for reciprocal powers of investigation beyond State borders to combat taxation avoidance and evasion.

Assented to : 27/04/89
Commencement : To Be Proclaimed

TREASURY DEPARTMENT

ORGANISATION - 1988 / 89



CHAPTER II

FINANCIAL AND ECONOMIC OVERVIEW

ECONOMIC OVERVIEW

(a) International

International economic developments continue to be an important influence on economic performance in South Australia and Australia. International conditions have been a positive factor for Australia over the past year with good growth recorded in GDP and trade volumes in OECD and East Asian economies. These demand factors, combined with supply shortages in various commodities, have produced strong commodity prices and favourable terms of trade.

Concern over the emergence of inflationary pressures in the world economy, following years of good economic growth in the major industrial countries since 1983, led to some tightening of monetary policies during 1988/89. Interest rates were raised to bring about slower growth and lower inflation and also to maintain international interest rate relativities where they were influencing exchange rates. The Australian and South Australian economies will be considerably influenced if there is a significant slowing in world economic growth over the next eighteen months because of the impact this would have on export industries.

The latest (mid 1989) OECD projections are that a relatively moderate slowdown will occur. Total OECD growth in real GDP is

forecast to fall from about 4.0% in 1988 to 3.25% in 1989 and 2.75% in 1990. Growth in the United States is expected to fall to 2.25% in 1990, in Germany to 2.75% with Japan remaining relatively buoyant at 4.25% growth in 1990. Inflation was forecast to plateau at 4.5% for the total OECD. However, these forecasts appear to be outdated by the rise in average OECD inflation to 5.3% in the year to May 1989.

The OECD 'soft landing' projections are consistent with reasonably well maintained levels of industrial production and growth in world trade volumes, providing support for most important commodity prices. These have been strong over the past year but are recently showing signs of levelling off or, in some cases, declining. The OECD view on growth rates is challenged by some commentators who forecast a much sharper slowdown resulting in recession. If this occurs it would significantly worsen Australia's balance of payments and foreign debt position.

Over the past year there has been a slowdown in the necessary adjustment of external imbalances among OECD countries; for example, the US deficit and the large surpluses in Germany, Japan and some other East Asian countries. To improve these imbalances, better trade access may help but remains a contentious international issue. A sharp reduction in the US Federal budget deficit remains a key requirement for moving to a better external balance.

Recent exchange rate volatility has been a source of some concern - in particular rises in the US currency. This seems inconsistent with underlying fundamentals, that is, continuation of the large US current account and Federal budget deficits. However the latter, by raising American interest rates, tends to support the value of the US dollar in the short term. These exchange rate swings are potentially destabilising and have important implications for trade imbalances and inflation rates in the US and its major trading partners.

The international debt problem remains relatively intractable and has the potential to be a very disruptive factor in international financial markets. However, it is currently subject to negotiations which seek to reduce the interest burden on key debtors (for example, partial forgiveness, debt conversion and/or cuts in interest rates). This would allow declining debtor economies to expand and buy more imports after several grim years.

(b) National

Australian Gross Domestic Product (GDP) was 3.3% higher in real terms in 1988-89 on recently revised ABS estimates.

The main force behind the relatively high rate of real GDP growth was private investment. Real investment in dwellings rose 24.2%, non-dwelling construction was up 8.2% and equipment rose 19.3%. There was a real rise of 0.6% in Public Enterprise capital spending and a fall of 3.6% in General Government investment.

Real private consumption spending rose 3.7% over the period reflecting rises in real household disposable income (underpinned by strong employment growth). Government consumption expenditure grew by 3.6%.

Overall, real gross national expenditure in 1988/89 was an excessively strong 7.7% above 1987/88, and as demand growth exceeded production, there was exceptionally strong growth of 25.5% in import volumes. Exports rose by only 1%.

After falling 15% in the three years to 1986/87, Australia's terms of trade continued to recover in 1988/89 as a result of strong commodity prices. The terms of trade were 15.6% above 1987/88 and 26% above 1986/87.

After appreciating in the first half of 1988/89, the Australian dollar depreciated in the second half in response to Australia's current account and foreign debt problems. At the end of the financial year the trade weighted index value of the dollar was 59.4, similar to its value at the same time last year (59.8). On comparison with the beginning of calendar 1989, the Australian dollar has fallen significantly against the US dollar and German mark, with less pronounced falls against the yen and pound sterling.

The current account deficit for 1988/89 was \$17.4 billion, 47% higher than in 1987/88. As a proportion of GDP the current account deficit has risen from 4.0% in 1987-88 to about 5.2% in 1988-89.

The merchandise trade deficit was \$4.1 billion (following a \$155 million surplus in 1987/88). The sharp deterioration was due to a combination of strong import growth and poor export volume performance. The services deficit increased in 1988/89 by 7.2% from \$2.47 billion to \$2.65 billion, partly due to a deterioration in the net contribution from overseas tourism in the second half of the financial year. The net income and transfers deficit rose 12.5 % from \$9.5 billion to \$10.7 billion, mainly due to higher servicing costs on foreign debt.

Australia's net foreign debt (foreign borrowing by Australian residents less the sum of Australian lending abroad and reserve assets) rose to \$104 billion at the end of the March quarter 1989, an 11.7% increase from a year earlier. The increase was due to a combination of continued current account deficits and, more recently, valuation changes produced by the downward movement in the value of the Australian dollar against other currencies.

The ratio of net foreign debt to GDP at the end of the March quarter 1989 was an uncomfortably high 31.9%, similar to the ratios which have prevailed since the latter part of 1985-86.

In the year to March 1989, the interest payable on net debt was 17.7% of the income earned from exports of goods and services.

Australia's employment growth continued strongly in 1988/89 as a result of various factors - strong profits in key sectors, restraint in wage increases below inflation for several years and a strong expansion of lending, albeit at rising interest rates. Participation rates were generally higher during 1988/89 than in 1987/88 but the high growth rate of employment was sufficient to bring the unemployment rate in June to 6.0%, its lowest level since January 1982.

The Federal budget finished 1988-89 with a surplus of \$5.9 billion, about \$431 million more than was forecast. Revenue collection was \$546 million (0.6%) higher than expected. Both PAYE and sales tax revenues were up on budget forecasts. Expenditure was in line with Budget Estimates with outlays showing a real decline of 4.6%, a considerable proportion of this coming from reduced real transfers to the States.

(c) South Australia

The South Australian economy performed well in 1988/89. As a consequence of the buoyant State and National economies employment in South Australia grew strongly and was above the national average for much of the year. South Australia's average level of total employment in 1988/89 was 4.2% above a year earlier. This compares with a 4.1% increase for Australia over the same period.

Private dwelling construction has returned to a good level and non-dwelling construction is at record real levels. The latter sector will continue to be supported for some time by a number of large projects.

Manufacturing industry experienced a good year in 1988-89, particularly new motor vehicle manufacturing, where the big upsurge in demand was so large and sudden that production capacity failed to rise quickly enough to avoid a massive rise in imports.

In the past year, the rural sector has benefited from high commodity prices.

Recent indicators show that continued buoyancy is likely in the near future, with some reduction in activity likely during the year ending in June 1990. South Australia did not experience the excesses of the housing construction boom seen in the Eastern States. Because of South Australia's more sustainable levels of activity, the contraction due to high interest rates is likely to be less severe than in other States. In addition, the Submarine project and Roxby Downs production of copper, uranium and gold continue as important factors helping the State economy. The large Myer-Remm retail development is expected to make its main impact in 1989/90.

CHAPTER III

RECENT DEVELOPMENTS IN FINANCIAL MANAGEMENT

FINANCIAL MANAGEMENT IMPROVEMENT

Section 5 of the *Government Management and Employment Act 1985* establishes important general principles of public administration. These are as follows:

- the public sector shall be administered in a manner which emphasises the importance of service to the community;
- the public sector shall be structured and organised so as to achieve and maintain operational responsiveness and flexibility, thus enabling it to adapt quickly and effectively to changes in government policies and priorities;
- government agencies shall be structured and administered so as to enable decisions to be made and action taken, without excessive formality and with a minimum of delay;
- administrative responsibilities shall be clearly defined and authority shall be sufficiently delegated to ensure that those to whom responsibilities are assigned have adequate authority to deal expeditiously with questions that arise in the course of discharging those responsibilities;
- government agencies should have as their goal a continued improvement in the efficiency and effectiveness of their performance and shall be administered with that goal always in view;
- resources shall be deployed so as to ensure their most efficient and effective use; and
- proper standards of financial management and accounting shall be exercised at all times.

These principles have important implications for financial management. They include:

- the need for those making decisions to have control over the type and level of resources used and costs incurred, subject to an overall budget constraint; and
- the need for those making decisions with resource implications to be fully accountable for those decisions.

Proper financial management requires that those making decisions (agencies and individual managers) have responsibility for the full range of resources which they utilise, have flexibility to change the mix of resources used as appropriate and have proper financial information on which to base their decisions. It also requires that they are responsible for managing their budget and are responsible for all of the financial consequences of their decisions. The overall objective is to ensure that the resources available are used as efficiently and effectively as possible to provide services to the community.

Treasury is the Government's financial manager and adviser and as such has broad responsibility for financial management improvement in the Government sector. There has been progressive development in this area in recent years. This Section describes the progress which occurred in 1988/89, together with developments planned for 1989/90. The final part of the Section describes budget methodology and processes.

MANAGEMENT OF OVERHEADS

Interest on Borrowings

Revised arrangements for presenting interest costs in the budget were adopted in 1988/89 to increase general awareness of all of the costs of providing Government services.

Interest costs associated with Government borrowings from the budget were previously shown predominantly under Treasury Department appropriations.

The attribution of interest costs to individual agencies has increased the general level of awareness of all the costs of providing Government services. Departments are being encouraged to allocate these costs across programs. Where user charges do not fully recover costs, these arrangements enable the remaining costs subsidised from the Government's general revenues to be more accurately recorded.

For 1988/89, the arrangements applied to the following agencies and bodies:

- Department of Marine and Harbors;
- Department of Services and Supply;
- Department of State Development and Technology—South Australian Development Fund;
- Engineering and Water Supply Department;
- Highways Department;
- Government Office Accommodation Unit;
- Office of Government Employee Housing; and
- Woods and Forests Department.

Specific additions were made to budget allocations for these agencies, as appropriate, to enable their share of interest costs to be met from tied expenditure lines.

At this stage it is not proposed to extend the allocation of interest costs to include other agencies. As such, interest costs associated with borrowings for capital expenditure in such areas as education, health, law and order, tourism, parks and reserves, will continue to be shown against the Treasury appropriation, which records the difference between total interest costs on Govern-

ment borrowings and interest costs allocated to individual agencies.

Workers Compensation

Government Departments and Agencies (excluding South Australian Health Commission)

Last financial year the arrangements for payments of workers compensation claims were modified to give agencies greater direct responsibility for the management of claims. In accordance with this principle it was recognised however that:

- (a) there were certain expenditures which line managers had very little ability to influence; and
- (b) there were certain agencies which wanted and had the capacity to manage the workers compensation function in toto (that is both pre and post 21 days claims as well as old Act—pre September 1987—claims).

Under (a) the expenditure which has now been appropriated under the Department of Labour vote for 1989/90 is in respect of risk management initiatives (\$2 million), the WorkCover exempt employer levy (\$2 million) and Old Act (pre September 1987) lump sum claims (\$7 million). These moneys previously would have been provided through the premiums paid by individual agencies into the Government Workers Rehabilitation and Compensation Fund. In addition the Fund recouped Consolidated Account for the cost of operating the Government Workers Rehabilitation and Compensation Office (GWRCO—\$1.1 million). This expenditure is appropriated under the Department of Labour either because agencies have limited ability to influence outcomes (eg the level of lump sum payments and GWRCO operating expenses) or accountability is deemed to be more appropriately vested in the Department of Labour (eg Workcover levy payments on behalf of Government and risk management outlays).

With respect to (b) the Highways, Woods and Forests, and Engineering and Water Supply Departments will be given authority to manage all claims—that is, old Act claims and pre and post 21 days claims under the new Act—effective from 1 July 1989. Among other things the delegation will be subject to agency compliance with

Government policy on the rehabilitation and counselling of injured employees.

South Australian Health Commission

The South Australian Health Commission opted to self-insure for workers compensation in 1988-89. The following progress has been made towards setting up the necessary infrastructure:

- SGIC Risk Management Services were appointed to process claims on its behalf with the Health Commission having responsibility for the overall management and control of the process;
- a management information system is being established; and
- Alexander Stenhouse were appointed to assist in evaluation of the proposed management information system.

The Commission has had discussions with Treasury regarding the implementation in 1989-90 of the following:

- improved accounting and finance arrangements;
- improved procedures for the payment of workers compensation;
- risk management programs;
- setting workers compensation "premiums" for health units from 1 July 1989; and
- establishment of an incentives and penalties system.

From 1 July 1989 all workers compensation costs will be passed through a new Health Commission deposit sub-account and managed by the recently established Insurance Services Unit.

Under this self-insurance arrangement the following broad principles will apply to WorkCover Scheme claims:

- central records will be kept by the Health Services Risk Management Unit by health unit in relation to the number of claims, outstanding liability, claims costs and "premiums" which will enable reporting by the year of claim occurrence;
- health units coming in under budget (ie costs less than premium) will have an opportunity to share in any net overall savings; and
- conversely any net overrun will be met from the Health budget.

General Insurance and Risk Management

Since the Government established the Insurance and Risk Management Committee in February 1988, insurance arrangements for Government departments and some statutory authorities have been reviewed and in most cases policies have been allowed to lapse. In most instances, self insurance agreements have been put in place under which agencies will meet part of the cost of future losses.

Risk audits carried out by Sedgwick Limited in eight departments and two authorities have identified areas which represent potential risk to the Government from property loss or other liability. Risk management practices such as the establishment of organised fire fighting and fire prevention programs are being encouraged within departments.

The collection of information relating to losses within departments is ongoing. Reporting back to departments on these losses will commence shortly.

Agreements have been made with the State Transport Authority and the Local Government Association for cover in respect of large losses in exchange for appropriate premiums.

On 1 July 1988 the Department of Labour transferred responsibility for administering fire losses on government buildings to the Public Actuary's Office.

South Australian Health Commission

From 1 July 1989 the Commission is self insuring for public liability, medical malpractice and almost all other general insurance liabilities.

The Commission will:

- establish claims processing arrangements in conjunction with health units;
- acquire expertise in the area of medical malpractice acceptable to the medical profession and the health system; and
- establish medical malpractice risk management programs.

ENGINEERING AND WATER SUPPLY

As from 1 July 1988, the Engineering and Water Supply Department has accounted for its operations through a deposit account, rather than through the Consolidated Account. These arrangements were implemented to facilitate a much broader commercial approach to its financial management, including the presentation of its annual accounts on a full commercial basis and improved cash management policies.

To accommodate this change the cost of interest on borrowings was included in the Department's gross payments budget and all revenue collections are accounted for through a deposit account rather than the Consolidated Account.

During 1988/89, to enhance the move towards a more commercial approach, the Department's operations were further identified into business and non-business activities with specific funding provided towards the shortfall on non-business undertakings being approved.

SOUTH AUSTRALIAN DEVELOPMENT FUND

The South Australian Development Fund was established as a self-contained rather than notional fund from 1 July 1988.

This arrangement has achieved a large measure of restraint in the growth in expenditures met from Consolidated Account. The agreed level of funding for the first five years for example declines in nominal terms from \$13.8 million to \$13 million over the period. In addition greater certainty of funding for operations met from the Fund has been achieved through agreement on the amounts to be provided each quarter to the Fund.

The Fund has also utilised the financial incentive provisions included in the operating agreement, by generating and retaining additional revenue from guarantee fees (\$443 000), interest earnings (\$564 000) and repayment of loans with interest by companies receiving assistance from the Fund (\$244 000).

PROGRAM EVALUATION

The Government has decided to examine the feasibility of introducing a systematic process of program evaluation and review across all departments. Assessment and review is already occurring in many agencies. A more systematic process will achieve a heightened awareness of the significance and value of such reviews, and upgrade the skills applied to such reviews through a program of technical support and training.

The Government has also decided that a number of initiatives commencing in 1989/90 are to be the subject of a post-implementation assessment of their cost-effectiveness at a specified time in the future (normally in three years).

It is expected to be feasible to do this largely within existing resources and as an adjunct to the normal managerial practices; it will be formally introduced in the next financial year.

MAINTENANCE AND REPLACEMENT OF GOVERNMENT ASSETS.

Consistent with the arrangements implemented in 1988/89 for the maintenance and replacement of Education Department assets, accounting and funding arrangements for Other Government Buildings and the Department of Employment and Technical and Further Education's buildings have been changed to increase flexibility.

Separate provisions will continue to be made for maintenance (recurrent) and minor works (capital), but funds will be transferred between the capital and recurrent budgets according to assessed priorities in the areas of maintenance and replacement of assets and minor works including upgrading of assets.

Based on initial estimates, an amount of \$2.2 million has been transferred from the recurrent provision to the capital provision for 1989/90.

ACCOUNTING PROCEDURES

The Treasury Accounting System (TAS) is a powerful tool which can be used to enhance the quality of financial management in the public sector. Some examples of the purposes for which it was used in 1988/89 are listed below:

- production of reports on energy usage for the Government Energy Management Program;
- production of payment performance reports showing the timing of invoice processing by each department;
- improved appropriation reporting for departments;
- fringe benefits tax reports to provide departments with details of payments carrying FBT obligations;
- statistical analyses for the Auditor-General of payments through TAS;
- age analysis of payment commitments;
- cheque clearance information to support SAFA's cash management activities;
- revised management information reports for the Department of Tourism;
- improved accounts payable processes for the Department of Housing and Construction and the Department of Employment and Technical and Further Education by creating separate paying entities for sub-divisions of the departments; and
- improved interface between TAS and the files used by the Budget Branch of Treasury for budget monitoring.

Work continues on the development of more efficient ways of using the Treasury Accounting System to maintain the Government's general ledger. These developments are individually of minor significance but overall improve the quality of financial reporting and produce worthwhile savings in Treasury and in agencies in the time taken to carry out routine procedures. One example only of these developments is the use now being made of word processing and desk top publishing software to prepare the Treasurer's Statements for presentation to the Auditor-General at the end of the financial year.

Treasury has also taken the initiative in providing guidance and assistance to agencies to increase the speed and efficiency with which cash received is deposited in the Government's account at the Reserve Bank. Considerable work has been

done in introducing changes for the major revenue collection agencies such as the Motor Registration Division and the Engineering and Water Supply Department. Such improvements are important in increasing the Government's interest earnings.

Similarly the number of agencies which conduct their banking arrangements through the main Government account at the Reserve Bank continues to increase. This helps to minimise the number of officers engaged in the cash management process, reduces Government borrowings and maximises the capacity of the Government to invest its surplus cash at the best yields.

Opportunities are taken as they arise to facilitate the payment of accounts by members of the public. As a general rule the Government does not accept payment of taxes and charges by credit card because of the significant cost involved in paying fees to the card providers. However where straightforward commercial transactions are involved (eg sale of publications by the State Information Centre) and there is a good reason to suppose that increases in revenue will more than offset cost increases, acceptance of credit cards is encouraged. With assistance from Treasury and the Reserve Bank several agencies have now made use of this facility in their trading activities.

Preliminary discussions have also been held with Australia Post about the possibility of using its extensive branch network to make it easier for members of the public and corporate bodies to pay Government accounts. The extent of the likely improvement in service to the Government's clients and the scope for savings in administration costs will have to be weighed up against the charge imposed by Australia Post for providing the service.

It is proposed to hold similar discussions with the State Bank.

The Government has under consideration a proposal for the introduction of a State Government credit card. However this is just one of several possible ways of simplifying ordering and purchasing procedures. Greater use of petty cash is another option which is under examination.

