Table of Contents

1. OVERVIEW

The 2000-01 Budget is dominated by two events which represent major achievements in terms of the State's financial position and outlook.

Firstly the program of disposal of the State's electricity assets has seen the receipt of proceeds of $3.9 billion including $117 million of superannuation liabilities taken over by the purchasers. The reduction in net debt from these transactions is $3.7 billion.

Secondly, the reform of Commonwealth–State Financial Relations helps secure the State's revenue base, and is expected to be beneficial to the State from 2006-07.

This Budget Statement sets out the State finances and their outlook for the budget and forward years. A summary of the highlights contained within each of the chapters in this Budget Paper is provided below:

Chapter 2 *Budget Strategy and Outlook:*

- The 2000-01 Budget continues the Government's commitment to its four-year financial plan, as set out in 1998-99.
- The budget is balanced in cash terms over the forecast period, which means the non commercial sector capital investment program is fully funded each year without borrowing.
- The disposal of the electricity assets means there is no longer a need to introduce the power bill increase proposed in last year's budget. A net benefit of $109 million is realised in 2000-01 from the disposal of electricity assets, which is the difference between interest savings on debt and the loss of dividends and tax payments from the relevant entities.

Chapter 3 *The Accrual Budget Perspective:*

- The operating result for 2000-01 is forecast to be $238 million better than the estimated result for 1999-2000.
- The projected operating surplus approaches the target over the forecast period.

Chapter 4 *Expenditure:*

- The 2000-01 Budget provides for new service delivery initiatives totalling $263 million over the next three years, including $52.7 million education, 113 additional police officers, $7.5 million for mental health, and $30 million on specific regional initiatives.
- Capital outlays are budgeted to grow by 9.3 per cent in real terms in 2000-01, consistent with the Government's aim of ensuring an adequate economic and social infrastructure. The budget provides for major investing initiatives totalling $592 million over three years.
- Current outlays excluding interest and past service superannuation payments are maintained in real terms across the forward estimates.
- The budget continues to include provisions for reasonable public sector wage growth.
- Compared with 1998-99, net interest payments will have reduced by more than a third by 2000-01, largely attributable to electricity asset proceeds.

Chapter 5 *Revenues:*

- Emergency Services Levy relief of $24 million per annum is provided in addition to existing concessions and remissions of $28 million per annum.
- Revised Commonwealth–State funding arrangements under national tax reform are introduced.
- Payroll tax rebates for the employment of trainees will be better targeted.

Chapter 6 *Commonwealth–State Finances:*

- The Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations in being implemented and the inaugural meeting of the Ministerial Council overseeing the reforms was held in March 2000.
- States are guaranteed to be no worse off under the tax reform arrangements.
- The Agreement stipulates that GST revenues will be distributed among the States according to horizontal fiscal equalisation principles.

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

- A debt reduction program is in place to manage electricity asset sale/lease proceeds.
- Net worth of the public sector as at 30 June 1999 was $10.5 billion, comprising assets of $37.1 billion and liabilities of $26.6 billion.
- Provision has been made over the forecast period for payments to FundsSA consistent with achieving full funding of superannuation liabilities by 2034.
- Net debt of the public sector (excluding Government financial institutions) is estimated to be $4302 million as at 30 June 2001, a decrease of $3418 million from 30 June 1999 largely attributable to the receipt of electricity asset sale/lease proceeds in 1999-2000.

Chapter 8 *Government Businesses:*

- Implementation of government business reforms is at an advanced stage in accordance with the timeframes agreed in the Competition Principles Agreement between the Commonwealth and the States and Territories.
- Parliament approved the sale/lease of the State's electricity assets in June 1999 and the Electricity Reform and Sale Unit (ERSU) of Treasury and Finance is finalising a staged program of disposal.
- In December 1999 the Premier announced the privatisation of ETSA Utilities and ETSA Power to the HKE/CKI consortium for $3.5 billion. In January 2000, ETSA Power was on-sold to AGL for $175 million, providing an additional $25 million in gross proceeds to the Government under the terms of the sale/lease agreement. In May 2000 the Government announced the long-term lease of Optima Energy for $315 million and Synergen for $39 million. The remaining three electricity entities are in the process of being sold/leased.

Chapter 9 *The South Australian Economy:*

- Economic growth strengthened in South Australia during 1999-2000 to 3¾ per cent in real terms but is expected to moderate in 2000-01 to 2¾ per cent.
- Employment growth in South Australia has been robust during 1999-2000 but is expected to ease in 2000-01.
- The overseas export of goods from South Australia has grown strongly over 1999-2000, driven particularly by substantial growth in the export of fish and crustaceans; road vehicles, parts and accessories; metals and metal manufactures; and wine.

- South Australia’s rate of annual population growth has stabilised, but remains well below the national trend.

Appendices A and B discuss the impact of the Budget on Families and Women respectively.

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

A glossary and a list of abbreviations are also provided.

Throughout this Budget Paper, reference is made to real terms aggregates and growth rates. All real terms calculations use the CPI as the deflator. In the case of 2000-01, the expected impact of the new tax system reforms on the CPI has been estimated by the Commonwealth Treasury to be 3 per cent. This impact has been excluded from the deflator for the purposes of real terms calculations.

2. BUDGET STRATEGY AND OUTLOOK

HIGHLIGHTS

- The 2000-01 Budget continues the Government’s commitment to its four-year financial plan, as set out in the 1998-99 Budget.
- The budget is balanced in cash terms over the forecast period, which means the non commercial sector capital investment program is fully funded each year without borrowing.
- Compared with 1998-99, net interest payments will have reduced by more than a third by 2000-01, largely attributable to electricity asset proceeds.
- Total public sector net debt will have almost halved in real terms by the end of 2001 compared with 30 June 1999.
- Provision has been made over the forecast period for payments to FundsSA consistent with achieving full funding of superannuation liabilities by 2034.
- The disposal of the electricity assets means there is no longer a need to introduce the power bill increase proposed in last year’s budget. A net benefit of $109 million is realised in 2000-01 from the disposal of electricity assets, which is the difference between interest savings on debt and the loss of dividends and tax payments from the relevant entities.
- The Emergency Services Levy has been reduced by a further $24 million per annum from 2000-01 resulting in a total reduction of $46 million per annum since it was introduced. Total collection from the community will now be $76.7 million. This is a significant benefit made possible by the electricity asset disposal process.
- For the non commercial sector, capital outlays are budgeted to grow by 9.3 per cent in real terms in 2000-01, consistent with the Government’s aim of ensuring an adequate economic and social infrastructure.
- Current outlays excluding interest and past service superannuation payments are maintained in real terms across the forward estimates.
- The budget provides for major initiatives totalling $855 million over three years, in the priority areas identified in *Directions for South Australia 2000-01*.
- The budget continues to include provisions for reasonable public sector wage growth.
- In the last two years, public sector wages growth in South Australia has been kept below private sector wages growth in South Australia.

2.1 OVERVIEW OF 2000-01 BUDGET

The 2000-01 Budget is the third year of the four-year financial plan set out in 1998-99. The Government needed to repair State finances to respond to the many challenges facing the State in the new century. With this budget, the key targets of improved services and continued investment in social and economic infrastructure have been achieved in the context of balanced budgets, reduced indebtedness and the continuation of the program of funding superannuation liabilities.

Through its major asset sales program, the Government has been able to retire debt, reduce the annual interest burden and reduce the exposure of the budget to fluctuating interest rates and the inherent risks of the national electricity market. Four of the seven electricity businesses have been disposed of, contributing to total public sector net debt being almost halved and annual interest payments being reduced by over one third by 2000-01.

The asset sales program continues. The Government has announced disposal programs for Ports Corporation, TAB and Lotteries Commission.

The Government is now able to wind back some of the revenue measures announced in the 1999-2000 Budget, with a further reduction in the Emergency Services Levy of $24 million per annum and the dropping of the proposed power bill increase. The Emergency Services Levy has now been reduced by $46 million per annum since it was introduced. Total collections from the community will now be $76.7 million per annum. This is a significant benefit made possible by the electricity asset disposal process.

The premium from the sale of the Casino complex by FundsSA will provide $86 million of the Government's scheduled contributions towards fully funding the superannuation liability. This has enabled the Government to reduce the contribution from the State Budget. The Government remains committed to fully funding its superannuation liability by 2034.