Negotiations have taken place with several potential credit card providers and trials are now under way in the Department of Housing and

Construction, the Highways Department and the Southern Office of the Education Department. These agencies were chosen because of the number and diversity of the purchasing and payment transactions which they undertake and because of their expressed interest in the project. At the end of the trial period their experience will be evaluated and a decision made on whether to introduce credit cards more widely for low value transactions.

In his 1987/88 Annual Report the Auditor-General suggested that it might be possible for the Government to save money by streamlining its procedures for paying accounts. This would involve paying small accounts (less than \$100) without going through the full verification process.

A pilot study is under way in the Court Services Department and similar studies are about to commence in the Highways Department and the Department of Employment and Technical and Further Education. If these studies suggest that there are savings to be made from the introduction of less thorough verification procedures the Government will give consideration to modifying the relevant Treasurer's Instructions. Of course for the changes to be worthwhile efficiency savings would have to outweigh losses arising from errors or fraud. Moreover it would have to be recognised that occasional errors would be inevitable under such a system.

ACCOUNTING POLICIES

In response to a series of reports from the Public Accounts Committee which followed an extensive examination by that body of the asset management practices of a number of Government agencies, the Government established an Asset Management and Replacement Task Force. Areas which the Asset Management and Replacement Task Force highlighted and which are important elements in asset management improvement are the establishment of effective asset recording systems or asset registers and the use of accrual and current value accounting systems.

As a first step in the development of appropriate accounting systems, Treasury has prepared, in consultation with line agencies, a Treasurer's In-

struction dealing with the development of asset registers. The second and third stages of the development program comprise the introduction of accrual accounting principles and of current value accounting principles, taking account of the different stages reached by individual agencies.

The Treasurer's Instruction was issued in December 1988. It requires that all agencies have appropriate asset registers in place by 30 June 1990. To ensure progress towards this goal, all agencies have been asked to provide to Treasury details of all major assets by 14 August 1989. This information will be consolidated and published later this year in the sequel to information published in Treasury Information Paper 88/1 "The Finances of South Australia".

The Treasurer's Instruction will also require agencies, beginning in 1990, to prepare a Statement of Assets Employed showing the written down current costs (or other authorised value) of assets under their control.

A number of agencies are making use of State Computing's Computer Associates Fixed Assets System as the basis for their asset registers. Others, generally those with fewer assets, are using a variety of other cost-effective systems. Agencies are not duplicating the SACON Asset Information System which contains data on all land and buildings for which SACON is responsible.

Treasury is continuing to develop a current value accounting model with a view to its adoption by all relevant agencies as they make sufficient progress with development of their asset registers.

The adoption of full accrual accounting is being encouraged in those agencies where it is most relevant and which have the resources to implement it. The commercial statutory authorities and the Woods and Forests Department have used accrual accounting for many years. It has recently been introduced in the Engineering and Water Supply Department and the State Services Department and two other departments, the Department of Lands and the Department of Marine and Harbors, have made significant progress in preparing the ground for its introduction. The rate of progress is necessarily limited by the capacity of agencies to provide accounting personnel with the skills required to make the transition from a cash-

based system to an accrual-based system of accounting.

Current value accounting was addressed in broad principle in a Treasury discussion paper issued in 1988 entitled "Accounting Policies and Financial Performance Measurement". A further discussion paper is being prepared which will examine a current value accounting model for use by Government business enterprises. The paper will address in greater detail some of the issues raised in the earlier discussion paper and is expected to be released for comment early in 1989-90.

Work has also commenced on a discussion paper aimed at establishing an accountability framework for the four main types of Government agency:

- public service agencies;
- community service agencies;
- public utilities; and
- commercial enterprises.

There is increasing acceptance by agencies of the role which Treasury can play in assisting them to improve their financial management. It is now common for agencies wishing to undertake important accounting projects to seek advice from Treasury or to submit proposals to Treasury for comment. For example, Treasury played an important role in the development of a transfer pricing model for the Justice Information System. Early involvement of Treasury in issues like this can help ensure that development effort is properly directed and not wasted on inappropriate models.

The Treasurer's Instructions issued under the authority of the Public Finance and Audit Act are the means by which the Treasurer exercises control over agency accounting principles and practices. For the most part these Instructions apply to departments only but a review is under way with a view to issuing them in a suitable form to other Government agencies.

The Instructions have now been included on the Information Data Base at State Computing, thereby giving agencies access to them through terminals connected to the mainframe at the Centre.

Work has proceeded on the preparation of a Financial Administration Manual which will give

an overview of the inter-relationships between Parliament, the Government and agencies and of the major functions involved in the financial administration of a Government agency. A less detailed version will also be produced for use by non-financial managers.

ACCOUNTING SYSTEMS

The general ledger package in use in most Government departments is the Computer Associates General Ledger system. Responsibility for co-ordinating application support was given to Treasury in 1987.

Following a post-implementation review of the system completed shortly after that time additional resources were devoted to the support task with significant benefits for agencies in 1988/89.

The establishment of a support group in Treasury which monitors all agency network running has provided an efficient means of detecting and correcting errors, has avoided duplication in problem solving and has provided one contact point for communication between vendors and agencies. The employment of a systems consultant has resulted in the programming needs of small to medium agencies being addressed. There has been ready acceptance by agencies of the group and demand for its services remains high with most agencies maintaining regular contact.

Training courses are conducted regularly by members of the group for new users and for agency staff requiring specific knowledge.

During 1988/89 a post-implementation review was conducted of the Treasury Accounting System. The review found that the system was performing well and meeting its functional objectives. However, some of the benefits expected of the system had not been fully realised. This could be attributed to the poor level of acceptance by agencies of Program Performance Budgeting (PPB) and lack of promotion by Treasury of the capabilities of TAS.

A number of the recommendations of the review concern improvements in the day-to-day operations of TAS and can be addressed fairly quickly. However there are three major recommendations:

- that a TAS support group be established to promote the more effective use of TAS;
- that a pilot project be established in one agency to demonstrate the advantages of PPB; and
- that an information and strategic plan be developed to identify the Government's broad financial management information needs and the best way of providing that information.

The nucleus of a support group already exists in Treasury and as other work permits, greater emphasis is being placed on working with users of the system in order to satisfy their requirements.

Treasury proposes to consult with the Office of the Government Management Board about the establishment of a pilot project to demonstrate the advantages of PPB. If a suitable line agency can be readily identified the project can be commenced. Otherwise it may be preferable to initiate this project as part of the much broader review of the Government's future financial information needs.

The post-implementation review of the Computer Associates General Ledger System recommended that a group be formed with the responsibility for planning and co-ordinating the introduction of service-wide financial management systems. The review was carried out by seconded public service officers. The post implementation review of TAS which was carried out by an external consultant made the same recommendation.

The nature and composition of the group to carry out this task is at present under consideration. It is clearly a very important task with consequences for all Government departments. The group will therefore need to have representation from line agencies as well as central agencies and will need to consult extensively with agency management. Its investigations will need to encompass at least the following systems:

- Treasury Accounting System;
- Computer Associates General Ledger System;
- Austpay Payroll System;
- Fixed Asset Systems; and
- On-Line Procurement System.

The future development of these systems or replacements for them will be heavily influenced by the findings of this group.

ACCOUNTING STAFF

The Department of Personnel and Industrial Relations (DPIR), in conjunction with the Treasury Department, commenced a joint study in May 1988 to examine the supply of and demand for accountants, economists, financial managers and persons with financial management skills, as well as the type of financial management skills required within the public sector. The study team was to make proposals for a workforce planning policy which would ensure an adequate supply of suitably qualified and experienced persons with the required financial management skills.

The study involved an assessment of trends and issues in financial management in the public sector and an evaluation of their impact on the financial management skills needed in the public sector. In line with comments from the Office of the Government Management Board (OGMB), the study examined both the skills of people needed to support financial management and the financial management and budgeting skills required by non-finance personnel.

The recommendations of the study fall into two classes:

- those relating to non-financial personnel; and
- those relating to financial personnel.

There are four recommendations relating to non-financial personnel. One of these would require Chief Executive Officers (CEO) to ensure that their financial personnel provide relevant and timely advice to non-financial personnel and another would require CEO to ensure that selection criteria for all positions reflect the financial management skills required of the occupant. Implementation of these recommendations is largely in the hands of CEO.

The other two recommendations relating to non-financial personnel are inter-connected. They call on Treasury and CEO to ensure that non-financial managers accept their responsibilities for financial management. In addition Treasury, OGMB and financial personnel in agencies are urged to develop an information and training program which will better equip non-financial personnel to accept these responsibilities.

There are seven recommendations relating to financial personnel. Two of these recommendations can be broadly categorised as calling for more support for financial managers, two relate to the remuneration and career structure of financial managers and two deal with the recruitment and development of financial managers.

In addition Chief Executive Officers are encouraged to ensure that financial managers are involved at an early stage in the decision making processes of agencies. Implementation of this recommendation is essentially a matter for CEO.

The two recommendations which call for more support for financial managers are specifically:

- that Treasury, in conjunction with agency financial personnel, should prepare a financial management handbook; and
- that there should be further investigation of the need for a group of public sector financial management consultants to advise agencies on how to tackle their financial problems.

The two recommendations which relate to remuneration and career structure call on DPIR to determine an appropriate remuneration system which reflects the importance of financial management and to review the management accounting structure with the aim of eliminating accounting qualifications as a requirement for positions unless possession of such qualifications is clearly essential.

The two recommendations which deal with recruitment and development urge DPIR and Treasury to develop:

- a recruitment program which will attract graduate financial personnel to the public sector; and
- a development program which will give them an opportunity to enhance their skills while learning about public sector accounting from practical experience.

The Government Management Board has taken a close interest in the study and will be overseeing the implementation of the report's recommendations, with guidance from the Auditor-General and the Under Treasurer.

A position has been created in Treasury to be responsible for the implementation of the recommendations.

This officer will have two main responsibilities:

- to provide training and information for departmental managers without a financial background; and
- to devise a recruitment and development program aimed at attracting accounting and finance graduates to the public service and retaining them.

In relation to better meeting the needs of non-financial managers for financial skills, it is proposed to establish by means of consultation with senior managers and their financial advisers what deficiencies exist and how they might be rectified. Some problems may be common to most agencies but it seems certain that there will be differences between agencies in the emphasis required. The task of tailoring a program for each agency will not be a simple one and seems likely to take time if only by virtue of the number of agencies involved.

The potential advantage of this approach is that by involving all the senior managers in an agency there is a chance of influencing the culture of the organisation rather than the culture of the individual.

The Government Management and Employment Act makes it clear that the Chief Executive Officer is responsible for financial management within an agency—not Treasury, not OGMB, not DPIR and not the Auditor-General. Ultimate responsibility for the standard of financial management within an agency rests with the CEO.

For this reason it will be crucial to the success of the program that CEO and their senior people make an effort to identify their needs and that central agencies respond to these needs rather than try to impose pre-conceived solutions.

The workforce planning study recommends that two handbooks be prepared on the subject of financial management. One would be a basic manual for non-financial managers and the other would be a more detailed volume for financial managers.

As indicated above, Treasury is already well advanced on the preparation of the more detailed volume. However it is now proposed to delay the completion of that document until after discussions have been held with agencies, since there

may be important matters which have not been covered. Similarly, preparation of the handbook for non-financial managers will await the discussions with agencies.

The study suggests that further investigation should take place of the need for public sector financial management consultants. A group of financial managers with extensive experience in the public sector is envisaged. These people would be available to agencies to advise on how specific financial problems should be addressed.

Before a final decision is made on the formation of a consulting group, it seems desirable to go through the process of discussing with CEO their financial management needs. At least some of their problems may well be capable of being solved with assistance from Treasury.

The study canvasses at some length the issues affecting the supply and demand for accountants. As have other similar studies, it concludes that good accountants are in short supply and that their salaries are therefore rising. This makes it difficult for the public sector to attract and retain good people.

In these circumstances it is to be expected that the average salary of public sector accountants will rise. In particular, it is to be expected that new accounting and finance graduates will be able to command higher salaries.

The matter of proper remuneration is not something which should be left to DPIR alone. Agency managers should be looking at ways to give recognition to the skills and knowledge which good accountants possess and to define the responsibilities of accounting and financial management positions in such a way that the occupants can exercise their skills and so justify higher rewards.

We should also be looking very hard at how many graduate accountants we really need in the public sector and if there are quasi-accounting jobs which can be carried out by people older than those with a graduate degree.

There are plenty of challenges emerging for accountants - the introduction of modified accrual accounting and current cost accounting, the need for better information for management in a period of declining resources in the public sector and the

need to keep abreast of changing accounting standards. For jobs which are stimulating and which call for developed accounting skills the qualified accountant will always have a huge advantage. The challenge for management is to create real accounting jobs and a real accounting structure so that good people can derive satisfaction from exercising their skills and be properly rewarded.

Whatever is done by way of improving remuneration and challenge for public sector accountants, a fair percentage of well qualified and capable people are going to leave the public service. Therefore it is essential to have an effective recruitment and development program to ensure a continual supply of people with the necessary technical skills and professional judgement.

The Auditor-General's Department has had such a program for a number of years and has been very successful in providing for its needs and covering the inevitable staff losses which occur during a year. Two of the important lessons to be learnt from their experience are the need to establish and maintain recognition on the relevant campuses and the need to offer a structured and comprehensive development program.

A development program is being introduced in 1990. The aim is to recruit about 15 accounting and finance graduates in the first year. Whether or not that is the appropriate number will emerge over time. In any case it will be influenced by the ability of the public sector to attract people in competition with other potential employers and the capacity of agencies to absorb and to train them.

The training program will probably last for about two years and will consist of both central training modules and significant periods in agencies gaining practical experience. For the first six months the salaries of trainees will be centrally funded but after that time it is expected that the host agencies will have found them a position and they will be funded from within agency budgets. The responses by agencies have been most encouraging. They suggest that there will be no problems in absorbing the target number of recruits and that agencies are happy to proceed on the funding basis proposed.

The recruiting task is almost completed. The response to publicity of the program was pleasing in terms of numbers expressing interest. The subsequent interviews with applicants demonstrated that a number of very capable people were keen to participate in the scheme and offers have been made to them.

Graduate financial personnel who have recently joined the public sector were also encouraged to express interest in the program and several such people will be invited to participate.

The report of the Financial Management Workforce Planning Study has received strong support from the Under Treasurer, the Commissioner for Public Employment and the Auditor-General. Its recommendations have been endorsed by the Government Management Board. Funding for the graduate recruitment and development program has been included in the 1989/90 budget and is an important first step in implementing the recommendations of the report.

RECURRENT BUDGET METHODOLOGY AND PROCESS

What follows is a general guide to how the State recurrent budget is developed. Detailed instructions for agencies are provided in Treasury circulars.

Payments Methodology

The development of estimates of recurrent payments each year is based on the calculation of the "no policy change" funding level for each agency. The "no policy change" level of funding is the level of funding required to maintain existing programs on the basis of existing Government policies and commitments. Estimates of payments are prepared for each agency funded from the Consolidated Account. The estimates are essentially based on each agency's expenditure on wages and salaries and goods and services.

The "no policy change" level of funding required for each agency for 1989/90 is broadly calculated as:

- actual spending in 1988/89; plus

- the full-year cost of wage increases awarded in 1988/89; plus
- the full-year impact of 1988/89 budget initiatives or savings; plus
- an allowance for inflation in the cost of goods and services.

Within this broad framework, some elements of individual agency budgets are zero-based and have to be justified each year. Others may not automatically receive an allowance for inflation. Similarly, agencies may also face certain unavoidable cost increases of which account must be taken.

In broad terms, the budget for each agency is equal to:

- the agreed "no policy change" funding level; less
- savings agreed by Cabinet; plus
- initiatives agreed by Cabinet.

At the beginning of the budget process each year, the Government adopts a range of savings scenarios to which agencies must respond. For 1989/90 agencies were requested to provide an indication of measures which could be implemented to reduce funding levels by 1 per cent, 2 per cent and 3 per cent below the "no policy change" funding level. The individual level of savings required of each agency was then determined by the Government in the light of its overall objectives and resource constraints.

Agencies may also be invited to propose initiatives, although there has been an increasing requirement in recent years for initiatives to be offset by savings elsewhere in agency budgets.

Agency Responsibility

Each agency receives a "global" or single line appropriation rather than separate appropriations for different types of inputs or outputs.

This provides very considerable flexibility to Ministers and agencies to use resources available to operate as efficiently as possible. Funds can be reallocated between inputs (eg staffing and goods and services) and between programs. The major restrictions on reallocation are that funds cannot generally be reallocated from an initiative approved in the current year's budget, or in a way

which will reduce receipts or create costs which cannot be absorbed in the following year.

Substantial flexibility is also available in budgeting between years. An agency which "underspends" in a particular year as a result of good management may have these funds built back into its base in the following year and may also be able to carry forward the underspending. Alternatively, it may be acceptable to count underspending towards savings requirements in future years.

In recent years, in the interests of improved financial management and accountability, South Australia has made major advances in devolving responsibility for a wide range of payments direct to agencies. As part of the 1988/89 Budget, for the first time, all costs of office accommodation were devolved to individual agencies, as were the first twenty-one days of workers compensation payments, and a large part of debt servicing costs. These arrangements add significantly to the accurate recognition of the full costs of programs and services, thus contributing to improved decision making and management.

Budget Timetable and Process

The budget timetable necessarily varies from year to year. In general terms, however, the process commences in November of each year with the calculation of forward estimates of payments and receipts (on a "no policy change" basis) for the following three financial years.

These estimates are prepared by Treasury based on costs of inputs (staffing and goods and services), together with general assumptions about economic trends.

These estimates and their implications are used to consider possible scenarios and policy options. Agencies are then requested to respond to specific budget scenarios in relation to both the capital program and recurrent payments. These responses are provided in January and February, analysed and assessed by Treasury and considered by the Treasurer and by Ministers collectively. The broad direction of budget policy is then refined as a basis for more detailed consideration of expenditure and revenue proposals.

There normally follows a round of intensive discussions between Treasury and agencies during April and May concerning "no policy change" estimates and possible savings and initiatives. The Premiers' Conference also provides a better indication of likely Commonwealth financial assistance for the coming year. The budget estimates are then further revised and options reviewed by the Treasurer.

On the basis of these revised estimates and options, bilateral discussions between the Treasurer and individual Ministers follow in June, following which detailed submissions dealing with the range of budget matters are considered by the Cabinet through June and July.

The budget is normally presented to Parliament in August and considered by the Estimates Committees in September. The budget debates then follow through September and October, with the Appropriation Act generally receiving the Governor's assent in late October.

Budget Control and Monitoring

The budget is monitored on a continuing basis with detailed monthly reviews being prepared by Treasury for consideration by the Treasurer.

Agencies are required to contain spending within the allocation provided and staffing must be kept within staffing limits set in the budget. It is an important constraint on agencies that if an agency exceeds its budget in a particular year, the general policy is that the overspending will not be built into its funding base in the following year and, in addition, the amount overspent may be recouped in the following year.

CHAPTER IV

MAJOR TRENDS AND DEVELOPMENTS

The following chapters contain details of the activities of each of the Treasury branches during 1988-89. In this chapter we have drawn together some of the more significant developments.

The Budget and the Economy

Considerable effort was put into improving the overall quality of the 1988/89 Budget papers. The format of the Financial Statement was revised to improve accessibility and the range of information provided was further improved. Increased emphasis was also placed on consistency of format between budget papers.

The Estimates of Payments and Estimates of Receipts documents were produced internally, with significant savings in costs.

A plan for development of Budget Branch computing was completed and funds for this purpose have been provided in the 1989/90 budget. In addition provision has been made for extra staff to carry out program review work and budget research and policy.

There was an increase from four to six in the establishment of the Capital Works Branch which permitted work to be undertaken on the development of analytical techniques for the economic evaluation of projects. A major discussion paper entitled "Guidelines for the Evaluation of Public Sector Projects" was distributed to agencies for comment. The paper is in the process of being finalised.

The Branch assisted the Information Technology Unit to prepare guidelines for the evaluation of information technology projects and is evaluating such projects as they are submitted to the Unit for review.