The budget and forward estimates maintain the Government's commitment to balanced budgets in cash terms.

2.2 PROGRESS AGAINST THE FOUR-YEAR PLAN

Significant progress has been made towards the medium-term budget objectives set out in the 1998-99 four-year financial plan, as described below.

Objectives	Achievement
To provide community services to a standard and level at least comparable with other States	Student/teacher ratios in SA's primary and secondary schools are significantly lower than the national average. The proportion of public housing tenants in SA who were "very satisfied" was the highest of any jurisdiction. Court case finalisation times are shorter than average in most SA court jurisdictions.
To maintain the non commercial sector in underlying balance over the medium term	Budget and forward estimates balanced in cash terms over the forecast period, with adequate contingency provisions to manage prospective wage outcomes, finance new initiatives and meet emerging cost pressures. The underlying deficit in 1999-2000 is estimated at $39 million and is largely attributable to GST implementation costs.
To further reduce debt in real terms with the aim of achieving an AA plus rating as soon as possible	AA+ rating achieved in December 1999 following the announcement of the sale of ETSA Utilities and ETSA Power. Total public sector debt projected to fall by 48% in real terms over the four-year plan. Ratio of net interest to underlying revenue projected to fall from 8.5% in 1998-99 to 3.2% in 2003-04.
To eliminate the State's unfunded superannuation liability	Budget provides for achievement of full funding by 2034. The Government continues to fund accruing new service superannuation liabilities each year.

To ensure the State has a competitive tax regime for business and job creation	This budget provides a further reduction in Emergency Services Levy of $24 million per annum. As part of national tax reform, the States have agreed to abolish some of their more inefficient taxes—in particular, financial institutions duty and debits tax. This will improve taxation arrangements directly affecting business operations. South Australia will remain third lowest of the States in terms of tax revenue per capita in 2000-01.
Objectives	**Achievement**
To ensure the State has an adequate economic and social infrastructure to promote business investment and contribute to social well-being	The Government's Capital Investment Program once again provides for major expenditures on the provision of new infrastructure and the upgrading of existing assets. The 2000-01 program provides for a total expenditure of $1 billion. Major proposals which support economic development in the State include the State's contribution towards the Adelaide–Darwin rail link and the provision for the industrial park on the old DSTO property at Salisbury. The program also includes major expenditures which will aid the delivery of core social programs including education, health and the administration of justice.

2.3 FISCAL OUTLOOK

Key Fiscal Trends

Key fiscal trends are summarised in Table 2.1. Consistent with the Government's four-year financial plan, the budget will be in balance in cash terms across the forecast period.

Table 2.1 Underlying Fiscal Trends—1998-99 to 2003-04 (adjusted to remove compositional effects of the Commonwealth Government's tax reforms) [(a)]

		1998-99 Actual	1999-2000 Estimated Result	2000-01 Budget	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
Deficit/ (Surplus)	$m	55	39	(2)	(1)	(3)	(1)
Current Deficit/ (Surplus)	$m	(167)	(387)	(549)	(550)	(518)	(521)
Capital Deficit/ (Surplus)	$m	222	426	547	550	516	520
Total Outlays Real Growth	%	4.7	1.6	(1.5)	(0.8)	0.1	1.4
Current Outlays Real Growth	%	5.7	(1.7)	(2.2)	(1.0)	0.7	1.8
Excluding Interest and Superannuation [(b)]	%	9.0	4.7	(0.9)	(1.1)	0.5	1.6
Total Capital Outlays Real Growth	%	(10.6)	58.4	9.3	1.0	(6.3)	(3.3)
Final Consumption Expenditure Real Growth	%	9.2	(2.9)	0.9	2.3	2.2	3.1
Excluding Superannuation [(b)]	%	9.9	3.6	(0.0)	(0.1)	1.6	2.4
Own Source Revenue Real Growth	%	2.0	5.6	(5.0)	(5.6)	(1.6)	4.6
Excluding SAAMC Dividends	%	2.0	5.2	(8.1)	(3.3)	0.1	1.5
Net Interest to Own Source Revenue	%	16.5	13.0	12.2	9.4	8.9	8.0
Net Interest to Total Revenue	%	8.5	7.0	5.1	3.6	3.4	3.2
Commonwealth Grants Real Growth	%	4.2	1.3	(0.5)	2.3	1.2	(0.5)

(a) The national tax reforms will result in a decline in State own-source revenues offset by increased funding from the Commonwealth. For the years shown the net impact on State revenues is expected to be close to neutral.

(b) Refers to the payment towards past service superannuation liability and timing impacts of prepayment of new service superannuation.

Table 2.1 clearly demonstrates the Government's commitment to investment spending. The significant increase in capital outlays in 1999-2000 is followed by a further increase of 9.3 per cent in 2000-01. Even with projected reductions to capital outlays in 2002-03 and 2003-04, the program remains at 1999-2000 levels.

Reductions in own-source revenues shown in Table 2.1 (which removes the impact of the Commonwealth Government's tax reforms) mainly reflect the loss of dividend income from the electricity entities no longer in public ownership. The offsetting benefit of reduced interest costs is reflected in the outlay forecasts.

Underlying Deficit

The significant turn around in the State's finances over the last decade is shown in Figure 2.1—from a deficit of $301 million in 1993-94 to on-going balance from 2000-01. One of the key contributors to this turnaround is the reduction in interest costs, which are projected to fall by more than two-thirds from $719 million in 1994-95 to $232 million in 2003-04.

An unanticipated surplus was achieved in 1997-98, and deficit in 1998-99, which resulted from the deferral to 1998-99 of a significant level of expenditure originally planned for 1997-98.

A small deficit is now expected for 1999-2000, primarily because of the implementation costs of the Goods and Services Tax (GST).

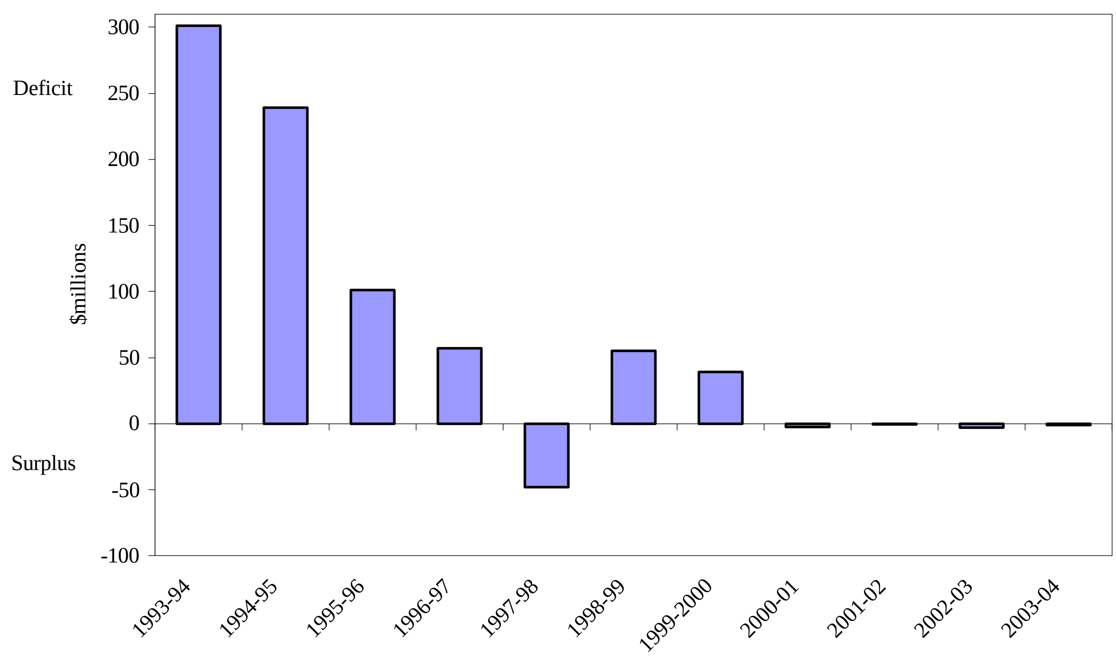


Figure 2.1 Underlying Non Commercial Sector Result

The balanced budget outlook is achieved through current surpluses being used to fund capital investment each year, as shown in Figure 2.2. The budget provides for a significant increase in capital investment spending, to maintain the Government's commitment to ensuring adequate social and economic infrastructure for South Australians. The projected current surpluses ensure this investment spending will not be debt financed.

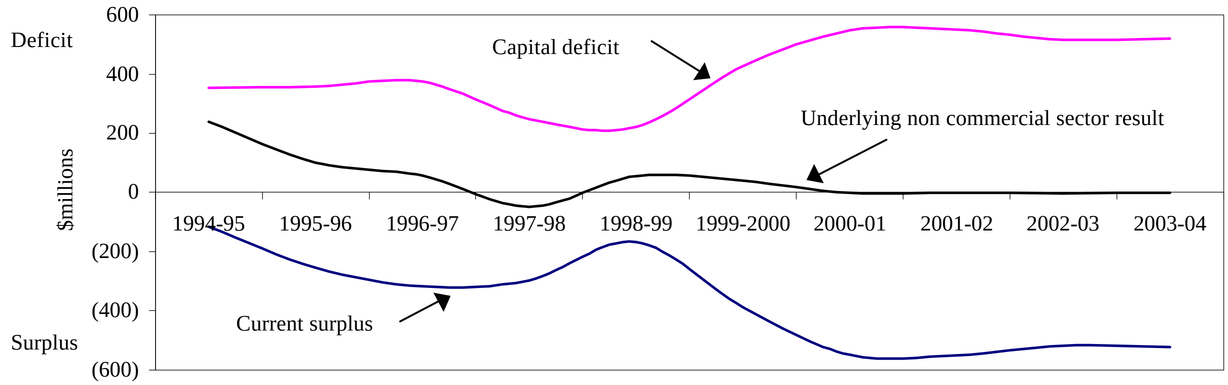


Figure 2.2 Underlying Non Commercial Sector Result and Relative Contribution of Movements in the Capital Deficit and the Current Surplus

Key outlay and revenue aggregates

The increase in the current surplus will result from a combination of tighter financial management, an increase in Commonwealth grants and the reduction in the burden of interest costs in the budget. Details of the major financial aggregates for the non commercial sector (defined in Appendix C) are provided in Table 2.2.

At the time the Government put in place its four-year plan the Australian Bureau of Statistics (ABS) Government Financial Estimates (GFE) were presented on a cash basis. In April 2000 the ABS produced its first accrual based GFE publication. Table 2.2 is presented on the previous cash basis in accordance with the targets originally specified in the Government's four-year program.

Table 2.2 Non Commercial sector—2000-01 Budget and Forward Estimates (Excluding Net Proceeds of the Sale of Government Businesses)

	1999-2000 Estimated Result $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
Current Outlays					
General Government Final Consumption Expenditure	4 279	4 316	4 508	4 721	4 988
Net Interest Payments	460	347	251	240	232
Subsidies Paid	619	659	595	573	579
Other [(a)]	949	1 003	994	1 019	1 039
Total Current Outlays	6 307	6 326	6 348	6 553	6 839
Capital Outlays					
Gross Fixed Capital Expenditure and Other Capital Outlays	558	561	580	553	562
Grants	28	74	45	45	39
Advances	(49)	(33)	(1)	2	(7)
Total Capital Outlays	537	602	624	599	594
Total Outlays	6 843	6 928	6 972	7 152	7 433
Own Source Revenues					
Taxes	2 746	2 089	2 032	2 102	2 173
Net Operating Surplus of Non Commercial Public Trading Enterprises	99	59	52	49	61
Income from Commercial Public Trading Enterprises	372	279	268	283	282
Other Revenue	320	430	316	258	371
Own Source Revenues	3 536	2 857	2 669	2 692	2 887
Grants Received [(b)]	3 169	3 962	4 225	4 382	4 467
Total Revenue and Grants Received	6 705	6 819	6 894	7 074	7 354
Financing Transactions					
Provisions	70	77	79	81	80
Deficit/(Surplus)	69	32	(1)	(3)	(1)
Abnormal Items					
Stamp Duty on Electricity Sales/ Leases	110	-	-	-	-
Separation Payments	(69)	(20)	-	-	-
Cost Associated with Asset Sales	(70)	(14)	-	-	-
Underlying Deficit/(Surplus)	39	(2)	(1)	(3)	(1)

(a) Grants on-passed to Local Government, personal benefit payments etc.

(b) Includes $166.8m of loans from the Commonwealth under the guaranteed minimum amount arrangements in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (see text for further explanation)

The Commonwealth is providing $166.8 million in 2000-01 as part of its obligations under the guaranteed minimum amount arrangements in the *Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations.* The Commonwealth has described this payment as a loan. However, in 2001-02 the Commonwealth will provide a larger grant than would otherwise be necessary by an amount sufficient to repay this loan. The loan in 2000-01 is therefore effectively a grant and has been treated as such in the budget presentation. This is consistent with the treatment applied in recently published 2000-01 budgets for Victoria, Western Australia and the Northern Territory.

Current outlays remain at relatively stable levels, in real terms. Significant reductions in net interest payments (from $460 million in 1999-2000 to $232 million in 2003-04) are offset by an allowance for modest growth in final consumption expenditure, including the requirement to increase contributions to the past service superannuation liability each year over the forward estimates period.

The budget provides for reasonable public sector wage growth over the forward estimates.

Growth in the capital program in 2000-01 and 2001-02 is planned followed by real reductions in 2002-03 and 2003-04. Capital outlays remain at well above 1998-99 levels throughout the whole of the forward estimates period.

Total revenue remains relatively stable in real terms.

There are significant impacts on the composition of State revenues across the forward estimates, the most important being the impact of the Commonwealth Government's New Tax System. The tax reforms are expected to have beneficial impacts on the South Australian Budget from 2006-07 through the provision of revenue from a more broadly based and higher growth revenue base, compared with expected real per capita maintenance of Commonwealth Financial Assistance Grants. The tax reforms, and their impact on South Australia, are discussed in Chapters 5 and 6.

The loss of dividends and tax equivalent payments from the ETSA entities is also evident in forward estimates of revenues. Chapter 8 includes a discussion of returns from government businesses.

Revenue policy decisions taken since the 1999-2000 Budget include the reduction in the Emergency Services Levy and the decision not to proceed with the power bill increase. Revenue is discussed in detail in Chapter 5.

Abnormal items include an amount of $110 million in 1999-2000 representing the stamp duty received on electricity asset sales and leases. Under the *Electricity Corporations (Restructuring and Disposal) Act 1999*, proceeds from the disposal of the electricity assets are required to be applied to meet the costs of restructuring and disposal, to an electricity prices equalisation account, or to reduce state debt. Stamp duty receipts do not form part of the proceeds, and are required under State legislation to be paid into the Consolidated Account. However the Government decided to reduce State debt by the amount of stamp duty receipts through a repayment of borrowings from Consolidated Account. This transaction has been treated as an abnormal item for the purpose of calculating the underlying deficit in 1999-2000.

Separation payments associated with the outsourcing of passenger transport services of $13 million in 1999-2000 and targeted separation payments of $56 million in 1999-2000 and $20 million in 2000-01 have also been included as abnormal items.

Net Debt and Unfunded Superannuation

On 28 January 2000, the Government received $3.4 billion for the lease of ETSA Power and ETSA Utilities. In addition the purchaser took over $94 million in terms of future superannuation liabilities in respect of employees of those organisations. As a result of the transaction, Standard & Poor's increased the State's credit rating from AA to AA+. This is an important step in restoring confidence to investors in South Australia. An upgrade acts to reduce the interest rate the Government is required to pay on debt raised.

A further $331 million in proceeds relating to the disposal of Synergen and Optima will be received in June 2000. In addition there was a $23 million benefit in terms of future superannuation liabilities in respect of employees of those organisations.

The net proceeds from these transactions are to be applied to State debt reduction. Table 2.3 reveals the significant reduction in the level of total public sector debt during 1999-2000.

Further reductions to debt resulting from the disposal of the remaining three electricity entities early in 2000-01, and from possible further asset sales/leases (Ports Corp, TAB, Lotteries Commission), have not been reflected in Table 2.3.