The monthly survey of employment in major South Australian businesses conducted by the Economic Branch was expanded in a major way during 1988/89. As well as incorporating major private businesses previously not in the survey the expansion also captured public sector business enterprises which are important employers. More than 50% of the State's manufacturing employment is covered by the survey making it an important indicator of trends in this sector.

The Branch did further work on its "experimental" leading indicator index for the State economy testing a number of possible additional components. In their May 1989 report on the economy the Centre for South Australian Economic Studies used the index and a large amount of other statistical material gathered by the Branch.

Accounting

Some of the more important projects undertaken by the Accounting Branch are described in the chapter on Recent Developments in Financial Management. These included -

- new and improved reports from the Treasury Accounting System
- improved banking procedures
- a trial of the use of credit cards for simplifying ordering and purchasing procedures

- a trial of more streamlined accounts payable processes.

During the year all existing reports from TAS for agencies and internal use were produced using the "Information Expert" reporting facility which has replaced the previous report writing method. This has resulted in significant benefits as the new software is more efficient to operate, offers greater flexibility in report production and requires less maintenance.

Events surrounding the Financial Management Workforce Planning Study are described in the chapter on Recent Developments in Financial Management.

The major project undertaken by the Accounting Policy and Systems Branch during the year was the State Superannuation Administration System which commenced operating in July 1989. The previous system became redundant with the passing of the Superannuation Act 1988.

The time between the final specification of the new superannuation legislation and its commencement date (1 July 1988) did not allow for the development of replacement systems. Therefore initial work concentrated on interim systems to help the Superannuation Office fulfil its obligations until a full replacement system was available.

Following a comparison of several options it was decided that on site computer facilities utilising a mini-computer would be most cost effective and best suit the needs of the office. The system is based on a commercially available software package and has been enthusiastically accepted by staff.

Towards the end of 1987-88 a task force was established in Treasury to act in a consulting capacity to help departments overcome the difficulties they were encountering with the Computer Associates General Ledger system (formerly SIGL) and to achieve productivity improvements in the use of the system. All departmental requests for support were satisfied and the training courses developed by the task force were well received. The Australian Accounting Research Foundation and the Public Sector Accounting Standards Board continue to be active in producing new proposals for accounting concepts and standards. The Accounting Policy and Systems Branch responded to a number of such proposals during the year.

The Branch also continued its efforts towards introducing accrual accounting concepts in agencies in order to improve performance measurement and the quality of decision making. A major step forward was taken with the release of a Treasurer's Instruction requiring agencies to have asset registers in place by June 1990. Progress towards this goal is being monitored and guidance offered to those agencies experiencing difficulties.

Several departments have shown interest in placing their activities on a more commercial basis and have approached the Branch for assistance. We are currently working with the Lands Department and the Department of Marine and Harbors to develop more appropriate accounting structures.

Progress in this area is determined largely by the enthusiasm shown by agencies. Without commitment on the part of agency management it is unlikely that new accounting structures will produce lasting improvements.

The Branch co-ordinated the Government's response to the Industries Assistance Commission enquiry into the impact of Government-provided goods and services on the competitiveness of Australian industry.

Taxation

During the year attention was directed towards the development of means of measuring and improving the efficiency and effectiveness of taxation collection. Several performance measures have been developed and progress continues with the upgrading of computer systems. Consideration is also being given to changes to the organisational structure of the State Taxation Office to facilitate greater delegation of authority and speedier response to taxpayers.

Rapidly escalating land values continue to increase liability for land tax. Notwithstanding changes to the land tax scale and remissions of tax for 1988/89 considerable resources were devoted to responding to enquiries about land tax accounts.

A new computer-based online system for Payroll Tax commenced operations in July 1988. Implementation of the system was on target both in time and cost. Expected benefits, such as improved customer service, management reporting and general efficiency were achieved. In conjunction with revised recovery procedures the ver-

satality of the system has produced vast improvements in the recovery time frame where employers default in paying tax.

An increasing tendency for taxpayers to defer the lodgement of dutiable instruments or to refrain from lodging such instruments in the hope of evading duty led to a review of the policies relating to penalties for late lodgement and stamping. The increase in penalties which followed this review had a significant effect in improving performance by taxpayers.

Approval was given in 1988/89 for the allocation of additional resources for the State Taxation Office to provide the necessary input into research, planning and legislative development to combat tax avoidance and tax evasion. Two additional positions were created to work in this area and these positions were filled by January 1989.

The majority of taxation revenue collected by the State Taxation Office is on the basis of self-assessment by taxpayers or their representatives. An important aspect of good tax administration is to ensure that tax avoidance and evasion activities are carefully monitored and acted upon. Inspection and investigation activity is therefore intended first to prevent the erosion of the tax base, and secondly to enhance it by quantifying and collecting potentially unpaid revenue.

In April 1989 the Taxation (Reciprocal Powers) Act, 1989 was passed by Parliament. This Act provides reciprocal powers of investigation beyond State borders to combat taxation avoidance and evasion in order to overcome difficulties encountered as companies extend their operations beyond State boundaries and become more sophisticated in their operations. In addition, facilities have been established to allow for the exchange of information between the State Taxation Office and the Australian Taxation Office.

SAFA

The SAFA surplus for 1988/89 was \$287 million of which \$220 million was paid to the Government in that year and \$60 million will be paid in 1989-90. The balance of \$7 million was allocated by the Treasurer to SAFA's General Reserve.

During the year the Domestic Finance Branch made new issues of inscribed stock totalling \$1,034 million through a Dealer Panel. This panel

has the dual role of ensuring orderly placement of stock into the primary market and maintaining liquidity in the secondary market by actively quoting buy and sell prices to investors.

In 1987 SAFA was the first borrower in Australia to implement this dealer panel concept and its success is reflected by the number of the major domestic borrowers - both semi-government and corporate - which have since moved in a similar direction. During the year, membership of the Dealer Panel was expanded from 4 to 6 market-makers. Additionally, a further 7 organisations were appointed as Tender Panel members, thus allowing a wider range of market participants direct access to SAFA paper.

Towards the end of the year, SAFA decided that it would seek to diversify its debt portfolio through the issue of Consumer Price Index capital-indexed inscribed stock. The first placement of stock was made in May and, by the end of the year, a total of \$69 million has been issued - with a coupon of 4% and a maturity of 20 August 2015. At year end, arrangements were in hand to establish a second maturity for SAFA capital-indexed issues, namely 20 August 2002 (4% coupon) and commitments had been made for the issue of over \$90 million of that stock early in 1989/90.

During 1988/89, arrangements were made between the Government, SAFA, the State Bank of South Australia and the Minister of Housing and Construction, whereby all assets and liabilities associated with the existing concessional housing scheme were transferred from the State Bank's balance sheet to the Minister of Housing and Construction as a body corporate. The new arrangements involve the State Bank acting as the Minister's agent in administering the scheme. The existing level of capital provided to the Bank by the Government and SAFA remained unchanged, thereby providing for future expansion by the Bank.

A number of significant computing systems developments were finalised during the year which provide a base from which the majority of management reporting requirements can be met. A mini-computer was installed in October 1988 to establish a multi-user network comprising a mixture of terminals and personal computers located throughout the organisation. This network provided substantial gains in terms of the efficient use of staff resources by providing access to information held in the corporate data base.

The next phase of system development is to ensure that potential gains available from the systems are fully exploited. This will be achieved through extending access to the system to all sections of SAFA and supporting the users with training in order that they can extract the information needed to manage and report on SAFA's various activities.

As opportunities arise SAFA continues to undertake structured financing arrangements which provide the State with funds at attractive borrowing costs. In addition SAFA was involved in developing arrangements for the provision of finance on attractive terms to the South Australian Cricket Association for the construction of a new grandstand at the Adelaide Oval. This finance is being provided on terms commercially satisfactory to both SAFA and SACA.

In July 1988, SAFA undertook its first borrowing in the Japanese domestic market, a Samurai Bond issue for Yen 10 billion with a coupon of 5.2% maturing in 1993. Concurrently with the Samurai issue, SAFA entered into an interest rate and cross currency swap which converted the fixed-rate Yen borrowing to a \$US76 million floating rate borrowing at a margin below LIBOR. The proceeds of the borrowing were invested in floating rate US\$ assets.

The approach adopted by SAFA in managing interest rate risk attempts to strike a balance between the risk of excessive volatility in the Common Public Sector Interest Rate on the one hand (and the uncertainty this implies for the annual interest rate bill in dollar terms) and the risk of being locked into high fixed rates on the other. Australia has experienced substantial fluctuations in longer-term interest rate levels, and the risk of being locked into a high fixed rate interest burden if inflation and interest rates fall is significant.

A "benchmark" approach has been adopted by which an ideal net debt profile is established as a point of reference and new money and rollover borrowings are spread throughout the year so as to maintain a cumulative debt stock maturity which matches the "benchmark".

SAFA is prepared to move its debt structure away from its "benchmark" in accordance with changes in its interest rate views from time to time. However, the radical and largely unanticipated fluctuations in interest rates which occurred over the course of 1988/89 point to the risks involved

in a heavy reliance on interest rate views in asset and liability management. Little contribution to reducing interest costs was made in 1988/89 on account of taking views in this manner.

Superannuation

Throughout the year complex and onerous Commonwealth legislation on superannuation was awaited. Considerable time was spent by the Public Actuary and the head of the Superannuation Policy and Management Unit in discussion with officers of the Commonwealth and the other States and in analysing responses which it might be appropriate for the State to make. A policy of seeking Constitutional protection for State schemes was recommended to the Government.

Final details of the Public Sector Employees Superannuation Scheme were negotiated. Benefits provided by the scheme are -

- 3% of salary and wages for employees who are not members of the State pension scheme
- 2% of salary and wages for employees who are members of the State scheme.

The benefit arising under this scheme for members of the State pension scheme was reduced by 1% to meet the cost of the preservation of benefits option incorporated into the pension scheme.

The scheme is of necessity being administered on a manual basis until the new computer systems for administering the State scheme are in operation. It should then be possible to develop a system to administer the PSESS using the hardware purchased for the State scheme.

The Superannuation Act, 1988, came into operation on 1 July 1988.

The legislation introduced the State Government's new lump sum superannuation scheme and also made a number of changes to the existing pension scheme which had been closed to new entrants since 30 May 1986. Government employees could still join the pension scheme up to 30 June 1988 but only under transitional arrangements. With the new legislation they were given the option of transferring into the lump sum scheme with an appropriate credit for their periods of membership in the pension scheme or cancelling their membership.

The new scheme contains a number of innovations. Membership is now extended to casual employees, provides variable contribution rates

(1.5% to 9% of salary), the option of preserving benefits on resignation with employer vesting, and the facility to cease contribution during periods of financial hardship.

These changes enable all public servants (this includes employees of statutory authorities) to become a member at any age. The flexibility of the new scheme has particularly encouraged women of all ages to join. Previously factors such as casual status and movement in and out of the workforce had kept many women out of the scheme.

Over recent years the use of the Voluntary Savings Scheme has declined, probably because of the range of salary deductions available and the on-line salary credit facilities offered by credit unions and other financial institutions. Although the Scheme offered a useful service during a time when the range of salary deductions and superannuation access was more limited, the reasons for its existence have virtually disappeared. The Board had previously signified its intention to review the future of the scheme and decided early in 1989 that it should be discontinued. Final payments to depositors were made in May 1989.

SASFIT

Taxation of superannuation funds continues to be a major issue influencing the management of superannuation funds. Between May 1988, when the Federal Treasurer announced significant changes to the taxation status of superannuation funds effective from 1 July 1988, and the passage of the legislation in June 1989, superannuation investment managers generally have operated with considerable uncertainty as to the eventual taxation status of funds under management, and even more so in relation to State Government superannuation schemes where Constitutional protection issues are involved. These uncertainties have significantly delayed a review by the Investment Trust of its investment strategies.

The investment policy for several years has been progressively to restructure the investment portfolio so that returns move with inflation, by reducing the proportion of fixed interest investments in favour of index linked arrangements and equity investments of various types. Following the passage of taxation legislation investment policies are now being reviewed to take into account the effects of the taxation legislation and

also the different characteristics of the two divisions of the South Australian Superannuation Fund.

From and including the 1988/89 year, the Trust has adopted the use of market values within its annual audited financial statements. Such reporting is in line with existing superannuation industry practice and will more accurately disclose the financial status of the South Australian Superannuation Fund and the performance of the Trust.

The Trust has made no new housing loans on mortgage since 1981 when a decision was taken that such investments were no longer consistent with the Trust's investment policies. With the increasing emphasis being placed on the performance of the Trust it is considered inappropriate to have funds tied up in loans which are essentially a service to contributors rather than a commercially justifiable investment. Accordingly the outstanding loans were sold to the Hindmarsh Adelaide Building Society in February 1989.

Actuarial

Actuarial reports were completed for both the South Australian Superannuation Fund and the Police Pensions Fund. The report on the South Australian Superannuation Fund recommended certain changes to the Superannuation Act 1988 but did not recommend any change to member contribution rates or to the proportion of benefits met by the Fund.

An actuarial investigation of the Long Service Leave (Building Industry) Fund had been largely completed by the end of the year.

A new pensions scheme for police officers was developed and substantial agreement reached with police unions concerning the details of the proposed scheme.

In February 1988 a program was commenced to improve insurance and risk management arrangements in the public sector. The broad aims were to re-establish the Government as a self-insurer and reduce costs by adopting an active approach to risk management.

During 1988-89 a substantial number of insurance policies were allowed to lapse and self-insurance arrangements were put into place under which agencies will meet part of the cost of future losses.

Risk audits carried out by Sedgwick Limited in eight departments and two authorities have identified areas which represent potential risk to the Government from a property loss or liability point of view. Risk management practices such as the establishment of co-ordinated fire fighting and fire prevention programs are being encouraged within departments.

On 1 July 1988 the Department of Labour transferred responsibility for administering fire losses in government buildings to the Public Actuary's Office. There were 21 fires during 1988/89. A total of \$2.2 million was reimbursed during 1988/89 for fires that occurred in the period 1982-1989, and outstanding losses at 30 June 1989 were estimated to be \$3.2 million.

The Friendly Societies Act was amended during the year to allow for a wider variety of investments to be made by friendly societies and to give the Public Actuary some control over marketing material. A comprehensive review of the Act was commenced but has progressed slowly because the Association of Friendly Societies of South Australia was pre-occupied with other issues.

CHAPTER V

PROVISION OF BUDGETARY AND ECONOMIC ADVICE

OBJECTIVES

Provision of budgetary advice is one of Treasury's core activities. It encompasses -

- coordinating preparation of the State budget, ensuring that the Government's budgetary targets are met, the agreed timetable is achieved and adequate consultation takes place;
- preparing budget documents of high professional standard for Parliament;
- monitoring budget performance and advising the Treasurer of variations and alternative courses of action in a timely fashion;
- evaluating the use of resources and providing suggestions on better use of resources to assist the Treasurer, Ministers and agencies to meet their objectives within budget constraints;
- assisting Ministers and agencies in accounting and budgetary matters and in obtaining necessary approvals from the Treasurer;
- promoting the long-run financial viability of the State public sector;
- providing timely and quality advice to the Treasurer on resource issues;
- advising the Treasurer on Commonwealth/State relations with a view to maximising Commonwealth funding.

This work is carried out in five major cycles -

- a weekly cycle of preparing comments for the Treasurer on all Cabinet submissions with financial implications;

- a monthly cycle of reports to the Treasurer on the current year's budget, summarising progress in relation to the current year's financial and workforce targets with detailed analysis of any major variations;
- an annual, continuous cycle of budget preparation, commencing in October/November of each year with preparation of forward estimates. The budget cycle continues until October/November of the following year when Parliament passes the budget;
- an annual cycle of briefing on Premier's Conference/Loan Council matters and involvement in Commonwealth State financial relations.
- an ongoing cycle of involvement in Commonwealth Grants Commission activities with annual updates and five yearly reviews of State relativities.

Responsibility for provision of budgetary advice is shared between the Budget Branch and the Capital Works Branch. Although the activities of the two branches have been separately reported, much of what follows with respect to the Budget Branch applies also to the Capital Works Branch since very similar cycles for budget preparation and monitoring are followed by both.

BUDGET BRANCH

Budget Branch has responsibility for provision of budgetary advice in relation to the recurrent budget, together with a general coordinating role in budgetary matters. In undertaking its work, a number of factors are critical. These include -

- accurate calculations in budget preparation;
- impartiality and consistency in dealing with agencies;
- good external and internal relations;
- sound, professional budget analysis and advice;
- integrity in presentation of data;
- appropriate numbers of suitably skilled staff and good morale.

Developments During 1988/89

(a) Budget Preparation

Preparation of the 1988/89 Budget was completed according to the Government's timetable and, for the second year in a row, incorporated a reduction in the planned borrowing requirement. Major emphasis was given in the 1988/89 Budget to social justice as an overall Government priority and the increased emphasis on overall Government priorities is expected to be developed further in the 1989/90 Budget.

(b) Budget Papers

Considerable effort was put into improving the overall quality of the 1988-89 Budget papers. The format of the Financial Statement was revised to improve accessibility and the range of information provided was further improved. Increased emphasis was also placed on consistency of format between budget papers.

The Estimates of Payments and Estimates of Receipts documents were produced internally, with significant savings in costs.

(c) Budget Methodology and Process

Further efforts were made during the year to update and better document the overall recurrent budget methodology.

A circular was distributed on the carryover of savings and a conference paper was prepared on the treatment of commercial activities within the recurrent budget. Documentation for Branch officers on recurrent budget methodology was also improved.

(d) Resource Use

As noted in last year's report, increased emphasis is being given to longer term reviews of resource use. During the year the Branch was heavily involved in a review of judicial resource needs, committees created as part of

the second tier wage settlement and reviews of resource utilisation in the health sector. Work was also undertaken on developing a framework for regular reviews of Government programs.

(e) External Relations

Close relations with other State Government agencies are critical for the work of the Branch. Agencies provided considerable assistance to the Branch during the year, assistance which is very much appreciated. During the year a number of agencies took the trouble to provide briefings to Treasury staff on major issues. Such briefings are of great assistance to Treasury staff in obtaining a better appreciation of issues facing agencies. Treasury has also provided a number of presentations on the budget process and budget outlook to agencies.

The Branch also works closely with other central agencies: the Department of Premier and Cabinet (particularly the Cabinet Office, Inter-governmental Relations and Advisory Services Division and the Social Justice Unit), the Department of Personnel and Industrial Relations (particularly the Industrial Relations Division) and the Office of the Government Management Board. Again, the assistance provided by these agencies in 1988/89 is very much appreciated.

Branch staff have also given lectures to tertiary students about aspects of the State Budget and provided assistance to the State Priorities Project, a major research project being carried out jointly between Flinders University and the Australian National University.

(g) Commonwealth/State/Local Government Relations

As well as carrying direct responsibilities, Budget Branch has major responsibilities in the area of Commonwealth/State/Local Government relations.

These include -

- involvement in the work of the Commonwealth Grants Commission as noted above;
- negotiation and monitoring of general purpose and specific purpose programs of assistance from the Commonwealth;

- representation on the Interdepartmental Committee on Local Government and involvement in specific issues affecting the financial relationship between the State Government and Local Councils in South Australia.

(h) Branch Management

Following extensive discussions within the Branch during the year, the following priorities were identified in relation to the internal operations of the Branch:

- greater emphasis on staff development;
- improved records management;
- improved documentation;
- further development of computing systems;
- improved layout of office accommodation.

Action was taken in relation to each of these areas. A survey was undertaken of staff development needs within the Branch as a basis for a development program for each officer.

A review was undertaken of records management within the Branch and procedures developed for an improved system. Better, centralised storage arrangements were also developed. Documentation of the budget process and methodology was also undertaken to improve training of new staff.

During the year a major commitment of resources was also made to improving computing within the Branch. An officer was assigned full time to provide computing support within the Branch. A plan for development of Branch computing was also completed, for implementation in 1989/90.

Improvements were made to the layout of the Branch's accommodation to improve working conditions for staff.