Table 2.3 Public Sector Net Debt—June 1999 to June 2004

As at June		1999	2000	2001	2002	2003	2004
Net Debt							
including Asset Sales (Nominal)	$m	7 720	4 226	4 302	4 316	4 281	4 214
including Asset Sales (Real) (a)	$m	7 913	4 226	4 187	4 098	3 966	3 808
excluding Asset Sales (Real) (a) (b)	$m	9 809	9 697	9 511	9 293	9 034	8 753
including Asset Sales as a Percentage of GSP	%	19.0	9.9	9.5	9.1	8.5	7.9
Net Debt plus Unfunded Superannuation							
including Asset Sales (Real) (a)	$m	12 003	8 340	8 303	8 237	8 100	7 904
excluding Asset Sales (Real) (a) (b)	$m	13 900	13 811	13 627	13 432	13 168	12 849
including Asset Sales as a Percentage of GSP	%	28.9	19.5	18.9	18.2	17.4	16.5

(a) June 2000 prices.

(b) Excludes asset sales since 1 July 1994.

(c) GSP forecasts are calculated using Commonwealth Treasury forecasts of the non-farm GDP deflator for 1999-200 and 2000-2001 and CPI projections (as a proxy for the non-farm GDP deflator) thereafter

The Government's asset sales program, its commitment to balanced budgets and continuing contributions to funding past service superannuation liabilities are all factors in the on-going reductions in net debt, and unfunded superannuation, as a percentage of GSP.

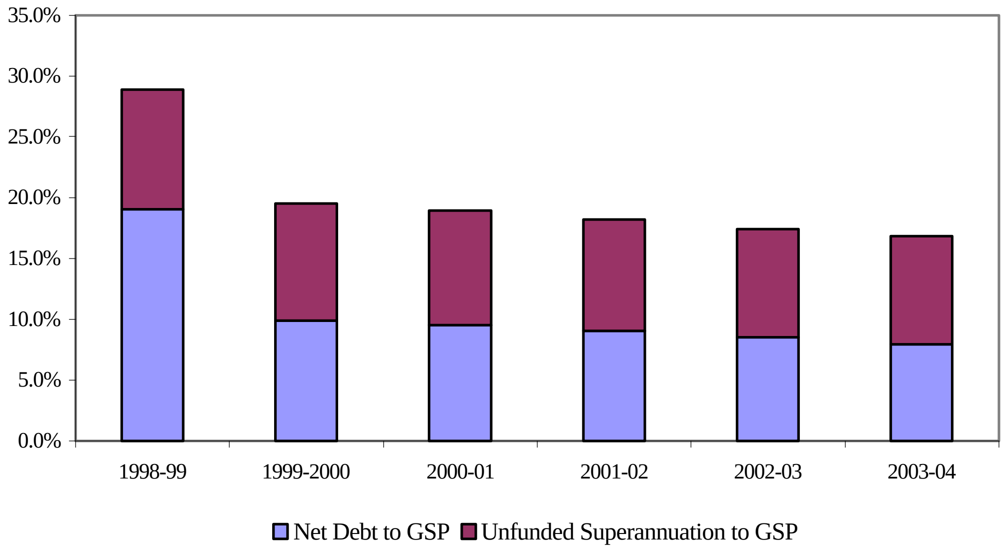


Figure 2.3 South Australian Public Sector—Net Debt and Unfunded Superannuation Liabilities (a)

(a) GSP forecasts are calculated using Commonwealth Treasury forecasts of the non-farm GDP deflator for 1999-2000 and 2000-01 and CPI projections (as a proxy for the non-farm GDP deflator) thereafter

2.1 KEY 2000-01 BUDGET MEASURES

The key parameter changes and policy decisions in the 2000-01 Budget are detailed in Table 2.4, which provides a reconciliation to the 1999-2000 Budget.

Table 2.4 Reconciliation Statement—Underlying Result, Non Commercial Sector

	2000-01 $m	2001-02 $m	2002-03 $m
1999-2000 Budget Deficit/(Surplus)	(1)	(2)	(2)
Plus			
Parameter Effects[(a)]			
Net Interest Costs	61	(5)	(18)
Taxes and Grants	(60)	(78)	(100)
Other Revenues	16	16	17
GST			
Implementation Costs	5	-	-
Commonwealth Grants	36	39	41
Agency Savings	(27)	(39)	(41)
Equals			
No Policy Change Estimates[(b)]	30	(69)	(103)
Plus			
Policy Changes			
Revenue Measures			
Emergency Services Levy	46	46	46
Outlays			
New Operating Initiatives[(c)]	93	88	82
Past service Superannuation—Premium from ASER Sale[(d)]	(86)	-	-
Agency Savings	(27)	(24)	(25)
Major Timing Differences			
SAAMC/SAFA Dividend Timing[(e)]	(88)	(45)	15
Past Service Superannuation Payments	(12)	(45)	(56)
Adelaide–Darwin Rail Link	25	-	-
Other Net Movements[(f)]	16	48	38
Equals			
2000-2001 Budget Deficit / (Surplus)	(3)	(1)	(3)

( ) Denotes improvement.

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

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

(c) Reflects additional funding for spending decisions made since the 1999-2000 Budget including specific high priority initiatives and provisions to meet unexpected demands and new policy initiatives.

(d) A lower past service superannuation payment is required in 2000-01 as a result of profits from the ASER sale.

(e) Reflects delay in the timing of the receipt of SAAMC and SAFA dividends from 1999-2000 and other timing adjustments.

(f) Incorporates other adjustments and provisions within the forward estimates including agency spending from accumulated cash balances.

Key parameter changes in the 2000-01 Budget

Increases in interest rates not forecast for 2000-01 had an adverse impact of approximately $61 million on the forward estimates for 2000-01. In the later years the variation from 1999-2000 budget forecasts is minimal.

The importance of reducing debt and reducing budget exposure to increasing interest rates is shown by the fact that an average increase of 2 per cent in interest rates, on $7.7 billion of net debt, would eventually increase interest costs by about $154 million per annum.

Increases in tax and grant revenue have been experienced in 1999-2000 and are expected to continue into the forward estimates. Refer to Chapters 5 and 6 for further details.

The Government has received lower than expected revenue from court fees and fines, and traffic infringement notices.

The new tax system is largely budget neutral over the forward estimates period. GST implementation costs and the expected inability of agencies to realise the full benefit of anticipated embedded tax savings in 2000-01 results in a budget impact of approximately $14 million in that year. Agencies are required to fund on-going compliance costs from within their existing budget allocations.

Key policy decisions in the 2000-01 Budget

ETSA disposal

As a result of Parliament's approval of the electricity asset disposal process the power bill increase did not proceed. The expected revenue from the power bill increase was broadly equivalent to the expected benefit to the budget from disposing of all the electricity assets, in terms of interest savings over and above revenue lost from dividends and tax equivalent payments. The budget forecasts include the impacts on debt and interest payments, and the dividends and tax equivalents foregone from the disposal of ETSA Utilities and ETSA Power (in January 2000), and Optima and Synergen (in June 2000).

The delay in the Government's original timetable for the disposal of the electricity assets has seen some weakening in the market for this type of asset with a consequent impact on prices. However, the budget impact of the disposals to date is clearly positive. The estimated interest saving for 2000-01 is $210 million. The estimated loss of dividends and tax equivalents from the entities sold in the same year are $101 million. The net benefit from the disposal process is $109 million. This compares favourably with the $100 million revenue previously estimated to be achieved by the power bill levy.

The same comparison cannot sensibly be done for later years at this stage. The proceeds from the disposal of the remaining assets are not known at this stage. Further, future interest rates will vary from those currently applying and the likely dividends that would have been achieved from the businesses will depend on future developments in the electricity market. Estimates of net benefits in future years will need to be estimated in each year's budget.

Emergency Services Levy

In September 1999, the Government established a reference panel to examine unintended impacts on taxpayers resulting from the introduction in 1999-2000 of the Emergency Services Levy. In addition, numerous issues raised by the public were referred to the Justice Portfolio for examination and policy advice. In response to the findings of the reference panel and policy advice received from the Justice Portfolio, the Government has decided to introduce a range of amendments to the operation of the Levy which will deliver relief to both fixed and mobile property owners. The total cost of the reform measures is $24 million per annum.

This is in addition to increases in remissions and concessions amounting to $22 million which were provided in 1999-2000. The net impact on the budget and forward estimates compared with the 1999-2000 Budget estimates is $46 million. This reduction is a significant benefit made possible due to the ETSA disposal process.

Service Delivery Initiatives

The budget provides for major service delivery initiatives of $263 million over the next three years. Of this, $93 million in 2000-01 ($88 million in 2001-02 and $82 million in 2002-03) has been provided from funds additional to those already set aside within the forward estimates for new initiatives.

Consistent with the priorities outlined in the Government's *Directions for South Australia 2000-01* funding for major initiatives has been provided as follows:

- Education and Lifelong Learning—$52.7 million
- Employment and Education—$50.5 million
- Regional Communities—$30.0 million
- Culture, Lifestyle and Environment—$11.2 million
- Health and Communities—$44.8 million
- Justice and Safety—$50.3 million
- Government Reform—$23.3 million

Table 4.5 provides the details of these funding initiatives.

Investment Outlays

The budget provides for major investment projects costing $592 million over the next three years. Major initiatives, and capital spending over the next three years, include:

- Regency Institute TAFE campus upgrade—$29.7 million
- Adelaide Convention Centre extensions—$60 million
- Gilllman Highway–Third River crossing—$36.2 million
- Riverbank Project—$13 million
- The Botanic Garden Wine and Rose Development—$18.5 million
- Lyell McEwin Health Service, Stage A—$43 million
- Open Architecture Clinical Information System (OACIS)—$39.3 million
- Royal Adelaide Hospital Redevelopment, Stage2/3A—$48.6 million
- The Queen Elizabeth Hospital Redevelopment, Stage 1—$31.4 million
- Adelaide Police Station relocation—$33.9 million

Table 4.6 provides further details on these initiatives.

Agency Savings

As part of the 2000-01 Budget process, each portfolio conducted an operational review in order to identify potential budget savings from 2000-01 onwards. This process delivered expected cash expenditure savings of $27 million for 2000-01, $24 million for 2001-02 and $25 million for 2002-03.

The bulk of these savings strategies have targeted efficiency improvements within portfolios in the areas of administration and corporate services. In some cases, programs have been reviewed in order to ensure government expenditure is better targeted.

Past Service Superannuation Payments

The Government made greater payments towards past superannuation funding in both 1998-99 and 1999-2000 than had been expected at the time the 1999-2000 Budget was presented.

This has enabled reductions across the forward estimates period in the level of contributions required, while still achieving funding targets consistent with full funding by 2034.

3. THE ACCRUAL BUDGET PERSPECTIVE

HIGHLIGHTS

- The operating result for 2000-01 is forecast to be $238 million better than the estimated result for 1999-2000.
- The projected operating surplus approaches the target over the forecast period.
- Interest and other finance expenses for the non commercial sector are projected to fall from $610 million in 1999-2000 to $363 million in 2003-04.

3.1. INTRODUCTION

The purpose of this chapter is to provide commentary on the key features of the non commercial sector accrual-based financial statements—the Operating Statement, Statement of Financial Position and Statement of Cash Flows.

Unless otherwise indicated in this chapter, analysis is on a “before abnormal items” basis consistent with the cash based “underlying” non commercial deficit presentation used in Chapter 2. Figures in brackets are deficits.

Table 3.1 presents the non commercial sector operating result for the 1999-2000 Budget, the 1999-2000 estimated result and the 2000-01 Budget.

3.2. COMPARISON WITH 1999-2000 BUDGETED RESULTS

The 1999-2000 budgeted operating result before abnormal items was a surplus of $72 million while the estimated result is a deficit of $332 million.

Notwithstanding large variations in individual line items as a result of reclassifications, total revenue is expected to be lower than budget by $147 million.

Factors contributing to the deterioration include the deferral of SAAMC dividends, lower distributions from the electricity sector as a result of the power bill levy not proceeding and additional relief provided during the year for the Emergency Services Levy.

These individual declines are partially offset by an increase in interest revenue resulting from placing the proceeds of electricity asset disposal on deposit pending repayment of debt, improvements in Commonwealth grants and underlying improvements in taxation revenue.

Total expenses are expected to exceed budget by $268 million largely due to the carryover of expenditure from 1998-99 into 1999-2000 and some reclassification of expenditure from investing to operating. Superannuation expense is expected to exceed budget as a result of an update of 1998-99 numbers to reflect actual outcomes and revised member data, however this is more than offset by lower than expected salary and wages expense.

Abnormal and extraordinary items amounting to $2.6 billion comprise the proceeds to date from electricity sector disposals of $3.9 billion net of sales expenses and assumption of liabilities. A further $300 million in proceeds was applied against the equity held by the Treasurer in ETSA Corporation.

Table 3.1 Operating Statement - Non Commercial Sector

	1999-2000 Budget [(a)]	1999-2000 Estimated Result	2000-01 Budget
	$m	$m	$m
Revenue			
Taxation	2 596	2 571	2 025
Sales of Goods and Services	1 353	1 382	1 346
Regulatory Fees and Fines	167	138	151
Investment Revenue	900	625	650
Commonwealth Grants and Payments	3 202	3 307	4 091
Contributed Assets	3	4	4
Other Revenue	212	259	206
Total Revenue	**8 432**	**8 285**	**8 473**
Expenses			
Supplies and Services	2 046	2 333	2 251
Employee Entitlements			
Salaries, Wages, Annual and Sick Leave	3 144	3 037	3 124
Long Service Leave	89	74	73
Superannuation	567	615	461
Other Employee Entitlements	7	42	43
Depreciation and Amortisation	424	419	434
Interest and Other Finance Expenses	625	610	494
Grants and Subsidies	1 204	1 218	1 406
Other Expenses	243	271	275
Total Expenses	**8 350**	**8 618**	**8 562**
Operating Result Before Net Revenue From Disposal of Assets	**82**	**(333)**	**(89)**
Net Revenue From Disposal of Assets	(10)	1	(5)
Operating Result Before Abnormal Items	**72**	**(332)**	**(94)**
Abnormal and Extraordinary Items	-	(2 646)	11
Operating Result After Abnormal Items	**72**	**2 314**	**(105)**

(a) Reclassifications between line items have been made to reflect changes in the accounting treatments between 1999-2000 and 2000-01.

3.3. 2000-01 ESTIMATES

Operating Result

The operating result for 2000-01 is forecast to be a deficit of $94 million before abnormals, $238 million better than the estimated result of a $332 million deficit for 1999-2000.

Total revenue is expected to rise from $8285 million in 1999-2000 to $8473 million in 2000-01.

A large decline in the level of taxation revenue in 2000-01 compared to 1999-2000 reflects the abolition of franchise fee replacement grants as part of national tax reform and the adjustment to gambling tax rates to accommodate the introduction of the GST from 1 July 2000.

Pursuant to agreements with the Commonwealth as part of national tax reform, the decline in taxation revenue is offset by larger Commonwealth grants.

A more detailed discussion of the new arrangements under national tax reform is contained in Chapter 5.

Deferral of SAAMC dividends into 2000-01 is mostly offset by lower dividends flowing from the electricity sector.

Total expenses are expected to decline from $8618 million in 1999-2000 to $8562 million in 2000-01. Excluding classification changes between line items, contributing factors to the improvement are lower interest expense mainly as a result of applying electricity disposal proceeds to net debt and a lower supplies and services expense.

A large positive variation in superannuation expense is largely attributable to a one-off benefit in 2000-01 as a result of the disposal of the Adelaide Casino, and an update of 1998-99 numbers to reflect actual outcomes and revised member data in 1999-2000.

The larger than expected grants and subsidies expense reflects the State's contribution to the administration of the GST and grants to be provided under the First Home Owners' Scheme. Under national tax reform arrangements the Commonwealth has agreed to compensate the State in the form of larger grants.

Figures 3.1 and 3.2 are graphic presentations of total operating revenue and total operating expenses respectively for 2000-01.