Work was also undertaken on the staffing needs of the Branch, particularly in relation to program review work and budget research and policy.

CAPITAL WORKS BRANCH

The Capital Works Branch provides budgetary and economic advice with respect to the capital side of the State budget. It also provides staff support for the Capital Works Budget Committee.

The work of the Branch includes four major activities, namely -

- development on a rolling basis of the Government's forward capital works program;
- monthly monitoring of actual capital receipts and expenditures against budget, in total and by individual agencies;
- fostering the development and use by agencies of project analytical techniques applicable to specific areas within the wide variety of capital expenditure proposals;
- providing advice and comments on all specific capital works proposals submitted for consideration by Cabinet.

Organisation and Modus Operandi

Additional funding and staff were provided to the Branch, thus enabling the previously approved new organisation to be implemented. The key change following the increase in staffing from 4 to 6 officers was the establishment of a section responsible for the fostering and development of analytical techniques for the economic evaluation of projects.

In the task of developing the Government's forward capital works program, the Branch works in conjunction with the Capital Works Budget Committee. The Under Treasurer is a member of the Committee and the Director is Executive Officer of the Committee; the Branch provides the technical and administrative base for the Committee.

The task requires the Branch to obtain works proposals from agencies for consideration by the Committee to prepare the necessary consolidation and analysis of information and data and to draft the Committee's report.

Following the submission of that report, the Branch is required to -

- finalise the details of the capital works proposals to be included in the Treasurer's Budget submission to Cabinet;
- advise agencies of approved allocations and forward commitment figures;
- in conjunction with agencies, compile the details of the capital works program in the format required for presentation in the Budget Papers, and arrange for the printing of the relevant papers.

The other responsibilities of the Branch are carried out as on-going tasks throughout the year.

Developments During 1988/89

Following its establishment, the Project Evaluation Section produced a major discussion paper entitled "Guidelines for the Evaluation of Public Sector Projects". This paper was distributed to agencies as a draft for comment. Comments subsequently received have been consolidated and the task of finalising the paper begun.

The services of the Project Evaluation Section were made available to the Information Technology Unit of the Government Management Board to:

- (1) assist in the preparation of guidelines for the evaluation of information technology projects;
- (2) provide expertise in the evaluation of IT projects submitted to the Unit for review.

The call on the Section for this work exceeded expectations.

ECONOMIC BRANCH

Current Functions of the Economic Branch

The Economic Branch is responsible for providing an economic advisory service to the Government and a number of its agencies. This service is delivered by -

- providing regular economic briefs on a wide range of economic data. The briefs are provided to the Premier, to the Minister of State Development and Technology, and to officers in a number of agencies including Treasury, Premier and Cabinet and State Development and Technology;
- providing a monthly report on the latest international, national and local economic trends to the Economic Committee of Cabinet;
- providing specific briefings on State economic trends for the Premier;
- undertaking a monthly employment survey of major South Australian businesses;
- preparation of an experimental composite leading index for the South Australian economy, in order to attempt to forecast short-term economic prospects;

- providing underlying economic assumptions on which Budget estimates are formulated;
- answering a large number of requests from within and outside the public service for relevant economic and statistical information;
- representation on committees and attendance at meetings which monitor and/or analyse economic trends;
- preparing two major South Australian Economy papers - one to accompany the SA State Budget, the other originally designed as a more investment-orientated descriptive paper used for investors or for SAFA's briefings of rating agencies (eg Standard & Poors, Moodys, Japan Rating Agency), but which has now been distributed on a wider basis as an information paper.

At the end of the financial year 1988/89 staff numbered four officers comprising the branch head, two economists and part-time secretarial support. An additional economist is due to commence work early in the 1989/90 financial year. A graduate economist was recruited in January 1989.

Developments During 1988/89

Treasury Information Paper No 2, taking an overview of the trends in the South Australian economy over the last decade, was made available to the public early in the financial year.

Expansion and updating of the Branch's extensive computer data base of economic statistics continued during 1988/89. Most notable of these additions were national data on components of Gross Domestic Product (to assist short-term forecasting), overseas tourist arrivals, and financial indicators such as money supply, interest rates and credit extended which have become a major focus of economic policy analysis.

The Economic Branch's monthly survey of employment in major South Australian businesses, initially started in 1977, was expanded in a major way during 1988/89. As well as incorporating major private businesses previously not in the survey, this expansion also involved the inclusion of public sector business enterprises (Commonwealth and State) that are important employers. The survey's coverage of total State employment rose from 14% to almost 20% at June 1988 as a result of the expansion. More than 50%

of the State's manufacturing employment is covered by the survey, making it an important source of employment trends for this sector.

The Branch did further work on its "experimental" leading indicator index for the State economy, with testing of possible additional components being undertaken. Seven components are currently being used in the index. The Centre for South Australian Economic Studies, in their May 1989 half-yearly report on the economy used the Branch's index and a large amount of other statistical material gathered by the Branch.

Forecasts of movements in key economic indicators, mainly prices, were coordinated with Budget Branch officers to facilitate preparation of forward estimates for the State Budget.

Considerable research time during the first half of 1988/89 was spent on statistical and graphical input to a possible economic development strategy for the State being co-ordinated by the Department of the Premier and Cabinet.

Other developments during the year included some work on economic impact of development projects within the State, and reviewing economic and statistical analysis included in the "State priorities" project.

CHAPTER VI

MAINTENANCE AND DEVELOPMENT OF ACCOUNTING POLICIES AND SYSTEMS

The delivery of this program is undertaken by the Accounting and Accounting Policy and Systems Branches. The Accounting Branch has responsibilities in two main areas - one supports the central Government accounting processes, including appropriation control, the other provides internal services to the Treasury Department. The activities and achievements in these areas are listed below.

ACCOUNTING BRANCH

Central Accounting

The objectives in this area are -

- to maintain the Government's central accounting records
- to ensure all expenditure is in accordance with legal appropriation authority
- to produce the Government's financial statements
- to coordinate Government banking arrangements
- to manage and operate efficiently the Treasury Accounting System (TAS)
- to provide essential support for the continued development of program based accounting and financial management in departments.

In recent years the most significant development in carrying out these functions has been the introduction of the Treasury Accounting System which has resulted in major changes to the existing methods and procedures associated with day to day operations.

Apart from providing essential support for the introduction of Program Budgeting and improved information for cash management, TAS has introduced beneficial changes in the work of the Accounting Branch. Departments are no longer required to hand deliver manual summaries of debits and credits to Treasury. TAS has automated the ledger posting process and has allowed Treasury to phase out the use of mechanical ledger machines and this has eliminated many manual checking and other clerical tasks. Staff now find the nature of their work more interesting and more challenging. Typically, tasks involve establishing new accounts and accounting structures, developing new reports and following up possible discrepancies highlighted by the system. Overall there is greater confidence in results.

TAS has resulted in a range of benefits for the Accounting Branch including -

- improved reporting capabilities
- streamlining of clerical procedures
- improved control over payment of accounts processing
- increased flexibility in funds control

- reduction in clerical staff.

Again, as in past years, accounting staff in departments have been given refresher courses in the TAS procedures, forms and reports. In addition, staff provide a continuous liaison and advisory service to departments on information and procedures associated with TAS.

During the year the number of processing runs has reduced from an average of 11 per month to 10. For these runs both an officer from Treasury and from State Computing are on-call in case of failures in processing.

Continued improvements undertaken in TAS include -

- microfiling of additional reports used internally in Treasury in order to reduce the quantity of paper produced and thereby save on storage space
- with the recent purchase of a non-impact (laser) printer by State Computing we are investigating the feasibility of its use for hard-copy output. It is likely to result in reduced costs, less paper, better quality print and increased flexibility in printing.

On an on-going basis, staff are continually endeavouring to find ways of reducing the operating costs of TAS.

For the past year emphasis has continued to be directed towards gaining maximum benefit from the system particularly in regard to management reporting.

During the year all existing reports for agencies and internal use were produced using the "Information Expert" reporting facility which replaced the previous report writing method. This has resulted in significant benefits as the new software is more efficient to operate and also offers greater flexibility in report production and requires less maintenance. A number of new reports were also developed for agencies.

A review was conducted of Government purchasing procedures which recommended the trialling of credit cards. The Treasurer has approved of credit cards being trialled in three agencies to assess their benefits. The trials are expected to commence early in the 1989/90 financial year.

A review was also conducted of the Government's payment of accounts procedures. The review recommended that accounts less than \$100 be subject to a reduced level of checking as part of a new risk management strategy. The new procedures will be trialled in two agencies during the first half of the 1989/90 year.

The Branch has assisted in the development of a number of accounting policies including a policy for accounting for long service leave which is currently under consideration.

Further work was undertaken with agencies and the Reserve Bank on improving Government banking arrangements. Progress was made in a number of areas including -

- computerisation of the daily banking transactions to enable direct input to TAS which has saved a significant amount of manual coding
- reducing the time delay for several agencies in lodging revenue collections in the Government's bank account which has resulted in increased interest earnings.
- co-ordinating the acceptance of credit cards by specific departments.

In addition further progress was achieved with officers from SAFA in improving overall public sector cash management arrangements. Work continued on the development and upgrading of Treasurer's Instructions. A review of the Public Finance and Audit Act has also commenced.

An officer of the Branch was involved with DPIR in a joint workforce planning study of accountants, economists, financial managers and people with financial management skills within the public sector. The report's recommendations were approved by the Government Management Board in March 1989 and an officer will be appointed shortly to help implement the recommendations.

The Branch continued to coordinate matters relating to the Fringe Benefits Tax within Government departments including the provision of advice and collection of the tax.

Departmental Services

The task of this group is to provide financial services for the Treasury Department including general accounting, payroll, budgeting and financial reporting. This includes an accounting service provided for the SA Superannuation Fund. The majority of activities undertaken during the year were of a routine nature associated with the above objectives.

Major achievements during the year included -

- further improvements in budgeting and control of expenditure for the department
- provision of detailed sick leave statistics to management
- computerisation of pension payments to former members of Parliament
- provision of assistance to the Budget Branch in the production of the Program Estimates.

ACCOUNTING POLICY AND SYSTEMS BRANCH

The systems activities of the Branch are conducted on a project basis, with the individual projects selected in accordance with the department's ADP Strategic Plan to address specific problems and issues of concern to Treasury. Although project officers from the section prepare systems specifications and implement systems, most major system development activity is performed on our behalf by State Computing or by external consultants. Further, considerable use is made of commercially available software packages.

The major computing project undertaken by the Branch in 1988/89 was the State Superannuation Administration System (SSAS) which became operational in July 1989. The system replaces the Superannuation Contributions and the Superannuation Pensions systems which became redundant with the passage of the new Superannuation Act.

The time between the final specification of the new superannuation legislation (April 1988) and the date of its operation (July 1988) was insufficient for the development of replacement systems. Therefore, the Branch's initial work concentrated

on interim systems which would help the Superannuation Office fulfil its obligations until a full replacement system was available.

The Branch continues to provide a support service to other Treasury staff and to other departments using the Treasury Accounting System.

The Online Procurement System (OPS) being promoted by the State Supply Board holds potentially significant implications for the Treasury Accounting System (TAS). Besides forming the basis for much of the input to TAS, the OPS system envisages a rearrangement and sharing of TAS files and processes. Treasury staff have been involved in the initial stages of OPS, and it will be important for Treasury officers to be actively involved in planning, developing and implementing any proposed interfaces.

Last year following the post implementation review of the Software International General Ledger System, a Task Force was established within Treasury to act in a specialist consulting capacity to help departments overcome some of the difficulties they were encountering and to help them achieve immediate productivity improvements.

Since there is an ongoing need for these systems support services, the Task Force continued its efforts during 1988/89. All departmental requests for support have been satisfied and our training courses have been well received. A new release of the general ledger system is imminent and it is expected that it will be evaluated during 1989/90.

The increased emphasis placed on improving accounting and financial management has required the Branch to advise many agencies on the use of general ledger and fixed assets systems.

The section also provides technical support to the other branches of Treasury. This includes support of mainframe system software packages and of the department's personal computing activities. Owing to the pressure of other activities, it was not possible to conduct all of the training courses planned for 1988/89. However, video based training courses have been made available to staff to ensure that some of the necessary training is provided to equip them with the skills they need.

Work on the specification of systems to meet the requirements of the 3% Public Sector Employees Superannuation Scheme was held up pending resolution of the details of the scheme, but was well advanced by the end of the year. It is proposed to develop this system on the same equipment which has been acquired for the other superannuation schemes operated by Treasury staff. Clashes with target dates for other systems has prevented us from developing and implementing this system earlier.

The Branch has prepared an End-User Computing Policy to be used as a guide to efficient, effective and secure use of computer systems in Treasury.

Advances in Government accounting continue to be made in Australia and overseas. In Australia the Australian Accounting Research Foundation and the Public Sector Accounting Standards Board have issued drafts and pronouncements on accounting concepts and standards, and several Governments are improving their accountability performance measurement and decision making techniques. We consider it important that Treasury respond to the initiatives of these bodies and that matters peculiar to Government (and particularly the South Australian Government) are given due consideration. It is also important that accounting improvements originating within the South Australian public sector be well coordinated to ensure that Government accounting remains cohesive. Accordingly, the Accounting Policy and Systems Branch is placing greater emphasis on accounting policy issues to enable Treasury to give greater direction to agencies throughout the South Australian public sector. We also consider it important that we do not duplicate fundamental research carried out by other bodies and we are encouraging a joint approach with other States and with the accounting profession to avoid this and to help accelerate progress with Government accounting.

During the year the Branch responded to Exposure Drafts issued by the Public Sector Accounting Standards Board dealing with "Definition of the Reporting Entity", "Definition and Recognition of Expenses", and the "Proposed Statement of Policy on Differential Reporting".

As reported last year the present accounting methods used by agencies do not provide a satisfactory basis either for performance measurement or for decision making purposes because of the emphasis given to receipts and payments of cash rather than to the Government's income and expenditure. As a result we have continued our efforts towards introducing accrual accounting concepts. There is a considerable amount of work involved in introducing this change and we have divided the thrust into a number of stages consistent with the Government's expressed preference for evolutionary rather than revolutionary changes. These stages spread the work over several years and address those items having a material impact on financial information. They include, superannuation; long service leave; asset registers; depreciation; accrual based statements; and current cost information.

The introduction of accrual accounting requires that the Government's asset accounting procedures be changed to indicate the level of its investment in assets and the associated depreciation costs. Accordingly Treasury has released Treasurer's Instructions requiring departments to keep asset registers and has offered to provide systems support to agencies electing to adopt the preferred computer packages. The initial work entailed in developing suitable asset registers should be completed by June 1990. Once satisfactory asset registers have been developed, departments will be able to produce the valuation and depreciation information required for accrual accounting for assets.

But simply changing to accrual accounting will not be sufficient to overcome the accounting problems confronting us. It is widely acknowledged that historical cost information is not satisfactory for decision making or performance assessment purposes where costs need to be spread over many periods or where inflation is significant. Both of these situations are presenting problems for the Government in accounting for its costs.

Therefore, in addition to the thrust towards accrual accounting, Treasury is investigating the suitability of current cost accounting approaches to the public sector.

Introduction of the above changes should improve the quality of information available about both the financial position and the financial performance of agencies. Eventually, it will allow also the production for the first time of statements reporting on the financial position and the financial performance of the Government at large.

The Branch maintains the Treasurer's Instructions, which set out various mandatory and preferred practices and procedures to be followed by agencies. The Instructions have been developed to standardize and improve internal controls in agencies, and to help agencies develop sound manuals of procedures consistent with central objectives.

The Treasurer's Instructions are being updated continually, either to extend the range of matters addressed or to update or improve instructions released previously. During the year Instructions were released covering financial reporting, maintenance of asset registers, credit cards, ex gratia payments and the Government vehicle registration scheme. Further the Branch collaborated with State Computing to improve access to the Instructions by making them available through online enquiries to State Computing's computer.

A number of departments have shown an interest in placing their affairs on a more commercial basis and have approached the Branch for assistance in using Special Deposit Accounts for that purpose. Those assisted to date include the Engineering and Water Supply Department, the State Services Department, and the Public Trustee. We are also working with the Lands Department and the Department of Marine and Harbors to develop more effective financial and accounting structures.

The Branch coordinated the Government's response to the Industries Assistance Commission enquiry into the impact of charges for Government provided goods and services on the competitiveness of Australian industry.

Staff development continues to be particularly important for the Accounting Policy and Systems Branch not only because of the rate of technological change encountered in systems activities, but also because of the rapid advances being made in financial management and reporting techniques for Government agencies. Accordingly, staff

from the Branch attended the Treasury Officers Conference, various accounting seminars, training courses in systems analysis, and training courses in the use of various proprietary software packages operating in both mainframe and personal computing environments.

Staff participated in a number of seminars arranged as part of the Professional Development Program of the Australian Society of Accountants. The Director of the Branch is an active member of the Government Accountants Group Committee of the SA Division of the Australian Society of Accountants.

CHAPTER VII

ADMINISTRATION AND ENFORCEMENT OF STATE TAXATION LEGISLATION

The State Taxation Office is one of several divisions which form the Treasury Department.

Its principal functions are the collection of taxation revenue for the South Australian Government and the provision of policy advice to the Under Treasurer and the Treasurer.

LEGISLATION

The Office is responsible for the administration of the following Acts -

- Business Franchise (Petroleum Products) Act, 1979
- Financial Institutions Duty Act, 1983
- Land Tax Act, 1936
- Pay-roll Tax Act, 1971
- Stamp Duties Act, 1923
- Tobacco Products (Licensing) Act, 1986
- Gift Duty Act, 1968*
- Succession Duties Act, 1929*

(*These Acts only apply to gifts and deaths respectively prior to 1/1/80).

The Office is also responsible for the collection of contributions under the provisions of the Phylloxera Act, 1936.

OBJECTIVES

The corporate objectives of the State Taxation Office are -

- to optimise taxation revenue
- to ensure the equitable and effective administration of taxation legislation;

- to ensure the cost efficient collection of taxation revenue;
- to implement sound personnel management policies;
- to monitor compliance and enforcement of legislation, to protect the revenue to which the state is properly entitled and to preserve the taxbase;
- to provide advice on the development of taxation policy;
- to develop tax legislation;
- to provide the best possible service to the public given legislative parameters.

FINANCIAL MANAGEMENT / MANAGEMENT OF FINANCIAL PERFORMANCE

State Taxation Revenue

Taxation revenue accruing to the State through the State Taxation Office can be classified into six major categories: viz Business Franchise (Petroleum), FID, Land Tax, Pay-roll Tax, Stamp Duties and Tobacco Products (Licensing). Figure 7.1 depicts the relative contribution of these receipts during 1988/89 while Figure 7.2 provides a comparison for the year 1988/89 with 1987/88.