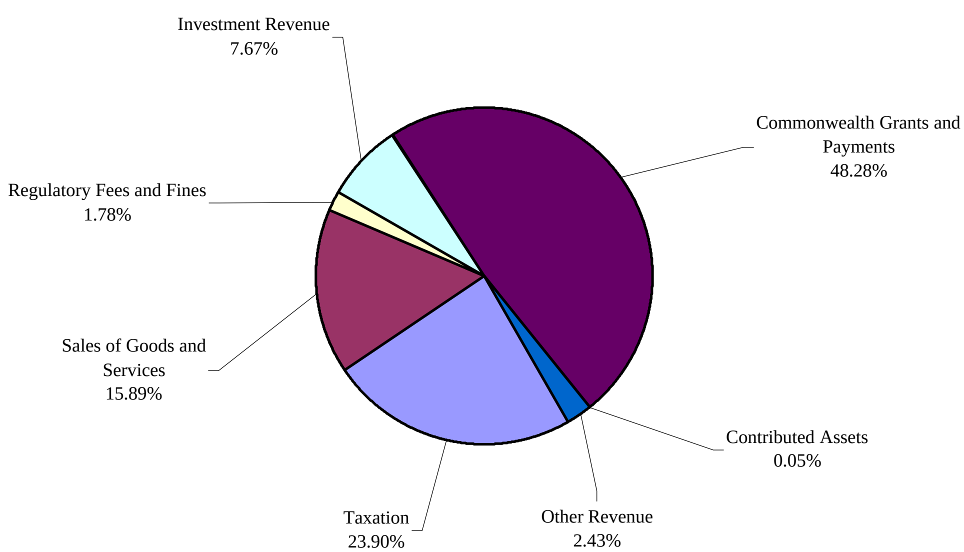


Figure 3.1 Total Operating Revenue

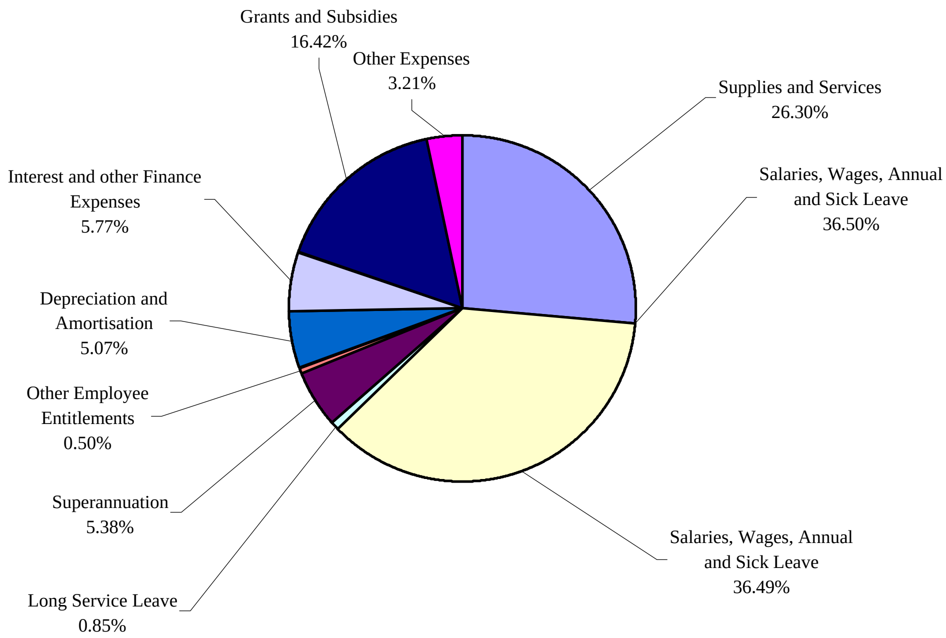


Figure 3.2 Total Operating Expenses

Forward Estimates 2001-02 to 2003-04

The non commercial sector operating result before abnormal items for the period 2001-02 to 2003-04 displays a positive trend indicating the State's improved operating performance over the forward estimates period.

3.4. NET ASSETS

The non commercial net asset position is positive and is maintained at a level of approximately $5.4 billion over the forward estimates period. This is a substantial improvement over the estimates in the 1999-2000 Budget reflecting the realisation of proceeds from the electricity disposals in excess of the holding value of the Treasurer's equity in those assets.

3.5. COMPARISON WITH CASH-BASED NON COMMERCIAL SECTOR DEFICIT

The presentation of accrual financial statements for the non commercial sector and cash-based budget information is continued in this budget. In broad terms, differences between the accrual operating result and the cash-based deficit arise as a result of depreciation and accruing employee entitlements being included as charges against the operating result but not included in the cash-based deficit. Conversely, the cash-based deficit includes cash invested in new capital assets during the year and cash payments for employee entitlements, particularly long service leave and superannuation, items that are not included in the operating result.

Table 3.2 below provides a reconciliation of operating result to the cash-based deficit before abnormal items.

Table 3.2 Reconciliation of Operating Result to Deficit before Abnormal Items

	1999-2000 Estimated Result $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
Operating Result Before Abnormal Items	**(332)**	**(94)**	**(30)**	**(57)**	**2**
Add back					
Accrued Employee Entitlements	320	152	166	146	114
Net (Gain) / Loss from Asset Disposal	(1)	5	4	8	0
Depreciation and Amortisation	419	434	437	443	451
Other Non Cash Items	2	(8)	(7)	(9)	(9)
Net Change In Assets /Liabilities	3 053	56	45	62	34
Net Cash Provided by Operations	**3 462**	**546**	**615**	**594**	**592**
Less					
Net Cash Used in Investing Activities	28	530	572	565	566
Investing Activities Not Impacting on GFS Result	481	(2)	7	(10)	(11)
Financing Payments Affecting GFS Result	99	54	58	59	60
Other Accruals	2 922	(4)	(22)	(23)	(24)
GFS Result (Deficit)/Surplus Before Abnormal Items	**(69)**	**(32)**	**1**	**3**	**1**

3.6. FISCAL TARGETS IN AN ACCRUAL ACCOUNTING ENVIRONMENT

The last two budgets have introduced the concept of a “target operating surplus”. This measure converts the cash targets adopted by the Government to an accrual base.

The “target operating surplus” is the operating surplus that would be required to:

- meet all operating expenses in the course of the year, including depreciation and employee and superannuation entitlements, from its operating revenues
- fund expenditure on capital investment from cash flows after provision for employee entitlements generated in the year of the investment.

Table 3.3 sets out the derivation of the target operating surplus.

Table 3.3 Target Operating Surplus

	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
Capital Investment in Property, Plant and Equipment	561	580	553	562
Less Depreciation	434	437	443	451
Equals Target Operating Surplus	126	143	109	111
Projected Operating Result before Abnormal Items	(94)	(30)	(57)	2

Figure 3.3 compares the target operating surplus to the projected operating surplus. While the projected operating surplus falls short of the target operating surplus, the shortfall decreases across the forward estimates period.

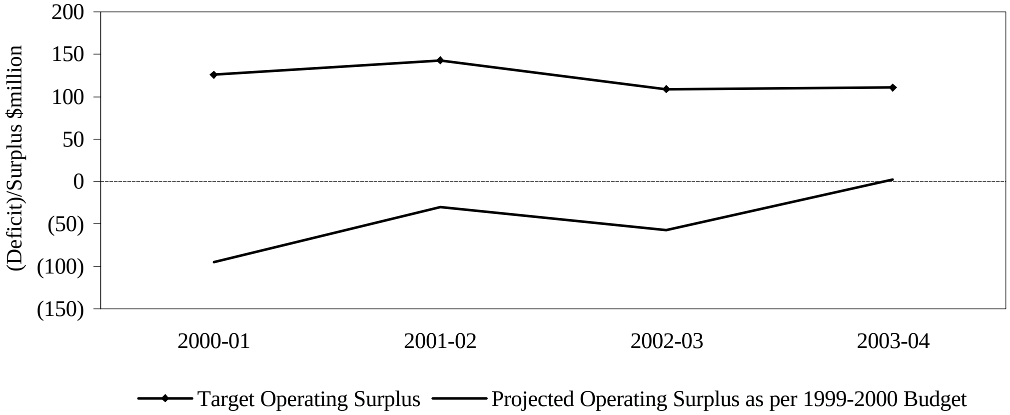


Figure 3.3 Target Operating Surplus v Projected Operating Surplus

In April 2000 the ABS released its first accrual-based GFS publication. The finalisation of the concepts and methodology of this reporting framework now allows all States to report on an economic, as opposed to accounting standards, accrual basis. Appendix C provides accrual-based GFS tables for the General Government and Public Corporation (formerly Public Trading Enterprise) sectors. This presentation replaces the previous cash-based GFS presentation, as required under the Uniform Reporting Framework agreed between the States, Territories and Commonwealth governments.

The Commonwealth and some States have adopted the Fiscal Balance as the key budget indicator. The 2000-01 Budget remains focused on the cash-based deficit, as it represents the third year of a four-year cash based fiscal plan. In formulating a future fiscal plan the Government will consider the appropriate fiscal target to adopt.

A brief summary of the relationship between the various fiscal measures is included in Appendix C.

3.7. FINANCIAL STATEMENTS

The accrual financial statements for the non commercial sector are presented in Tables 3.4, 3.5 and 3.6.

Table 3.4 Operating Statement - Non Commercial Sector

	1999-2000 Estimated Result $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
Revenue					
Taxation	2 571	2 025	1 970	2 040	2 111
Sales of Goods and Services	1 382	1 346	1 382	1 395	1 408
Regulatory Fees and Fines	138	151	152	155	159
Investment Revenue	625	650	494	458	567
Commonwealth Grants and Payments	3 307	4 091	4 354	4 514	4 601
Contributed Assets	4	4	4	4	4
Other Revenue	259	206	224	224	212
Total Revenue	**8 285**	**8 473**	**8 580**	**8 788**	**9 062**
Expenses					
Supplies and Services	2 333	2 251	2 265	2 312	2 421
Employee Expenses					
Salaries, Wages, Annual and Sick Leave	3 037	3 124	3 195	3 337	3 438
Long Service Leave	74	73	75	75	77
Superannuation	615	461	591	624	639
Other Employee Entitlements	42	43	44	44	45
Depreciation and Amortisation	419	434	437	443	451
Interest and Other Finance Expenses	610	494	377	371	363
Grants and Subsidies	1 218	1 406	1 338	1 342	1 330
Other Expenses	271	275	283	289	296
Total Expenses	**8 618**	**8 562**	**8 606**	**8 837**	**9 060**
Operating Result	**(333)**	**(89)**	**(26)**	**(49)**	**2**
Net Revenue from Disposal of Assets	1	(5)	(4)	(8)	-
Operating Result After Net Revenue from Disposal of Assets	**(332)**	**(94)**	**(30)**	**(57)**	**2**
Abnormal and Extraordinary items	(2 646)	11	-	-	-
Operating Result After Abnormal Items	**2 313**	**(105)**	**(30)**	**(57)**	**2**

Table 3.5 Statement of Financial Position - Non Commercial Sector

	1999-2000 Estimated Result $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
Assets					
Current Assets					
Cash and Deposits at Call	2 517	1 556	1 638	1 760	1 840
Investments	108	108	98	106	115
Receivables	201	198	178	154	150
Inventories	84	82	82	83	84
Other Current Assets	99	101	104	106	109
Total Current Assets	**3 009**	**2 044**	**2 100**	**2 209**	**2 298**
Non Current Assets					
Investments	563	563	563	563	563
Receivables	174	131	129	129	118
Inventories	602	597	595	594	592
Land and Improvements	8 024	8 006	7 993	8 020	7 950
Infrastructure	4 060	4 127	4 188	4 261	4 260
Plant and Equipment	839	924	1 027	1 044	1 201
Works of Art and Cultural Collections	12	12	12	12	12
Other Non Current Assets	213	213	213	213	213
Total Non Current Assets	**14 487**	**14 573**	**14 721**	**14 837**	**14 910**
Total Assets	**17 496**	**16 617**	**16 821**	**17 045**	**17 209**
Liabilities					
Current Liabilities					
Payables	490	519	525	541	549
Borrowings	17	17	17	17	17
Employee Entitlements	390	490	531	586	614
Other Current Liabilities	426	428	431	421	420
Total Current Liabilities	**1 323**	**1 454**	**1 504**	**1 566**	**1 600**
Non Current Liabilities					
Payables	208	206	204	202	200
Borrowings	5 356	4 393	4 445	4 563	4 635
Employee Entitlements	4 776	4 828	4 953	5 044	5 130
Other Non Current Liabilities	246	246	246	246	246
Total Non Current Liabilities	**10 586**	**9 673**	**9 848**	**10 054**	**10 210**
Total Liabilities	**11 909**	**11 127**	**11 352**	**11 620**	**11 811**
Net Assets/(Liabilities)	**5 587**	**5 490**	**5 469**	**5 425**	**5 398**

Table 3.6 Statement of Cash Flows - Non Commercial Sector

	1999-2000 Estimated Result $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
Operating activities					
Receipts					
Taxation	2 682	2 025	1 970	2 040	2 111
Sales of Goods and Services	1 392	1 359	1 403	1 425	1 419
Regulatory Fees and Fines	139	151	152	155	160
Interest	176	157	123	128	127
Dividends and Distributions	3 550	552	437	393	503
Commonwealth Grants and Payments	3 308	4 090	4 352	4 511	4 599
Other Receipts	168	148	160	159	147
Total Receipts	**11 415**	**8 483**	**8 597**	**8 812**	**9 065**
Payments					
Employee Entitlements	3 447	3 550	3 739	3 936	4 086
Supplies and Services	2 415	2 230	2 262	2 298	2 416
Interest and Other Financial Payments	608	492	376	370	362
Grants and Subsidies	1 218	1 406	1 338	1 341	1 330
Other Payments	264	259	266	274	280
Total Payments	**7 953**	**7 936**	**7 981**	**8 218**	**8 473**
Net Cash Provided by Operating Activities	**3 462**	**546**	**615**	**594**	**592**
Investing Activities					
Receipts					
Property, Plant and Equipment	122	110	110	103	94
Sale of Shares and Investments	333	7	16	-	-
Other Receipts	352	42	14	10	9
Total Receipts	**806**	**160**	**140**	**112**	**103**
Payments					
Property, Plant and Equipment	678	671	689	655	656
Purchase of Shares and Investments	147	3	2	4	5
Other Payments	8	15	20	18	8
Total Payments	**833**	**690**	**711**	**677**	**669**
Net Cash Provided by Investing Activities	**(28)**	**(530)**	**(572)**	**(565)**	**(566)**
Financing Activities					
Receipts					
Borrowings	214	103	74	122	85
Other Receipts	2	6	7	2	5
Total Receipts	**216**	**110**	**81**	**124**	**90**
Payments					
Repayments of Borrowings	2 723	1 066	21	4	13
Other Payments	278	20	21	27	22
Total Payments	**3 001**	**1 086**	**42**	**31**	**36**
Net Cash Provided by Financing Activities	**(2785)**	**(977)**	**38**	**93**	**54**
Net Increase/(Decrease) in Cash Held	**649**	**(961)**	**82**	**122**	**81**

4. EXPENDITURE

HIGHLIGHTS

- The 2000-01 Budget provides for new service delivery initiatives totalling $263 million over the next three years, including $52.7 million for education initiatives, 113 additional police officers, $7.5 million for mental health, and $30 million on specific regional initiatives.

- Current outlays excluding interest and past service superannuation payments are maintained in real terms across the forward estimates.

- Capital outlays are budgeted to grow by 9.3 per cent in real terms in 2000-01, consistent with the Government's aim of ensuring an adequate economic and social infrastructure. The budget provides for major investing initiatives totalling $592 million over three years.

- Compared with 1998-99, net interest payments will have reduced by more than a third by 2000-01, largely attributable to electricity asset proceeds.

- The forward estimates maintain the Government's commitment to fully fund the past service superannuation liability by 2034, and provide for reasonable public sector wage growth.

4.1. OVERVIEW

This section discusses trends in outlays, and the key components of total outlays are discussed in Section 4.2. Specific service delivery and capital investment initiatives are detailed in Section 4.3, followed by an overview of each portfolio's key outputs.

In this chapter, "outlay" is a measure of Government spending consistent with Government Finance Statistics (GFS) and the Government's overall cash-based fiscal strategy. The key differences between total cash outlays on a GFS basis and total operating and investing cash payments on a basis consistent with generally accepted accounting principles, are that the GFS outlays are net of own-source revenues and capital receipts. The term "expenditure" is a measure of spending on operating activities on an accruals basis consistent with generally accepted accounting principles.