Figure 7.1 - MAJOR SOURCES OF INCOME - STATE TAXATION OFFICE -

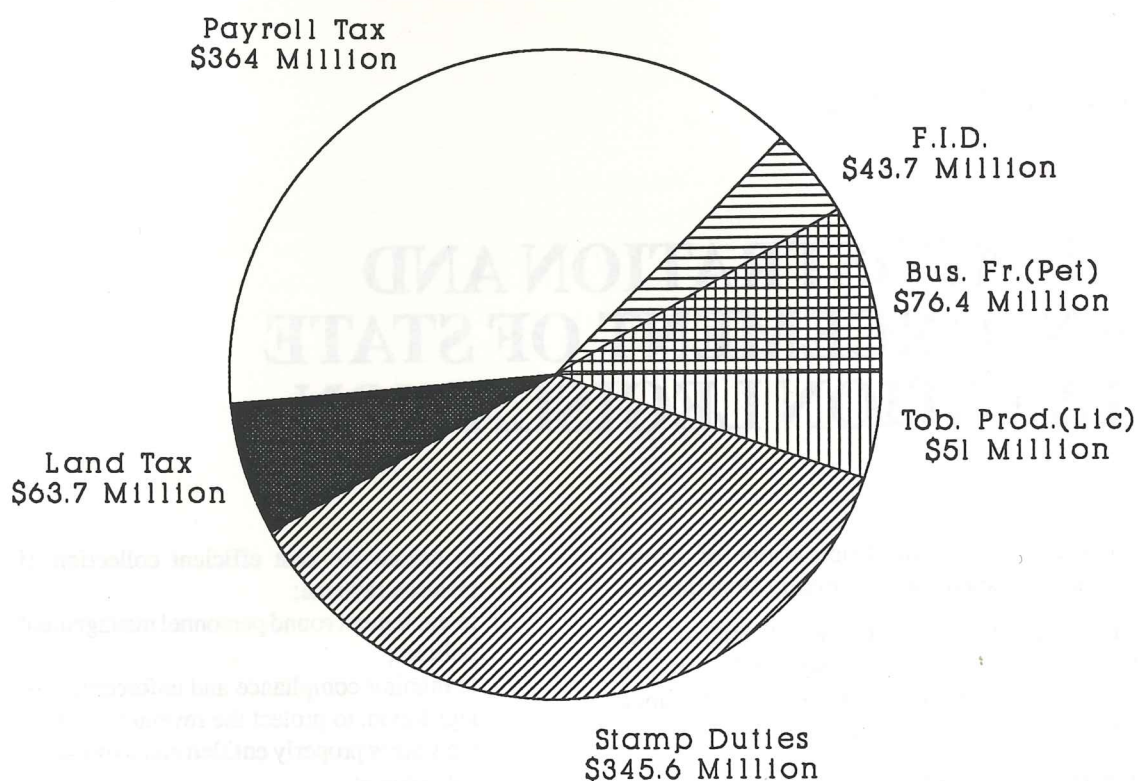


Figure 7.2 - VARIATION OF RECEIPTS - 1988/89 over 1987/88

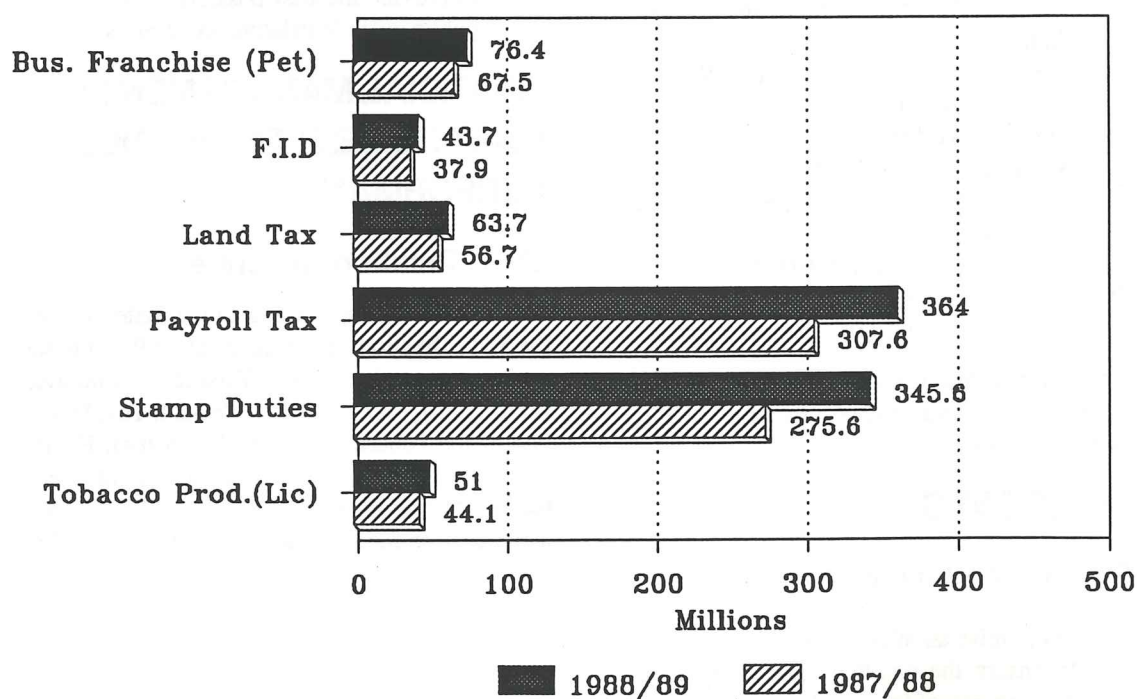


Table No7.1 summarises the revenue collection of the State Taxation Office for the 3 years ended 30 June 1989

TABLE No 7.1 :- STATE TAXATION OFFICE - REVENUE COLLECTIONS

	1986/87		1987/88		1988/89	
	Number of Taxpayers/ Transactions	Amount \$	Number of Taxpayers/ Transactions	Amount \$	Number of Taxpayers/ Transactions	Amount \$
BUSINESS FRANCHISE (PETROLEUM)						
Wholesalers	6	47 218 098	6	67 405 082	6	76 360 089
Retailers	1 244	67 050	1 201	64 975	1 178	64 937
Total Business Franchise (Petroleum)		47 285 148		67 470 057		76 425 026
FINANCIAL INSTITUTIONS DUTY						
Financial Institutions	230	31 828 429	236	36 328 984	247	41 760 299
Short Term Money Market Operators	215	1 478 320	219	1 665 539	218	1 955 931
Exempt-Charitable Organisations Accounts	21 519		23 862		26 096	
Total Financial Institution Duty		33 306 749		37 994 523		43 716 230
LAND TAX						
Total Land Tax	20 547	44 208 649	21 593	56 662 625	17 047	63 739 605
PAY-ROLL TAX						
Private Sector	5 067	218 958 917	5 153	243 897 765	5 394	296 435 687
Government Sector*	36	60 736 557	36	63 718 141	36	67 562 232
Total Pay-roll Tax		279 695 474	5 189	307 615 906		363 997 919
STAMP DUTY						
Adhesive Stamps		505 412		547 054		724 507
Annual Licences (Insurance)		46 546 982		41 073 529		38 053 843
Applications to Register or Transfer Motor Vehicles		45 195 337		50 862 112		61 525 509
Cheques		5 723 638		6 086 098		5 841 462
Conveyance of Property on Sale		85 011 044		137 150 601		190 255 769
Conveyance of Shares on Stock Exchange		5 018 126		5 920 557		3 801 080
Conveyance of Shares (Exc Stock Exchange)		3 545 301		6 546 431		10 367 072
Insurance Effected Outside SA		1 409 311		2 133 735		3 036 578
Leases		1 169 519		1 673 132		1 729 977
Mortgages		11 361 887		13 641 037		17 187 233
Other		105 859		174 008		198 297
Less Refunds, Commissions, etc		(870 361)		(984 017)		(1 125 265)
Rental Business		8 894 712		9 244 371		10 478 082
Voluntary Conveyances of Property		1 680 889		1 528 185		2 169 078
SA Gas Holdings ***						1 310 000
Total Stamp Duty		215 297 656		275 596 833		345 553 222
TOBACCO PRODUCTS (LICENSING)**						
Wholesalers	12	40 769 079	13	44 049 324	14	50 886 714
Retailers	5 338	98 753	5 388	75 883	5 194	81 833
Total Tobacco Products (Licensing)		40 867 832		44 125 207		50 968 547
Total State Taxation Office Collections		660 661 508		789 465 151		944 400 549

* Prior to 1985/86 Pay-roll tax was paid directly to Treasury but included in the total pay-roll tax figure. Changeover was made progressively from 1984/85. This is a direct Treasury debit.

** Business Franchise (Tobacco) prior to 18/12/86.

*** One off payment by SAGASCO Holdings Ltd, pursuant to Section 22(6) of the Gas Act, 1988.

Costs Of Administration

A sum of \$4 535 222 was expended on both recurrent and non-recurrent costs of administration which includes pay-roll tax liabilities, superannuation contributions and terminal payments. Table 7.2 shows the distribution of this expenditure among the different cost centres of the Office. Table 7.3 outlines the costs of collection of different taxes/duties administered by this Office.

Efficiency And Effectiveness

During the past twelve months, the State Taxation Office has developed performance indicators for measuring its efficiency and effectiveness in the administration of taxation legislation. Methods which match input and output were used to measure efficiency and methods which compare outputs with organisational objectives were used to measure effectiveness.

Table 7.2 - COSTS OF ADMINISTRATION

	Average FTE	Salaries* \$	Administration Expenses \$	Total \$	%
Business Franchise (Petroleum)	2.75	63 773	12 134	75 907	1.7
Executive, Administrative Legal, Policy & Recovery	16.50	567 611	213 087	780 698	17.2
Financial Institutions Duty	2.25	53 564	14 844	68 408	1.5
Inspection	18.60	565 545	61 992	627 537	13.8
Land Tax	21.90	592 587	561 207	1 153 794	25.4
Payroll Tax	24.30	590 751	98 346	689 097	15.2
Stamp Duties	38.25	983 522	76 894	1 060 416	23.5
Tobacco Products (Licensing)	2.75	63 889	15 476	79 365	1.7
TOTAL	127.30	3 481 242	1 053 980	4 535 222	100.0

* Includes payroll tax, superannuation and terminal payments

Table 7.3 - COSTS OF COLLECTION

Branch	Revenue Received \$	Direct Costs \$	Cost of Collection of \$100 Revenue Cents
Business Franchise (Petroleum)	76 425 026	313 627	41
Financial Institutions Duty	43 716 230	107 442	24
Land Tax	63 739 605	1 192 828	187
Pay-roll Tax	363 997 919	1 062 109	29
Stamp Duties	345 553 222	1 592 334	46
Tobacco Products (Licensing)	50 968 547	266 882	52
TOTAL	944 400 549	4 535 222	48

EFFICIENCY: The measure of efficiency is the direct cost of collection of \$100 taxation revenue. The direct cost includes wages and material costs, pay-roll taxes paid, superannuation contributions and terminal payments. It does not include the costs for rent of premises, telephone and the costs of power since these figures are not available on a disaggregated basis.

The cost of collection of \$100 taxes in 1988/89 was 48 cents which is 5 cents less than the 1987/88 financial year. The relevant figures for the previous years are -

1984/85	.....	55.0
1985/86	.....	61.5
1986/87	.....	56.2
1987/88	.....	53.2
1988/89	.....	48.0

EFFECTIVENESS: A number of measures are used to determine the effectiveness of the system. In this first year of evaluation it has not been practicable to allot weights to each of those measures to produce a single measure of effectiveness. Some of the measures are as follows -

- The average number of full time equivalents (AFTE's) required to administer the systems. The number of AFTE's during 1988/89 was 127.3 which is marginally greater than the 125.6 for 1987/88. This increase was due to the establishment of a Legislation, Policy and Planning Unit and to the increase of personnel in the Inspection Branch.

The number of AFTE's had been declining since 1984/85. The relevant figures are -

1984/85	.....	139.0
1985/86	.....	133.0
1986/87	.....	129.5
1987/88	.....	125.6
1988/89	.....	127.3

- Tax collections exceeded the budgeted revenue by \$54 million. While much of the extra revenue could be attributed to the level of economic activity, a material amount was due to -
 - faster turn-around of documents;
 - greater depth of scrutiny of documents and investigation;
 - enhanced communication with franchise taxpayers and taxpayers who pay by way of returns;
 - enhanced inspection activity.

Optimising State Taxation Revenue

While the tax base administered by the State Taxation Office has not expanded significantly during the past four years, the revenue collected has increased. Figure 7.3 shows revenues collected for the last four financial years.

Business Franchise (Petroleum Products) Act, 1979

The Act provides for the licensing of wholesale (Class A licence) and retail (Class B licence) vendors of petroleum products in South Australia with the licence fee consisting of an annual payment of \$50 plus an ad valorem component calculated by reference to the value of sales of petroleum products made by the licensee in an earlier period. The ad valorem component is not payable by a vendor where the products sold by that vendor were purchased from a licensed person.

The Business Franchise (Petroleum Products) Amendment Act, No 3 of 1989 was assented to on 9 March, 1989 and will come into operation on 1 October, 1989. The amendment provides for an increase in the basic fee for a Class B Petroleum Products Licence from \$50 per annum to \$100 per annum.

Financial Institutions Duty Act, 1983

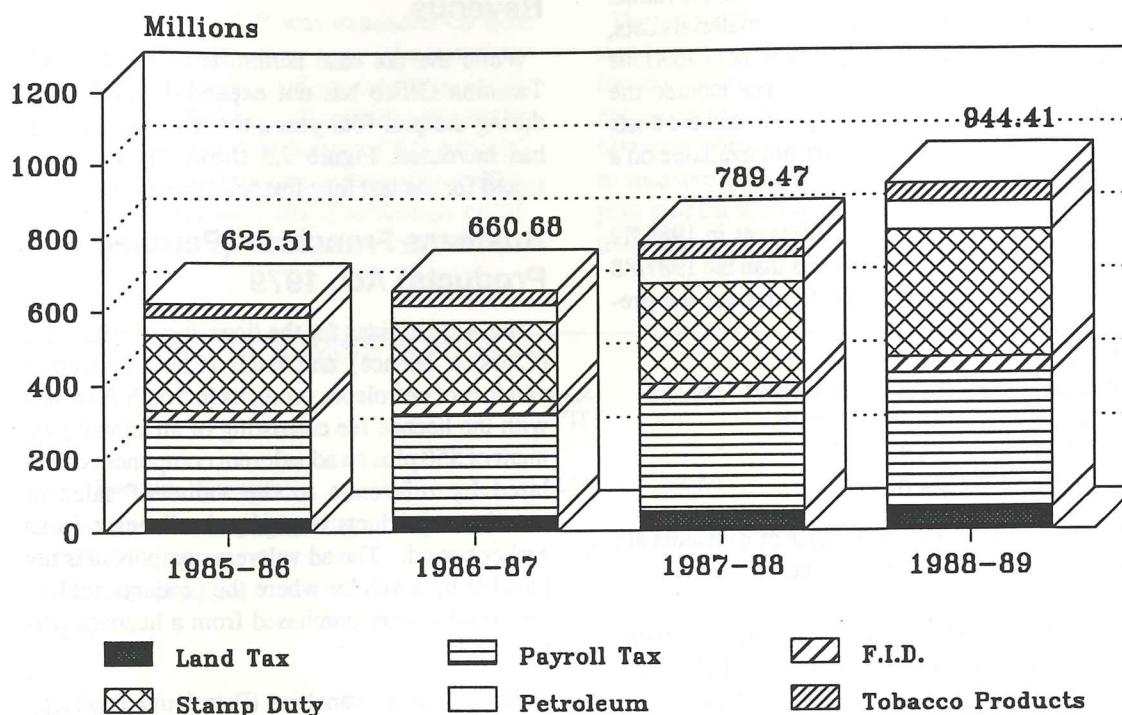
Financial Institutions Duty is payable at the rate of 4c per \$100 or \$400 (whichever is the lesser) on any receipt of money by a financial institution that is registered or required to be registered under the provisions of the Financial Institutions Duty Act, 1983.

Duty at a concessional rate (0.005%) is payable by those persons who are registered as short-term money market operators for the purposes of the Act. The Act provides exemptions for certain accounts (eg charitable organisations) from the imposition of the duty.

Land Tax Act, 1983

Land Tax is imposed under the Land Tax Act, 1936 on all land in the State other than that which is specifically exempted. With minor exceptions, land tax is not payable on land used as a principal place of residence or for primary production. The tax is calculated on the aggregate of the site values

Figure 7.3 - COMPARISON OF RECEIPTS FOR 1985/86 - 1988/89



in an ownership as at 30 June immediately preceding the financial year for which the tax is levied. The site values are determined by the Valuer-General.

The rates of land tax were revised for the 1988/89 financial year and are set out in the following table -

TAXABLE VALUE OF LAND SUBJECT TO TAX	AMOUNT OF TAX
Not exceeding \$80 000	Nil
Exceeding \$80 000 but not exceeding \$200 000	10c for each \$10 over \$80 000
Exceeding \$200 000	\$1 200 plus 24c for each \$10 over \$200 000

Where the taxpayer owns land in the metropolitan area with a taxable value, or aggregate taxable value, in excess of \$200 000, land tax in respect of that land is augmented by an additional levy of 0.5c for each \$10 over \$200 000.

In addition the following rebates applied -

1. A remission of 25% of the land tax payable where the taxable value of the land in respect of which the taxpayer is liable to land tax did not exceed \$200 000.

2. A remission of \$300 plus 5% of the land tax payable on the value in excess of \$200 000 where the taxable value of the land in respect of which the taxpayer is liable to land tax exceeded \$200 000.

Land tax receipts in 1988/89 increased over the previous year due to increases in values as advised by the Valuer-General. These increases were off-set by reductions in the tax scale and an increase in the general exemption.

During the 1988/89 year the Deputy Commissioner of Land Tax was a guest speaker at a Professional Development Seminar organised by the Institute of Chartered Accountants. The topic was "The Basic Principles of Land Tax"; copies can be obtained by writing to the Deputy Commissioner.

Pay Roll Tax Act, 1971

Employers and groups of employers are required under the provisions of the Pay-roll Tax Act, 1971 to pay five per centum tax on wages and salaries paid to employees. Where wages and salaries are below a given level, described as the threshold, pay-roll tax is not payable.

At the commencement of the 1988/89 year, the threshold was \$270 000 per annum which was increased by legislation to \$300 000 per annum from 1 October, 1988 and \$330 000 per annum from 1 April 1989.

The new On-Line ADP System became operational in July 1988. Implementation of the system was on target both in time and cost. Expected benefits, such as improved customer service, management reporting and general efficiency were achieved. In conjunction with revised recovery procedures the versatility of the system has produced vast improvements in the recovery time frame where employers default in paying tax.

During the year, the Pay-roll Tax Appeal Tribunal received nine Objections to Assessments issued by the Commissioner of Stamps. It heard four Objections, gave three decisions (each of which confirmed the Commissioner's Assessment) and as at 30 June 1989 has eleven matters before it for consideration.

During the 1988/89 year the Assistant Commissioner, Pay-roll Tax was a guest speaker at a Professional Development Seminar organised by the Institute of Chartered Accountants. The topic was "A Practical Insight into the Operation of the Pay-roll Tax Act".

Stamp Duties Act, 1923

The Stamp Duties Act, 1923 provides for the payment of duty on a diverse range of instruments and duty is also levied on transactions relating to rental business, insurance businesses, stock exchange dealings and applications to register and transfer registration of motor vehicles.

The Stamps Office has continued its program of providing taxpayers and professional bodies with up to date information on matters of interpretation of substantive law and on the administrative procedures relating to enforcement of these laws.

During the course of the year the Office reviewed its policy on the charging of penalties for late lodgement and stamping of documents. The resulting increase in penalties was in response to a willingness on behalf of some taxpayers to defer or refrain from lodging dutiable instruments. This policy change has had a significant beneficial effect with regard to early lodgement of documents.

In conjunction with the Inspection Branch the Stamps Office continued its program of compliance monitoring in the stamping of contacts associated with the sale of businesses. This action was a further development of work initiated in the previous year.

The application of a return system for the payment of mortgage document duty has been expanded this financial year to include collateral and substituted securities. This arrangement has reduced the number of mortgage documents processed over the Stamp Duties counter by approximately 85%. The ongoing compliance function will now be carried out by the Inspection Branch.

Development of a computerised compliance monitoring system to check values declared by persons in applications to register or transfer the registration of motor vehicles was commenced in 1988/89. Additional funds for hardware and staff resources were approved in 1988/89 for this project.

The Stamp Duties Act was amended to provide to persons who are purchasing homes under the Housing Trust Shared Ownership Scheme or Rental Purchase Agreements, the same benefits as first home purchasers.

During the year the Manager, Stamps presented papers to the Law Society at a Country Law Seminar and at a later date gave a presentation to members of the Institute of Chartered Accountants. In addition, the Manager, Stamps lectures on stamp duty for students enrolled in the Licensed Landbrokers course conducted by the Department of TAFE.

Tobacco Products (Licensing) Act, 1986

The Tobacco Products (Licensing) Act, 1986 provides for a legislative scheme under which -

- (a) a direct contribution to State revenue, in the form of a licence fee, is made by a consumer who takes out a consumption licence;

but

- (b) a tobacco merchant who chooses to be licensed and thus by payment of licence fees to make a contribution to State revenue on behalf of consumers, relieves consumers from the obligation to hold a consumption licence for the consumption of tobacco products obtained through the merchant.

As from 1 July 1988 the licence fee increased from 25% to 28% of the value of tobacco products sold. The additional 3% is paid to the South Australia Sports Promotion, Cultural and Health Advancement Trust (Foundation South Australia).

1988/89 was the first financial year in which all licences issued pursuant to the Act were recorded and maintained on an in-house microcomputer. No major difficulties were encountered and it is anticipated that the system will be further developed and refined during 1989/90.

Legislation, Policy and Planning Unit

As part of the 1988/89 Budget considerations, the Treasurer approved the allocation of additional resources for the State Taxation Office to provide the necessary input into research, planning and legislative development to combat tax avoidance and tax evasion. Two additional positions were created to work in this area and these positions were filled by January 1989.

Taxation Compliance

The majority of taxation revenue collected by the State Taxation Office is on the basis of self-assessment by taxpayers or their representatives. An important aspect of good tax administration is to ensure that tax avoidance and evasion activities are carefully monitored and acted upon. Inspection and investigation activity is therefore intended first to prevent the erosion of the tax base, and secondly to enhance it by quantifying and collecting potentially unpaid revenue.

In April 1989 the Taxation (Reciprocal Powers) Act, 1989, was passed by Parliament. This Act provides reciprocal powers of investigation beyond State borders to combat taxation avoidance and evasion in order to overcome difficulties encountered as companies extend their operations beyond State boundaries and become more sophisticated in their operations. In addition, facilities have been established to allow for the exchange of information between the State Taxation Office and the Australian Taxation Office.

During 1988/89 the Inspection Branch continued its strategy of specific compliance programs. The primary objectives of these programs are to -

- detect and collect avoided or evaded duty
- assess the extent of avoidance/evasion activities and assess potential revenue loss
- increase compliance through field "audit".

During the year 972 inspections were completed.

The Branch's work consisted of inspections that were initiated as part of its internal inspection programs and inspections constituting service work requested by other Branches of the State Taxation Office.

A major research project was commenced this year into the application of the "Zoning" provisions of the petroleum franchise legislation by members of the petroleum industry. As part of the 1988/89 Budget considerations the Treasurer approved the allocation of additional inspection resources for the State Taxation Office. As a result the Inspection Branch establishment was increased by 3 FTE's.

Revenue collected during 1988/89 directly as a result of the Branch's activities was \$1 808 294.

HUMAN RESOURCES MANAGEMENT

Occupational Health and Safety

The State Taxation Office is actively involved in the Treasury Occupational Health and Safety Committee. A management representative and an elected staff representative from the State Taxation Office are current members of the Committee.

A new State Taxation Office Emergency Evacuation Procedures Committee was formed

this financial year and has been particularly active in pursuing matters to improve fire prevention measures in the Torrens Building.

Two emergency evacuation drills have been successfully conducted, and the State Taxation Office Evacuation Procedures Manual has been updated and made available to all staff.

Specialised training was made available for four Senior Wardens and four courses on fire prevention awareness were conducted by the Metropolitan Fire Service for all staff of the State Taxation Office.

Close attention has also been paid to the selection of office equipment and furniture to ensure that it is ergonomically sound.

Recruitment

The State Taxation Office has continued to play an active part in placements providing special training and support. The following is a record of special placements in 1988/89 -

Aborigines	5
Trainees	1
Disabled	2
Supernumeraries	5
HETA (Handicapped Employment Training Association)	1
Work Experience Students	7
Redeployees	1

Training

In an effort to increase staff opportunities to improve and broaden their skill levels the State Taxation Office has continued to encourage staff development by recognising staff training needs and addressing those needs through appropriate training. A Training and Development Committee was constituted to assist managers to identify and meet training and development needs of staff.

Seventy four external course attendances were recorded for the financial year.

An in house "Customer Contact" Course tailored to meet the specific needs of staff required to deal directly with taxpayers has shown positive results.

An in house course on "Staff Selection" was conducted by the Department of Personnel and Industrial Relations for twelve nominated staff representatives to enhance the quality of staff selection decisions. The course made staff representatives more aware of the role of interview

panels and the requirements of sound personnel management.

A concentration of Courses in computer related areas has increased staff confidence and skills in the use of personal computers.

Word Processing Facilities

During the year the State Taxation Office called for tenders for a word processing system to meet the office's requirements for improved information processing.

A minicomputer with applicable software was selected and installed.

The system has been configured to allow satellite work sites to operate as well as a small centralised pool. In this way the operators are provided opportunities to perform a wider variety of work thus enhancing their job satisfaction and avoiding overuse injuries.

Staff Appraisal

The State Taxation Office implemented a system of regular staff appraisal during 1988/89. Each employee was provided an opportunity to receive feedback on his/her performance and was counselled in relation to future development and opportunities.

Management Planning

In order that the State Taxation Office better meets its goals, a formal management planning process was established. All branches participated in this process of setting objectives, identifying key issues, developing strategies to meet objectives and establishing key performance indicators. Although this process has existed on an informal basis for some time the formal process is seen as a more structured approach allowing more participation in management while establishing realistic performance measurement criteria.

Review Of Organisation And Systems

As a result of the management planning process a need was identified to review systems and organisational structures, and consideration is being given to the use of consultants for this purpose.

CHAPTER VIII

MANAGEMENT OF STATE GOVERNMENT BORROWING AND INVESTMENT ACTIVITIES

The SAFA Branch of Treasury is responsible for the delivery of this program, which can be divided into two main components -

- the administration and operation of the South Australian Government Financing Authority
- the administration of the Australian Loan Council guidelines relating to State public sector borrowings.

South Australian Government Financing Authority (SAFA)

SAFA was established in January 1983 under the Government Financing Authority Act 1982.

The Act provides for the Board of SAFA to consist of between three and six members including the Under Treasurer who is *ex officio* Chairman.

SAFA's charter in terms of Section 11 of the Act is -

- to develop and implement borrowing and investment programs for the benefit of semi-government authorities; and,
- to engage in such other financial activities as are determined by the Treasurer to be in the interests of the State.

SAFA's activities are closely integrated with the finances of the State Government itself. SAFA can be regarded as fulfilling as the major part of its functions the same role for the State public sector as a corporate Treasury Department would for a large corporation. It provides practically all the capital funds for the State's statutory authorities and a major and increasing proportion of the State Government's capital funds required through the Consolidated Account.

Various debt re-arrangement exercises that SAFA has undertaken since its establishment have led to the consolidation of the bulk of the State public sector's debt within its balance sheet. These arrangements have been a major factor in the rapid growth of its balance sheet which stood at \$14.9 billion at June 1989.

Amongst other things, the debt re-arrangements have enabled the Government to provide financial support to SAFA by way of capital. While the government guarantee of SAFA's liabilities is of primary importance, this capital backing has enabled SAFA to 'stand alone' in terms of financial strength, which is an increasingly important consideration in domestic and international financial markets. At June 1989, SAFA's capital base stood at \$2.4 billion.

In each year of its operation SAFA has achieved a surplus. In 1988/89 the surplus was \$287 million, of which \$220 million was paid to the Government in 1988/89 and \$60 million has been

retained for payment to the Government in 1989-90. The balance of \$7 million was allocated by the Treasurer to SAFA's General Reserve. \$7 million was allocated to SAFA's General Provision before the surplus for 1988/89 was determined.

The distribution of the SAFA surplus is determined by the Treasurer and is a significant source of receipts for the recurrent side of the Consolidated Account.

As corporate Treasurer for the State public sector, SAFA's responsibilities encompass -

- (1) undertaking the necessary borrowings for, and managing the cash resources of, the State to ensure that the State can meet payments as and when they fall due;
- (2) managing the financial assets and the liabilities of the public sector in such a way as to minimise net borrowing costs;
- (3) providing financial information and reports to Government to assist it to reach decisions about the appropriate mix of spending, revenue raising and borrowing targets.

Those responsibilities involve a range of activities which can be grouped into six broad categories, matching the organisational structure of SAFA. SAFA's General Manager, who reports to the Chief Executive and Deputy Under Treasurer, is responsible for day-to-day management of the following six sub-branches -

- (i) Funding and Investment;
- (ii) Cash, Debt and Client Management;
- (iii) Accounting, Administration and Systems;
- (iv) Commercial Finance;
- (v) International Finance; and
- (vi) Financial and Credit Policy.

As a result of the rapid expansion and diversification of its activities since inception, SAFA's staffing has been under constant review. The approved establishment stood at 61 at June 1989.

Taking each sub-branch separately, the following comments can be made on activities during 1988/89.

Funding and Investment

The Assistant General Manager, Funding and Investment supervises the Domestic Finance Branch which has a staff of ten officers. The branch is responsible for -

- ensuring the efficient and lowest cost issuance of SAFA's conventional debt instruments in the domestic capital markets to raise funds for SAFA's own funding needs and on behalf of the State's financial institutions, particularly the South Australian Finance Trust; and,
- implementing SAFA's debt, investment and cash management strategies.

SAFA continued to be an active borrower in the domestic fixed-interest market in 1988/89.

During the year the Domestic Finance Branch made new issues of inscribed stock totalling \$1,034 million through a Dealer Panel. This panel has the dual role of ensuring orderly placement of stock into the primary market and maintaining liquidity in the secondary market by actively quoting buy and sell prices to investors.

In 1987 SAFA was the first borrower in Australia to implement this dealer panel concept and its success is reflected by the number of the major domestic borrowers - both semi-government and corporate - which have since moved in a similar direction. During the year, membership of the Dealer Panel was expanded from 4 to 6 market-makers. Additionally, a further 7 organisations were appointed as Tender Panel members, thus allowing a wider range of market participants direct access to SAFA paper.

The Dealers' market-making activities, which are supported by a stock lending facility provided by SAFA, and SAFA's own activity in its paper (via new issues, consolidations and debt management transactions) jointly contribute to a high level of market turnover in SAFA paper. In this way SAFA's status as a prime borrower in the domestic market is maintained.

Towards the end of the year, SAFA decided that it would seek to diversify its debt portfolio through the issue of Consumer Price Index capital-indexed inscribed stock. The first placement of stock was made in May and, by the end of the year, a total of \$69 million had been issued - with a coupon of 4%

and a maturity of 20 August 2015. At year end, arrangements were in hand to establish a second maturity for SAFA capital-indexed issues, namely 20 August 2002 (4% coupon) and commitments had been made for the issue of over \$90 million of that stock early in 1989/90.

Short-term borrowings again played an important role in SAFA's funding activities. Such funding was mainly achieved through the issue of promissory notes - where the average daily outstanding was \$370 million - and via the issue of short-term or floating rate inscribed stock in response to demand from time to time (mainly from overseas end-investors).

Interest rate swaps (coupled with inscribed stock issues) were also employed to achieve cost-effective floating-rate funding. Opportunities also arose during the year to 'reverse' some floating rate swaps to capitalise on fluctuating swap margins relative to the semi-government yield curve.

SAFA's tap issue public loan has now been operating for 3 full years. Since inception, gross borrowings have totalled more than \$140 million, including \$42.4 million in 1988/89.

The objective of the tap loan is to provide smaller investors with a safe, competitive and flexible investment product. The loan offers a variety of maturities designed to provide a range of options for investors, and the interest rates offered are varied in line with market rates generally.

Cash, Debt and Client Management

The Assistant General Manager, Cash, Debt and Client Management and his staff of five are responsible for -

- coordinating the management of cash resources of the State public sector;
- administering the debt and asset relationships between SAFA and the Government and client authorities;
- managing SAFA's financial relationships with public sector financial institutions including State Bank, State Government Insurance Commission and Workcover;

- managing various commercial lending arrangements; and,
- administering Loan Council guidelines relating to public sector financing and providing advice on Loan Council and Commonwealth/State policy issues.

In 1988/89, SAFA provided the State Government with loans totalling \$152.2 million towards funding of the State's public sector general capital works program. In addition SAFA raised in excess of \$3 billion over and above the Government's own funding requirements on behalf of other South Australian financial institutions.

During 1988/89 SAFA made new loans totalling \$192.3 million directly to semi-government authorities.

New lending arrangements in 1988/89 included the provision of advances to -

- the Minister of Tourism to finance construction of the Exhibition Hall adjacent to the ASER/Convention Centre complex;
- the South Australian Institute of Technology towards financing the Nurse Education Building; and,
- the Minister of Fisheries to facilitate an industry funded rock lobster rationalisation scheme.

During 1988/89, arrangements were made between the Government, SAFA, the State Bank of South Australia and the Minister of Housing and Construction, whereby all assets and liabilities associated with the existing concessional housing scheme were transferred from the State Bank's balance sheet to the Minister of Housing and Construction as a body corporate. The new arrangements involve the State Bank acting as the Minister's agent in administering the scheme. The existing level of capital provided to the Bank by the Government and SAFA remained unchanged, thereby providing for future expansion by the Bank. As a result of the foregoing and previous years' transactions, SAFA holds \$539 million of capital and \$US150 million (\$A196 million) perpetual debt of the Bank at June 1989. In addition there were outstanding loans to the Bank of \$26.4 million.

Accounting, Administration and Systems

The Assistant General Manager, Accounting, Administration and Systems and his staff of twenty seven officers are responsible for -

- implementing procedures and policies which correctly account for SAFA's activities in accordance with generally accepted commercial accounting practices;
- ensuring that SAFA's obligations under various financing transactions are met and all receipts are duly received on a timely basis;
- providing advice on accounting issues which arise in the course of SAFA's diverse financial activities;
- developing and implementing computing and other systems to record SAFA's financial activities;
- collecting relevant information for the production of timely management reports;
- servicing the needs of the SAFA Board;
- attending to settlement and on-going maintenance procedures associated with transactions;
- managing SAFA's marketing program; and,
- providing administrative support to the activities of SAFA generally.

During the year the SAFA Board continued to support the allocation of staff to the task of developing and implementing computer-based information systems where it can be shown that those systems provide significant benefits. SAFA's own staff resources were supplemented by the employment of two consultants with specialist information systems skills.

The emphasis with respect to computing systems remained on the need to record transactions for the purpose of meeting statutory reporting requirements and financial obligations as well as producing timely management reports. A number of significant developments were finalised during the year which provide a base from which the majority of management reporting requirements can be met. A mini-computer was installed in October 1988 to establish a multi-user network comprising a mixture of terminals and personal

computers located throughout the organisation. This network provided substantial gains in terms of the efficient use of staff resources by providing access to information held in the corporate data base.

The next phase of systems development is to ensure that potential gains available from the systems are fully exploited. This will be achieved through extending access to the systems to all sections of SAFA and supporting the users with training in order that they can extract the information needed to manage and report on SAFA's various activities.

Staff development activities were placed on a more formal footing in July 1988 with the commencement of the orderly attendance of staff at courses appropriate to their responsibilities. During the year 32 staff members attended a wide range of seminars, conferences and courses, including specialised in-house courses.

Other duties conducted by the Branch included supervision of the production of the annual report, assessment of the need for additional office accommodation and preparation and monitoring of the SAFA administration budget.

A comprehensive review of SAFA's staffing and management arrangements required significant input both in preparation of detailed documentation and in the recruitment process.

Commercial Finance

The Assistant General Manager, Commercial Finance has a staff of five officers and is responsible for -

- monitoring and providing advice on developments in structured financing, negotiating commercial terms of structured financing transactions and maintaining completed transactions;
- provision of special project financing involving structured finance, or conventional debt funding of non-public sector agencies or public sector bodies involved in commercial activities; and,

- provision of a commercial assessment capability both with respect to proposals involving fixed interest financing opportunities for SAFA and more generally for other arms of the public sector.

As opportunities arise SAFA continues to undertake structured financing arrangements which provide the State with funds at attractive borrowing costs.

During 1988-89 the following funding transactions were undertaken which are expected to provide benefits to the State relative to conventional financing of nearly \$4.5 million in present value terms -

- \$46 million short term zero coupon inscribed stock issue to provide the lender with a defeasance asset;
- Cross Border Leases out of West Germany and Japan with respect to STA rolling stock to the value of \$36 million;
- Restructuring a \$23.4 million zero coupon borrowing undertaken in 1987 to satisfy the lender's requirements; and
- \$22 million financing of the Noarlunga Hospital development for the South Australian Health Commission.

The Branch was also active in developing the arrangements for the provision of finance to the South Australian Cricket Association (SACA) for the construction of a new grandstand at the Adelaide Oval expected to be completed in December 1989. This finance is being provided on terms commercially satisfactory to both SAFA and SACA.

International Finance

The Senior Manager, International Finance, and one other officer are responsible for this area of activity which involves -

- analysing opportunities for undertaking off-shore borrowings, and negotiating such transactions;
- overseeing the investment of SAFA's off-shore funds;

- liaising with SAFA's affiliated off-shore corporations and assisting in the implementation of their borrowing and investment activities; and,
- managing the public sector foreign currency hedging service.

Opportunities to raise \$A funds overseas at attractive rates relative to the domestic market were limited in 1988/89.

In July 1988, SAFA undertook its first borrowing in the Japanese domestic market, a Samurai Bond issue for Yen 10 billion with a coupon of 5.2% maturing in 1993. Concurrently with the Samurai issue, SAFA entered into an interest rate and cross currency swap which converted the fixed-rate Yen borrowing to a \$US76 million floating rate borrowing at a margin below LIBOR. The proceeds of the borrowing were invested in floating rate \$US assets.

SAFA undertook two public Eurobond issues in 1988/89. They were -

- Euro \$A100 million Zero Coupon Notes launched in November 1988, maturing in January 1994, lead managed by Hambros Bank Limited; and
- Euro \$A75 million 16.25 per cent Notes launched in February 1989 maturing in 1991, lead managed by Hambros Bank Limited.

SAFA's \$A Euronote facility in Hong Kong arranged by BT Asia Limited was restructured in November 1988. The limit of \$A300 million was reduced to \$A275 million following the cancellation by SAFA of the underwritten portion of the facility. The facility provided a regular source of relatively low cost Australian dollar funds. The average amount outstanding during the year was \$A230 million.

During the year, documentation was developed to enable the establishment of a multi-purpose off-shore funding facility. Such a facility could be used to undertake 'one-off' borrowings to establish new debt issuance programs and to maintain existing programs, such as the existing \$A Euro-note facility operated out of Hong Kong.

Financial and Credit Policy

The Assistant General Manager, Financial and Credit Policy is supported by a staff of five officers.

The branch has two main functions -

- establishing and reviewing SAFA's borrowing and investment strategy; and,
- determining credit risk policies, involving the continual review of SAFA's guidelines on credit exposures arising from investments, swaps and other contracts.

The Branch also advises on strategies for the management of SAFA's equity investments. Other functions involve preparation of SAFA's submissions to Australian and overseas credit rating agencies, liaison with the Australian Bureau of Statistics on public sector financial statistical matters, and provision of advice on public sector financial issues generally.

As part of the evolution in SAFA's interest rate risk management task, a neutral debt management approach has been identified which forms a benchmark for making debt management decisions.

Government receipts generally do not have a project specific character, which limits the relevance of a project life approach to setting the term of fixed rate borrowings. In any event, difficulties exist in applying a pure project life approach to determining debt maturity in that the real cost of capital assumption employed in constant price cost/benefit evaluation of capital projects cannot be "locked in" by nominal rate debt funding.

A long term borrower may find itself locked into a very high real interest burden in the event that inflation is substantially lower than expectations implicit in the current nominal long term borrowing rate. Such considerations point clearly to the advantages of borrowing and lending in real interest rate terms, by linking principal repayments to inflation. A State Government entity's capacity to service debt for example is likely to vary as the level of charges, Commonwealth grants and taxation receipts vary in line with inflation. SAFA acquired small volumes of such debt in 1988/89

and has plans for greater involvement in inflation linked borrowing and lending activity in the future.

The approach adopted by SAFA (in relation to nominal rate borrowings) attempts to strike a balance between the risk of excessive volatility in the Common Public Sector Interest Rate on the one hand (and the uncertainty this implies for the annual interest rate bill in dollar terms) and the risk of being locked into high fixed rates on the other. Australia has experienced substantial fluctuations in longer-term interest rate levels, and the risk of being locked into a high fixed rate interest burden if inflation and interest rates fall is significant.

A "benchmark" approach has been adopted as a point of reference, under which new money and rollover borrowings are generally spread throughout the year across the available maturity spectrum so as to maintain a cumulative debt stock maturity (or repricing) profile. The repricing profile excludes specific purpose debt from the Commonwealth, debt issued for financial institutions which is lent on a matching basis, and inflation linked debt. However, it does include general purpose Commonwealth advances under the Financial Agreement and takes account of fixed interest earning assets and interest rate swaps. Aside from some "lumpiness" in certain maturities (owing partly to the existence of certain deep lines of SAFA's hot stocks to promote liquidity, and certain special investor driven issues) there is a fair degree of correspondence between the actual net debt profile and the benchmark.

SAFA, through its own actions and those of its delegated interest rate risk managers, is prepared to move its debt structure away from its benchmark equilibrium in accordance with changes in its interest rate views from time to time. However, the radical and largely unanticipated fluctuations in interest rates which occurred over the course of 1988/89 point to the risks involved in a heavy reliance on interest rate views in asset and liability management. Little contribution to reducing interest costs was made in 1988-89 on account of taking views in this manner.

CHAPTER IX

ADMINISTRATION OF SUPERANNUATION SCHEMES

The State Superannuation Office administers the two State Superannuation Schemes on behalf of the South Australian Superannuation Board.

The Superannuation Board has statutory responsibilities for oversight of the Superannuation Act 1988. It produces a separate annual report on its activities which includes those of the Superannuation Office. A more detailed report of the Superannuation Board's activities is therefore separately available and can be obtained from the Superannuation Office.

Organisation Of The Superannuation Office

During 1988/89 the Superannuation Office was organised into four main sections -

- Contributions
- Advisory
- Pensions
- Voluntary Savings/Housing Loans

The Office is managed by the Manager, Superannuation Office who is also Secretary to the Superannuation Board. The Manager reports to the Assistant Under Treasurer.

The Office has access to services provided elsewhere in Treasury in accounting, information systems, administration, actuarial advice, and other advisory functions. The Office obtains legal and medical advice as required.

Functions Of The Superannuation Office

The main functions of the Office are -

- the processing of applications to join the new State Superannuation Scheme including the assessment of the health of applicants;
- the collection and recording of employee contributions;
- the payment and recording of pensions and lump sum benefits (including preserved benefits) to and in respect of scheme members;
- the provision of information and counselling services to contributors and superannuants, including two-day pre-retirement seminars;
- the provision of information to other employees of Government;
- liaison with personnel and pay officers in Government agencies to ensure that they disseminate information on the scheme, and are familiar with procedures for the collection of contributions and processing of applications for benefits.

The New Legislation

The Superannuation Act, 1988, came into operation on 1 July 1988.

The legislation introduced the State Government's new lump sum superannuation scheme and also made a number of changes to the existing pension scheme which had been closed to new entrants since 30 May 1986. Government

employees could still join the pension scheme up to 30 June 1988 but only under transitional arrangements. With the new legislation they were given the option of transferring into the lump sum scheme with an appropriate credit for their periods of membership in the pension scheme or cancelling their membership.

The new scheme contains several innovations. Membership is now extended to casual employees, provides variable contribution rates (1.5% to 9% of salary), the option of preserving benefits on resignation with employer vesting, and the facility to cease contributions during periods of financial hardship.

These changes enable all public servants (this includes employees of statutory authorities) to become a member at any age. The flexibility of the new scheme has particularly encouraged women of all ages to join. Previously factors such as casual status and movement in and out of the workforce which affect a large number of women, would have precluded their acceptance. There is also the opportunity for new pensioners and most existing pensioners to commute a higher proportion of pension.

The new legislation requires the Board to take reasonable steps to -

- ensure that employees are made aware of the benefits that come from contribution to the Fund;
- enlist new contributors to the Fund.

The emphasis on publicity has therefore been expanded with, for example, the development of new brochures and posters which will be released during the 1989/90 financial year.

The new Act provides for a points accrual system upon which the level of benefits will be based. As points will accrue in accordance with contributions paid, contributions will no longer be regarded as in arrears or overpaid, and systems developed for recording arrears, interest on arrears and overpayments can be abolished.

Pension benefits will be calculated from retiring salary only. Under the old Act pension benefits took account of salary as at 31 March and on the last day of service. The new arrangement is less complicated and involves less work for the Superannuation Office and agencies.

The old Act provided for annual cost-of-living increases to be calculated quarterly. As a consequence, retirement applications tended to be received in bulk at the end of each quarter creating peak workloads for calculating pensions and commutation payments. The new Act enables cost of living increases to be calculated daily, which will produce a more even spread of retiring contributors throughout the year.

Systems

The Office records were first computerised in 1969. Since then, there have been numerous amendments to the Contributions and Pensions systems to reflect legislative changes and to increase efficiency. Both systems were upgraded to cater for the new superannuation developments.

Initially the schedule of tasks was divided into two main categories -

- the development of systems on an interim basis to facilitate the administration of the changes in legislation;
- the production of user specifications for the transfer of the present systems from the existing CYBER mainframe at State Computing to the IBM mainframe in 1989.

Following a comparison of several options, it was decided that on site computer facilities utilising a mini-computer would be the most cost effective and would best serve the needs of the Superannuation Office. User specifications for the contributions and pensions systems were completed and a call for Registrations of Interest from software suppliers was arranged. Tender call and evaluation were finalised late in 1988.

A new computer system, compatible with the contributions system will also be developed for the Public Sector Employees Superannuation Scheme.

Contributions

The number of persons contributing to the Fund increased during the year from 19 682 to 21 311. 210 members have taken advantage of the new Act and preserved their benefits.

This year 2 084 persons commenced paying contributions to the Fund compared with 501 last year. This difference can be ascribed to the winding down of the old Act and the commencement of the new Act on 1 July 1988.

Advisory

Strong demand continued from existing contributors for personal pre-retirement counselling. In addition, the Advisory Unit conducted pre-retirement seminars. A total of 577 contributors and 97 non-contributors with their partners attended the two-day sessions.

Pensions

The number of pensions being paid decreased during the year from 11 691 to 11 401. This decrease is a result of the Government's offer to some pensioners to commute their full pension to a lump sum. 468 pensioners accepted this offer.

The number of new pensions granted this year was 863 compared with 1 033 last year. (This includes new widow, widower and student pensions as well as new retirement pensions).

The number of invalid pensions granted during the year was 52 which represents 11% of the total new retirement pensions for the year.

Temporary disability pensions are a new initiative and allow people who would otherwise receive invalid pensions, up to 18 months to assess the extent of their illness or disability. 34 temporary disability pensions were approved last year. 4 people have returned to work and 4 have confirmed an invalid pension. This affords opportunities for personal, social, and pension cost savings.

New pensioners are encouraged to have their pension paid by direct deposit to a bank, building society or credit union. This is generally more convenient for pensioners and results in a saving in costs for the Office. During the year, the proportion of persons receiving their pension by cheque fell from 16% to 6% of the total number of pensions being paid.

Voluntary Savings / Housing Loans

Over recent years the use of the Voluntary Savings Scheme has declined, probably because of the range of salary deductions available and the on-line salary credit facilities offered by credit unions and other financial institutions. Although the Scheme offered a useful service during a time when the range of salary deductions and superannuation access was more limited, the reasons for its existence have virtually disappeared. The Board had previously signified its intention to review the future of the scheme and decided early in 1989 that it should be discontinued. Final payments to depositors were made in May 1989.

The Superannuation Office administered housing loans made by the SA Superannuation Fund Investment Trust. During the year, the number of housing loans fell from 1 530 to 1 377 at 22 February 1989, when the Hindmarsh Building Society assumed responsibility for all remaining housing loans. The Trust no longer invests in this area.

Staff Of The Superannuation Office

As at 30 June 1989, there were 18 full-time permanent officers.

It is anticipated that five temporary positions established to cater for the increased workload which flowed from the new State scheme will be made permanent during the coming year.

The popularity of the new scheme has thrown a considerable burden on the Office notwithstanding the extra staff recruited to cater for the increased workload. Officers have been required to become familiar with a number of new concepts as well as keeping abreast of the impact of changes to Commonwealth tax law on beneficiaries of the State scheme.

Once the new computer system is fully operational it is anticipated that the workload will ease but throughout 1988/89 the willingness of Superannuation Office staff to shoulder a heavy over-

time burden has contributed immeasurably to the comparatively smooth introduction of the new scheme.

An organisational review completed during 1988 resulted in the reclassification of the Office Manager from AO-1 to AO-3 and the establishment of a position at the AO-1 level to assist the management of the Office and the provision of secretarial services to the Superannuation Board. Determination of the classification of section leaders and a review of other positions within the Office is scheduled for 1989.

Public Sector Employees Superannuation Scheme

Following negotiations between the Government and the United Trades and Labor Council concerning the implementation of the 3% national productivity claim in respect of public sector employees, the Public Sector Employees Superannuation Scheme was created.

The scheme came into operation from the first full pay occurring on or after 1 January 1988, although final details were not settled until the end of 1988.

Benefits provided by the scheme are -

- 3% of salary or wages for employees who are not members of the State pension scheme
- 2% of salary or wages for employees who are members of the State scheme.

There are also minimum and maximum benefits. The minimum benefit is indexed annually. The maximum benefit is reviewed annually to ensure that the overall cost does not exceed 3% of eligible earnings.

The benefit arising under this scheme for members of the State pension scheme has been reduced by 1% to meet the cost of the preservation of benefits option incorporated into the pension scheme. It is anticipated that approximately 110 000 employees in 150 agencies will be included in this scheme.

The PSESS is administered by a small unit within the Administration and Support Services Branch.

SOUTH AUSTRALIAN SUPERANNUATION BOARD

The following statement summarises the Board's financial transactions relating to the collection of contributions and the payments of benefits and indicates the net cost of superannuation benefits to the Consolidated Account.

Financial Statement for the year ended 30 June 1989

		1989		1988	
		\$'000	\$'000	\$'000	\$'000
PAYMENTS -					
Benefits -					
Pensions		151 661		142 234	
Commutation of pension benefits	1	66 388		12 101	
Lump sums	2	1 695		1 057	
		-----	219 744	-----	155 392
Refund of contribution to members			2 788		3 865
Members contributions deposited with SA Superannuation Fund	3		35 059		33 332
Administration costs	4		543		16
			-----		-----
Total Payments			258 134		192 605
			=====		=====
RECEIPTS -					
Reimbursement from -					
Commonwealth Government	5	33 905		24 478	
Public Authorities	6	11 319		8 185	
SA Superannuation Fund	7	46 556		31 649	
Deposit Account - Superannuation Act - Special Commutation Payments	8	7 944		-	
Deposit Account - Superannuation Act Employer Contribution Account	9	3 389		-	
Employer Contribution Accounts		-		1 022	
Provident Account		-		31	
Retirement Benefit Account		-		185	
		-----	103 113	-----	65 550
Contributions by members	3		35 059		33 332
			-----		-----
Total Receipts			138 172		98 882
			=====		=====
NET COST OF BENEFITS MET BY CONSOLIDATED ACCOUNT					
	10		119 962		93 723

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENT

1. Commutation of pension benefits increased from \$12.1 million to \$66.4 million mainly on account of the following factors -
 - the percentage of a pension that can be commuted by persons who became pensioners under the new Act was increased. Percentages range from 100 per cent for annual pensions less than \$8 000 down to 50 per cent for annual pensions greater than \$10 000. Prior to the new Act, maximum commutation was 30 per cent of annual pension.
 - groups of pensioners existing prior to the new Act were given the option of commuting a further portion of their pension to a lump sum.

2. Includes new scheme retirement benefits amounting to \$11 000. The remaining lump sum payments were in respect of old scheme members who were precluded from receiving a pension benefit.
3. All contributions paid by members of the South Australian Superannuation Scheme are collected by the Board and deposited with the South Australian Superannuation Fund to be invested and managed by the South Australian Superannuation Fund Investment Trust.
4. The total administration costs of the Board were met from the Consolidated Account. The new legislation requires 30 per cent of this cost to be reimbursed from the Fund.
5. Pursuant to the rail transfer agreement, a portion of the benefits payable in respect of former railway employees is met by the Commonwealth Government.
6. Some public authorities make provision in their accounts for the employer portion of future benefits at a level recommended from time to time by the Public Actuary. These authorities contribute as the benefits emerge.
7. Represents the non-employer portion of the benefits paid, refund of contributions, administration costs and cost of medical examinations.
8. This Account (formerly the Public Sector Employees Superannuation Fund) was established by the Treasury Department in 1987/88 to receive that year's contributions from agencies in respect to the 3 per cent productivity superannuation scheme.
The Government agreed that former public sector employees receiving pensions under the old scheme be progressively offered the option of commuting further portions of their pensions to lump sums.
Offers were made during the year to two groups of pensioners. Payments in respect of these offers totalled \$20.3 million of which \$12.4 million was met by the Consolidated Account and \$7.9 million from this Account.
9. Some employing authorities make advance contributions to meet their future superannuation liabilities.
Under the old Superannuation Act, these amounts were credited to Employer Contribution Accounts which formed part of the Superannuation Fund and still remain part of that Fund.
From 1 July 1988, employer contributions were credited to the Deposit Account - Superannuation Act Employer Contribution Account at the Treasury Department.
The amount of \$3.4 million represents these employers' portion of benefits paid during the year.
10. Reconciliation of Net Cost of Benefits met by Consolidated Account to Treasurer's Statement A.

	1989 \$'000	1988 \$'000
<i>Total payments as per Treasurer Miscellaneous -</i>		
Government contribution pursuant to the Superannuation Act	139 962	93 723
<i>Less: - Allocation to the Deposit Account - Superannuation Act -</i>		
Special Commutation Payments as a provision for further special commutation payments	20 000	-
	-----	-----
<i>Net cost of Benefits met by Consolidated Account</i>	119 962	93 723
	=====	=====

CHAPTER X

MANAGEMENT OF SUPERANNUATION FUND INVESTMENT ACTIVITIES

The Trust

The South Australian Superannuation Fund Investment Trust (SASFIT) is the statutory body charged with the responsibility to manage the funds contributed by members of the State superannuation scheme. The Trust determines investment policy utilising investment powers defined within the Act. The Trust provides detailed annual reports on its investment policies and administration.

The Trust was established under the Superannuation Act 1974 and continues under the Superannuation Act 1988. The Trust has been expanded from three to five members, two of whom represent the members of the Superannuation Fund. The Chief Executive of SASFIT also has the responsibility to manage, on behalf of the Treasurer, the Police Pensions Fund.

The Trust's Investments

The assets of both the Superannuation Fund and the Police Pensions Fund ("the Funds"), which currently total, on a market value basis, approximately \$900 million are distributed among several categories of investments, including CPI-linked investments, commercial property, listed equities such as shares and convertible notes, unlisted equity investments, fixed interest securities and short term assets.

During the year there was a major restructuring of the financing of the ASER development in which the Trust has a 50% interest. The distribution of assets reflects this refinancing.

SASFIT showed a return on the Superannuation Fund for the year 1987/88 of over 23%. This rate was considerably higher than rates earned by any other major fund over that period. SASFIT has consistently earned at more than 20% over the last five years, making it one of the leading performers among large funds. These returns have been achieved whilst adopting policies which lessen risk. The return on funds for 1988/89 is not yet available, but will be separately reported upon in the annual report of the Trust.

On 1 July 1988 the new Superannuation Act came into effect, and with it the operation of the new superannuation scheme. The Superannuation Fund is now being managed in two divisions, with separate assets. The division relating to the new scheme will initially be small but will grow progressively.

The Trust is a major participant in property developments within the State. During 1988/89 work was completed on a major superior standard office building at 45 Pirie Street. SASFIT was the developer of the building, and appointed consultants to act on its behalf.

SASFIT, on behalf of the Superannuation Fund, is a joint venture partner in the ASER project with Kumagai Gumi of Tokyo. During the year the largest single element of the project, the international hotel, was formally opened. The final element of the project, the Riverside office building, was completed in December 1988. SASFIT is represented on the boards of the ASER Group of Companies by the Chief Executive. The non-executive Chairman of SASFIT is also the Chairman of the ASER Group of Companies.

Investment Policy

Taxation of superannuation funds continues to be a major issue influencing the management of superannuation funds. Between May 1988, when the Federal Treasurer announced significant changes to the taxation status of superannuation funds effective from 1 July 1988, and the passage of the legislation in June 1989, superannuation investment managers generally have operated with considerable uncertainty as to the eventual taxation status of funds under management, and even more so in relation to State Government superannuation schemes where Constitutional protection issues are involved.

The taxation status of superannuation funds in conjunction with the extension of dividend imputation to superannuation funds is considered likely to have a major impact upon the mix of investments within funds. Consideration of the appropriate portfolio mixes of State superannuation funds under management have been significantly delayed as a result of legislative and Constitutional uncertainty.

The investment policy for several years has been progressively to restructure the investment portfolio so that returns move with inflation, by reducing the proportion of fixed interest investments in favour of index linked arrangements and equity investments of various types. Following the passage of taxation legislation investment policies are now being reviewed to take into account the effects of the taxation legislation and also the different characteristics of the two divisions of the South Australian Superannuation Fund.

Accounting, Administration and Staffing Matters

From and including the 1988/89 year, the Trust has adopted the use of market values within its annual audited financial statements. Such reporting is in line with existing superannuation industry practice and will more accurately disclose the financial status of the South Australian Superannuation Fund and the performance of the Trust.

The Trust has commenced preliminary consideration of a move towards the unitization of its investment portfolio. Unitisation is expected to provide greater flexibility in the management and asset allocation of the various funds under the Trust's control.

Support staff of the Trust may be directly employed by the Trust, as now provided for by the new Superannuation Act, or may be made available from an administrative unit of the Public Service. During the year the Trust entered into direct employment contracts with its Chief Executive and Deputy Chief Executive. Other resources are provided by the Treasury Department. All investment costs (including the administration of the Trust) are met out of the Fund.

The Chief Executive position was vacant for most of the year. In April 1989, Mr R Ruse, formerly General Manager of SAFA, commenced duties as Chief Executive.

A total of nine staff were employed at year end in management of the Funds. The Trust continued to make extensive use of private sector advisors for a wide range of investment matters, particularly with respect to existing and proposed property developments.

CHAPTER XI

PROVISION OF ACTUARIAL ADVICE

The Public Actuary's Office provides advice within the public sector on superannuation, life insurance, general insurance and related matters. The Office consists of an actuarial core plus two non-actuarial components.

The first non-actuarial component is the Superannuation Policy and Management Unit whose two members co-ordinate policy and management in the public sector, monitor existing schemes, administer superannuation schemes for politicians, judges and governors, and service the interdepartmental Superannuation Task Force. The head of the Unit is also a member of the Task Force, Secretary and Executive Officer to the Parliamentary Superannuation Scheme and a Trustee of the Metropolitan Fire Services Superannuation Fund.

In the first few months of the year substantial effort was devoted to assisting both the Superannuation Office and Board with the new State Superannuation Scheme legislation which was effective from 1 July 1988. Final details of the Public Sector Employees Superannuation Scheme (PSESS) which provides the so-called "3% productivity" benefits were negotiated. It is anticipated that a Deed of Arrangement, which will govern the operation of this scheme, will be signed by the Unions early in the 1989/90 year. A new Police Pensions Scheme was designed and after considerable negotiation has largely been agreed to by the Police Unions. The Unit also continued

to assist with the substantial review of the schemes operated by the Electricity Trust of South Australia.

Throughout the year complex and onerous Commonwealth legislation on superannuation was awaited. Considerable time was spent by both the head of the Unit and the Public Actuary in discussion with officials of the Commonwealth and other States and in analysing appropriate actions that should be taken within the State.

The second non-actuarial unit has two members whose function is to assist the Insurance and Risk Management Committee. During the year a substantial number of insurance policies have been allowed to lapse and self-insurance arrangements have been put into place under which agencies will meet part of the cost of future losses.

Risk audits carried out by Sedgwick Limited in eight departments and two authorities have identified areas which represent potential risk to the Government from a property loss or liability point of view. Risk management practices such as the establishment of co-ordinated fire fighting and fire prevention programs are being encouraged within departments.

The collection of information relating to losses after 1 July 1988 within departments is on-going. Reporting back to departments on these losses will commence shortly.

Agreements have been made with the State Transport Authority and the Local Government Association for cover to be provided in respect of some large losses in exchange for appropriate premiums.

On 1 July 1988 the Department of Labour transferred responsibility for administering fire losses in government buildings to the Public Actuary's Office. There were 21 fires during 1988/89. A total of \$2.2 million was reimbursed from the Treasurer's Miscellaneous Line during 1988/89 for fires that occurred in the period 1982-1989, and outstanding losses at 30 June 1989 were estimated to be \$3.2 million.

The actuarial core of the Office has a wide range of tasks which includes providing substantial assistance as required to the non-actuarial components of the Office and to the Superannuation Office.

In the superannuation area actuarial reports were completed for both the South Australian Superannuation Fund and the Police Pensions Fund. No action has yet been taken on the recommendations in these reports but changes are planned for the Police Pensions Fund.

Considerable time was spent on the assessment of invalidity under the Police Pensions Act. There are aspects of the legislation that need to be reviewed.

Cost-sharing arrangements in respect of Australian National employees who are members of the State Superannuation Scheme were revised. Further revisions are required but the Commonwealth does not currently have the actuarial resources to assess these.

Funding arrangements in respect of the superannuation costs of employees of the Colleges of Advanced Education were revised. Negotiations are continuing regarding the details.

An actuarial investigation of the Long Service Leave (Building Industry) Fund was largely completed by the end of the year.

With regard to worker's compensation the proposal of this Office to pass more responsibility back to departments was implemented, and further

extensions were agreed to for 1989/90. The next step will be to lift the standard of reporting in this area.

The Public Actuary is a member of the Premiums Committee for Compulsory Third Party Personal Injury insurance and by assessing the relative assets and liabilities in that fund was the main catalyst that led to a premium reduction during the year.

The Friendly Societies Act was amended during the year to allow for a wider variety of investments to be made by Friendly Societies and also for the Public Actuary to exert some control over marketing material. The backlog of administrative work was reduced, but the situation still needs to be improved. A review of the Act started but has progressed very slowly due to the apparently low priority being given to it by the Association of Friendly Societies of South Australia.

The Office has continued to administer the Benefit Associations Act and the Housing Loans Redemption Fund Act. During the year responsibility for both the Friendly Societies Act and the Benefit Associations Act was transferred to the Treasurer.

As is usual, advice continues to be given to Government agencies in respect of such matters as family maintenance payments, workers compensation and common law settlements, long service leave liabilities and other matters involving interest and/or demographic factors. In particular, substantial advice was provided to a national working party which is trying to prepare uniform consumer credit legislation. The work is being done for a Standing Committee of Consumer Affairs Ministers. Advice was also provided to the task force that prepared a report on No-Fault Compensation for Medical Misadventure.

The computing facilities of the Office were improved by the acquisition of a system for recording and reporting on losses in the public sector and by the development of some general insurance programs.

CHAPTER XII

SUPPORT SERVICES

The Administration and Support Services Branch provides a Ministerial Office service for matters relating to the portfolio of the Treasurer, including the administration of the Unclaimed Moneys Act, the Rural Advances Guarantee Act and Section 71 of the Administration and Probate Act which deals with the payment of unpaid salary and leave entitlements to the dependants of deceased Government employees.

The Branch provides a support service to all operational areas of the Department on matters ranging through accommodation and associated facilities, supply, transport, keyboard and reception services and correspondence. The Branch also manages the library and provides a service to management and staff with respect to the various management services disciplines.

The Branch is also responsible, within Treasury, for the administration of the Rural Advances Guarantee Act, under which the Treasurer is empowered to guarantee the repayment of loans made by a bank to a borrower wishing to engage in primary production. In the great majority of cases the loans are adequately secured and borrowers are experiencing no apparent difficulty in making repayments.

The Branch receives all correspondence addressed to the Treasurer, or to the Premier where the matter is relevant to the responsibilities of the Treasurer, and arranges for reports to be prepared by the appropriate authorities (eg State Taxation Office, State Bank, Lotteries Commission).

The Branch is also responsible for the provision of staff-related management services including the implementation and management of the Department's personnel policies which are described in the following chapter.

At the beginning of the year responsibility for administering the Lottery and Gaming Act and in particular the issuing of licences for small lotteries was transferred to Treasury. Work was undertaken on the drafting of regulations to give effect to the recommendations of the Working Party on Instant Lotteries for the closer supervision of small lotteries. These regulations should be introduced during 1989/90.

CHAPTER XIII

PERSONNEL MANAGEMENT POLICIES AND PROGRAMS

Management Improvement and Information Technology

All branches contributed to the Department's management improvement initiatives in 1988/89 including the implementation of initiatives identified during the second tier productivity and efficiency review. This review followed the decision of the Industrial Commission to award a 4% wage increase on condition that the increase be matched by improvements in efficiency.

There was again significant activity in the development of accounting and management information systems in the Accounting, SAFA and Systems Branches. The development of computerised systems continued to receive high priority within the Budget Branch and the Superannuation Office. Details are contained elsewhere in this report.

An Induction Manual and Staff Handbook were also completed and distributed during the year.

Staff Development and Training

The Department continues to encourage and support officers attending relevant courses, seminars and conferences. The cost of such activity to Treasury in 1988/89 was \$69 748. In addition, the Department continued its strong support of the part-time study assistance scheme, with students

undertaking studies receiving approval for time off with pay totalling approximately 144 hours per week. The proportion of Treasury staff studying on a part-time basis is significantly greater than the proportion in most other Departments.

Equal Opportunity

Treasury is committed to an active program of ensuring that any discriminatory policies and practices in relation to employment are removed. In particular, the policy of Treasury is to -

- give encouragement to all people to seek and to pursue careers in all occupational groups within Treasury;
- give all people equal consideration according to their merit for recruitment to and promotion within Treasury;
- give due consideration to all relevant life and work experience together with special aptitudes so that the widest range of people can compete for selection;
- review the requirements of positions in Treasury when they become vacant to ensure that they are consistent with the spirit of this policy;
- provide to all employees, according to their abilities and potential, equal opportunities for job rotation, special work assignments and appointment to committees which expand their range of work experience;

- endeavour to give all employees consideration for staff development programs;
- ensure that all employees are provided with adequate information and counselling on career opportunities available to them in the Public Service and are encouraged to develop their career potential;
- apply conditions of service to employees in a manner which is consistent with the spirit of this policy.

In addition, Treasury has a policy with respect to the employment and development of Aboriginal employees. Treasury will -

- give encouragement to Aboriginal people to seek and pursue careers in Treasury;
- ensure that Aboriginal employees are provided with adequate information and counselling on staff development matters and are encouraged to develop their career potential;
- develop and implement employment strategies for Aboriginal people in Treasury, including the setting of a target of no less than 1% of all positions in Treasury to be occupied by Aboriginal people;
- wherever possible provide opportunities for the advancement of Aboriginal employees.

In consultation with officers of the Department of Personnel and Industrial Relations strategies have been developed to give effect to this policy. In addition, Treasury's Management Services Officer has been appointed as Special Placements Officer and has responsibility, amongst other things, for implementing the policy, monitoring recruitment activity, and generally co-ordinating the receipt and consideration of applications for employment from Aborigines for positions at all levels.

During 1988/89 Treasury has employed 7 Aborigines, thus exceeding the 1% objective.

Safety, Health and Welfare

Two Health and Safety Representatives were elected during the year, one for each of the two designated work groups established within Treasury. The staff representatives were ap-

OCCUPATIONAL HEALTH AND SAFETY STATISTICS

	1987/88	1988/89
(a) The average number of employees employed during the period	271.4	297.4
(b) The total number of hours worked by employees	451 838	497 895
(c) The total number of work injuries	15	22
(d) The agency's actual expenditure on occupational health and safety programmes - as a percentage of total expenditure	-	-
(e) The agency's budget allocation for workers' compensation claims . \$51 000	\$51 000	\$51 000
(f) The total number of workers' compensation claims	9	14
(g) The total cost of workers' compensation claims charged against an insurance fund	\$38 547	\$18 189
(h) The total cost of workers' compensation claims carried by the agency	-	\$2 420
(i) The total number of common law claims	-	-
(j) The total cost of common law claims	-	-
(k) The total number of employees who participated in the agency's rehabilitation programme	-	-
(l) The total number of employees rehabilitated back to their original work task	-	-
(m) The total number of employees rehabilitated and redeployed onto other work tasks	-	-
(n) The total number of employees still on suitable alternative duties	-	-
(o) The total number of employees who have left, declared medically unfit	1	-
(p) The agency's budget allocation for property damage accidents	-	-
(q) The total number of property damage accidents	-	-
(r) The total cost of property damage accidents	-	-
(s) The number of hours of training in Occupational Health and Safety	-	-
(t) The number of Health and Safety Representatives	2	2
(u) The number of Health and Safety Committees	1	1
(v) The number of Default Notices issued pursuant to S35 of the OH&SW Act	-	-
(w) The number of times work was stopped pursuant to S36 of the OH&SW Act	-	-
(x) The number of Improvement Notices issued pursuant to S39 of the OH&SW Act	-	-
(y) The number of Prohibition Notices issued pursuant to S40 of the OH&SW Act	-	-

pointed to the Departmental Safety Committee, along with two representatives of management. The Committee met formally on two occasions during 1988/89.

Issues considered during the course of the year were -

- Passive smoking

During 1988/89 Treasury had a policy of reducing exposure of non-smoking staff to passive smoking. The Safety Committee recommended to the Under Treasurer that a complete ban on smoking in the work place be implemented. Following consultation with the Public Service Association, a complete ban was approved in August 1989, to be phased in over a period of two years.

- Sick leave patterns

A study of sick leave patterns within Treasury was commenced during 1988/89. Analysis of the information produced is continuing. The findings of the study will provide the basis for the development of a policy on the management of sick leave within Treasury.

- Hazard inspections

A further round of hazard inspections was completed during the year. The inspections have proved very useful in maintaining awareness of safety issues and in eliminating hazards.

Personnel Management

Treasury's actual AFTE figure for the year to 30 June 1989 was 297.4 against a funded AFTE level of 299.2.

54 (53) new permanent positions and 35 (22) new temporary positions were created during the year. 15 (11) temporary positions were abolished. 7 (13) permanent positions were abolished (1987/88 figures are shown in brackets).

The Department's classification profile including vacant positions was as follows (1987/88 figures in brackets) -

	No. of Offices	
EO-6	1	(1)
EO-4	5	(4)
EO-3	3	(1)
EO-2	3	(3)
EO-1	12	(6)
AO-5	8	(7)
AO-4	11	(9)
AO-3	22	(16)
AO-2	15	(6)
AO-1	23	(19)
CO-6	22	(13)
CO-5	32	(26)
CO-4	34	(34)
CO-3	36	(25)
CO-2	51	(47)
CO-1	119	(99)
LE-1	3	(2)
CS-1	3	(1)
CS-2	1	(-)
CR-3	7	(4)
CS-3	1	(4)
CS-4	1	(1)

PERSONNEL MANAGEMENT STATISTICS FOR THE YEAR WERE -

Classified Vacancies Advertised		
Permanent	.95	(56)
Temporary	9	(11)
Nominations Published	.49	(38)
Appointments (from outside Public Service)	1	(1)
Reassignments	.71	(51)
Appeals	2	(2)
Base Grade Appointments	.41	(28)
Alternative Placement Applications	9	(14)
Resignations (Retirements)	.30	(23)
Officers Temporarily Reassigned to other Agencies		
Classified	2	(5)
Base Grade	10	(4)
Reclassifications	6	(17)
Supernumeraries Employed	9	(6)
Aboriginal Employees	7	(6)
Clerical Traineeships	1	(2)
Work Experience -		
Under Graduates	2	(3)
High School Students	9	(3)
Vocational Traineeship Scheme for the Disabled	1	(2)
HETA (Disabled person)	1	()

CHAPTER XIV

FINANCIAL INFORMATION

TREASURY DEPARTMENT

RECURRENT RECEIPTS AND PAYMENTS ON CONSOLIDATED ACCOUNT FOR THE YEAR ENDED 30 JUNE 1989

	Note	1987/88 \$'000	1988/89 \$'000
Payments			
	1.		
Administration and Enforcement of State Taxation legislation		4 197	4 535
Provision of Economic and Budgetary Advice		1 225	1 338
Maintenance and Development of Accounting Policies and Systems		2222	2 430
Administration of Superannuation Schemes	2.	668	1 070
Provision of Actuarial Advice		383	606
Intra-Agency Support Service items not allocated to Programs		1 504	2 051
Total operating payments	3.	<u>10 199</u>	<u>12 030</u>
Receipts	4.		
Maintenance and Development of Accounting Policies and Systems		129	96
Administration of Superannuation Schemes		100	906
Provision of Actuarial Advice		35	17
Other programs		2	3
Total Operating Receipts		<u>266</u>	<u>1 022</u>
Excess of Payments over Receipts		<u>9 933</u>	<u>11 008</u>
Other Payment on behalf of the Department - Department of Housing and Construction maintenance costs, office service costs and debt servicing on capital expenditure		195	142
Net Cost of Recurrent Operations		<u>10 128</u>	<u>11 150</u>

Notes to and forming part of the Financial Statement

1. Statement of Accounting Policy

The amounts shown represent only those expenditures and receipts which are comparable with the operating costs and recoveries of other Government Departments. The nature of Treasury Department's functions necessitates that it incurs expenditures and receives monies of a non-operating type which have been excluded from this Statement.

An example is interest costs on funds borrowed by the Treasurer. This item is excluded because if the amount of funds borrowed was shown as a departmental receipt it would give a misleading indication of the Department's contribution to Government revenues in comparison with other Departments.

2. The rise in payments was due principally to an increase in the level of staffing resources applied to the implementation of new superannuation arrangements and development of a new computerised superannuation system.

3. This amount does not agree with that shown in Treasurer's Statement A for the reasons outlined in Note

1. The amount appearing in Statement A comprises -

	1987/88 \$'000	1988/89 \$'000
(a) Expenditure included in the Financial Statement -		
Salaries and related payments ⁽¹⁾	6 723	7 579
Operating expenses, minor equipment and sundries ⁽²⁾	3 476	4 451
	-----	-----
Total Operating Expenditure	10 199	12 030
	=====	=====
(b) Expenditure excluded from the Financial Statement -		
Remission to Liquor Industry	17	2
Repayment of unclaimed moneys	75	45
Interest on Borrowings ⁽³⁾	465 486	351 612
Indexation of funds borrowed from Statutory Authorities	1 876	-
Interest on Deposit Accounts ⁽⁴⁾	60 174	27 151
Refunds and remissions ⁽⁵⁾	5 825	13 398
Cheques for departments	54	29
Cash losses	4	6
	-----	-----
Total Excluded Expenditure	533 511	392 243
	=====	=====
Total Treasury Department Expenditure	543 710	404 273
	=====	=====

(1) - Includes Superannuation costs.

The Department is required to pay an amount to Consolidated Account towards the accruing Government liability for superannuation in respect of contributors to the SA Superannuation Fund currently employed. Payments to Consolidated Account amounted to \$560 000. In addition, payments for all employees based on 3 per cent of eligible earnings were made to the Public Sector Employees Superannuation Scheme. Payments amounted to \$183 000.

(2) - Includes Accommodation Costs

The Department occupies leased premises administered by the SA Department of Housing and Construction (SACON). Payments during the year to the Office Accommodation Unit (SACON) for leasing and associated services costs amounted to \$1 018 000.

Debt servicing costs on capital funds expended for the fitting out of premises are brought to account under Other Payment on behalf of the Department.

(3) - The reduction reflects changed financing arrangements. In 1988/89 interest costs applicable to certain Government Departments (eg Engineering and Water Supply Department) were met directly by those Departments. In previous years costs were met by the Treasury on behalf of those Departments.

(4) - The higher interest expense in 1987/88 compared with 1988/89 related principally to the holding of a significant deposit from the Electricity Trust of South Australia for a substantial part of the 1987/88 financial year.

(5) - The increase is due mainly to stamp duty relief provided to a major South Australian based manufacturing organisation.

4. The rise in receipts reflects mainly the increase in the level of recovery of costs associated with the administration of the new Superannuation Act.

HOUSING LOANS REDEMPTION FUND

The Housing Loans Redemption Fund Act enables eligible borrowers from approved authorities to contribute to the Fund (established under the Act) to provide for the repayment from the Fund of their outstanding housing advances in the event of death. The Fund is operated through a special deposit account maintained at the Treasury. Provision is made for any deficiency in the Fund to be met from the Consolidated Account.

The Treasurer paid \$75 000 from the Fund to the SA Housing Trust for the purpose of providing housing to persons in necessitous circumstances.

Financial Statement for the year ended 30 June 1989

	1989		1988
	\$'000	\$'000	\$'000
Funds held at 1 July		5 578	4 870
<i>Receipts -</i>			
Contributions	293		
Interest	746		

		1 039	986
<i>Payments -</i>			
Claims in respect of housing advances	129		
SA Housing Trust - pursuant to Cottage Flats Act	75		

		204	278

Net increase in Fund		835	708
		-----	-----
Fund held at 30 June		6 413	5 578
		====	====

HOSPITALS FUND

The Hospitals Fund is a deposit account maintained at the Treasury to which are credited moneys received pursuant to the -

Racing Act -

In respect of off-course Totalizator Agency Board operations -

- A contribution of one half of the balance of funds remaining after allowing for payments (administration and operating expenses etc.) specified in the Act.

- One half of unclaimed dividends.

Excess amounts transferred by the Treasurer from the Dividends Adjustment Account.
Dividends unclaimed from racing clubs authorised to conduct on-course totalizators.

State Lotteries Act -

Surpluses from Lotteries Commission operations.

Stamp Duties Act -

Stamp Duty on insurance policies relating to motor vehicles.

The legislation further provides that the Fund shall be applied -

First, in payment of dividends and prize moneys previously transferred to the Fund.

Second, in crediting amounts approved by the Treasurer in accordance with Appropriation Acts to the General Revenue of the State towards amounts appropriated by Parliament for the purposes of the provision, maintenance, development or improvement of public hospitals or equipment for public hospitals.

Transactions for the past two years have been -

	1988-89 \$'000	1987-88 \$'000
Funds held at 1 July	NIL	6 297
	=====	=====
<i>Receipts for the year -</i>		
Totalizator Agency Board		
One half of balance of funds (Section 69(2) Racing Act)	17 732	12 944
Unclaimed dividends	489	403
Transfer of fractions (Dividends Adjustment Account)	1 621	1 313
Racing Clubs - Unclaimed dividends	165	142
Lotteries Commission		
Amount transferred from operations	58 457	48 027
Unclaimed prizes	-	(1)
Motor Vehicles - Stamp duty on insurance policies	2 364	2 241
	-----	-----
Total Receipts	80 828	65 069
	=====	=====
Total Amount Available	80 828	71 366
	=====	=====
<i>Payments for the year -</i>		
Transferred to Consolidated Account as a contribution towards		
Public Hospital costs -		
Gambling - Hospitals Fund Contribution	78 464	68 349
Stamp Duties	2 364	3 017
	-----	-----
Total Payments	80 828	71 366
	=====	=====
Funds held at 30 June	NIL	NIL
	=====	=====