An analysis of the real growth in outlays across the forward estimate period is provided in Table 4.1 and displayed in Figure 4.1. Current outlays before interest and superannuation are maintained in real terms across the forward estimates, while net interest payments reduce by more than a third by 2000-01 compared with 1998-99. The capital program grows in real terms in 2000-01 and 2001-02, followed by real reductions in 2002-03 and 2003-04. However, capital outlays remain at well above 1998-99 levels throughout the whole of the forward estimates period.

Table 4.1 Cash Outlay[(a)] Indicators—Forward Estimates

	2000-01 Budget $m	2000-01 Real Growth %	2001-02 Real Growth %	2002-03 Real Growth %	2003-04 Real Growth %
Total Outlays	6 894	(1.5)	(0.8)	0.1	1.4
Current Outlays	6 291	(2.2)	(1.0)	0.7	1.8
Excluding Interest	5 944	(0.2)	0.7	1.0	2.1
Excluding Interest and Superannuation [(b)]	5 902	(0.9)	(1.1)	0.5	1.6
Final Consumption Expenditure	4 301	0.9	2.3	2.2	3.1
Excluding Superannuation [(b)]	4 259	(0.0)	(0.1)	1.6	2.4
Net Interest Payments	347	(27.1)	(29.6)	(6.8)	(5.5)
Capital Outlays	602	9.3	1.0	(6.3)	(3.3)

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

(b) Refers to the payment towards past service superannuation liability and timing impacts of prepayment of new service superannuation.

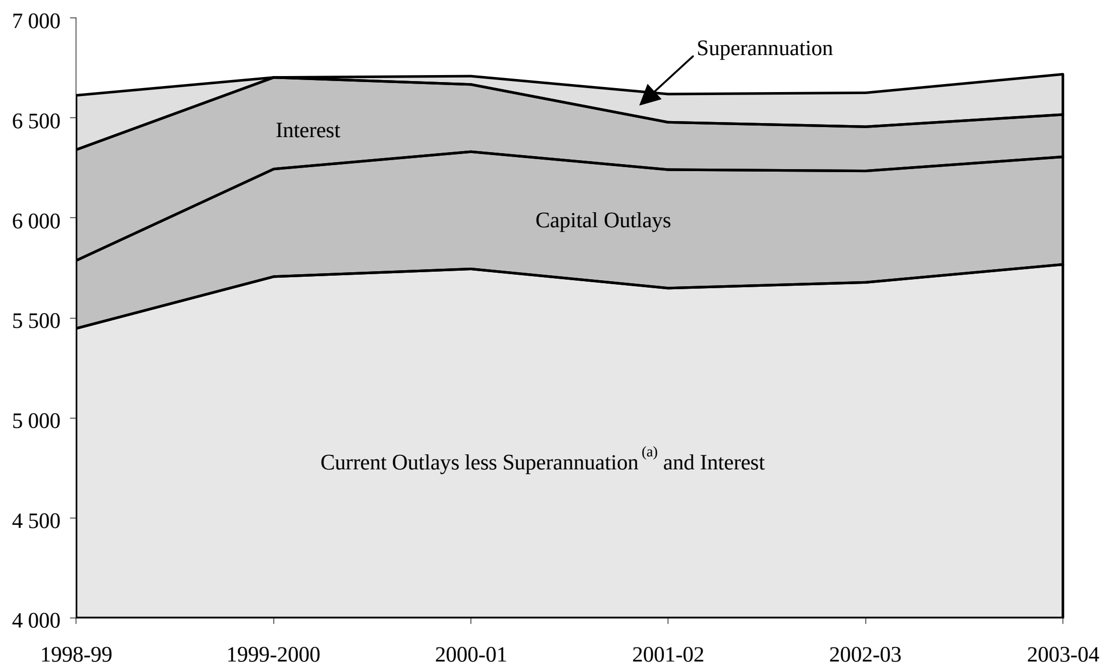


Figure 4.1 Trends in Real Terms Cash Outlays—1998-99 to 2003-04

(a) Refers to the payment towards past service superannuation liability and timing impacts of prepayment of new service superannuation.

4.2. KEY COMPONENTS OF OUTLAYS

Interest Payments

A time series of actual and forecast net interest payments is provided in Figure 4.2, which compares forecasts in the 1999-2000 and 2000-01 budgets.

The impact of the interest savings from the electricity sale/lease proceeds relative to the 1999-2000 Budget forecasts is also shown. Proceeds from ETSA Power and ETSA Utilities were received in January 2000 and will be received in June 2000 for Optima and Synergen.

The lower level of debt lessens the sensitivity of the budget outcome to interest rate movements.

It should be noted that the savings in net interest are partially offset by the loss of dividends that were expected from the electricity entities. The net benefit to the budget from the sale of the electricity entities is discussed in Chapter 2.

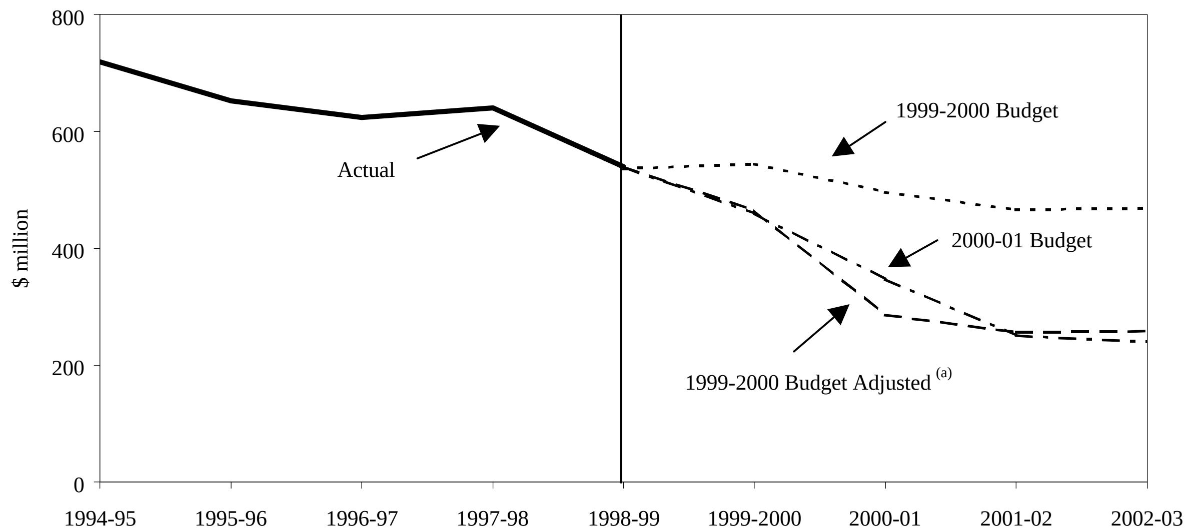


Figure 4.2 Net Interest Payments—1994-95 to 2002-03

(a) 1999-2000 Budget net interest payments adjusted for benefit of electricity asset disposals achieved to date at current interest rates.

Superannuation

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

Table 4.2 provides a summary of the past service superannuation liability payments made since 1994-95, and those projected for the forward estimates period, as at the 1999-2000 Budget and as reflected in this budget.

The reduction in payments required across the forward estimates results from the gain on the sale of the Adelaide Casino complex, which yielded a material profit for FundsSA, and payments above the level originally budgeted being made in 1998-99 and 1999-2000. This has provided the Government with the ability to reduce the forward estimates for past service superannuation contributions, while still meeting the 2034 target date for full funding.

Table 4.2 Estimates of past Superannuation Liability Payments

	1994-95 to 1997-98 [(a)]	1998-99	1999-2000	2000-01	2001-02	2002-03	Total
	$m	$m	$m	$m	$m	$m	$m
1999-2000 Budget [(b)]	943	26	113	140	193	238	1 653
2000-01 Budget [(c)]	943	139	127	42	148	182	1 581

(a) Actual result from 1994-95 to 1997-98.

(b) Estimated result as at the 1999-2000 Budget.

(c) Actual result from 1998-99.

Wages

The largest single outlay for the Government is wage and salary costs. It follows therefore that the Government's estimates will be adversely impacted if any significant unbudgeted movement in wage costs was to occur.

The 1998-99 Budget announced a four-year financial plan that included funding for reasonable, but realistic, wage outcomes over the forward estimates period. Almost all key employment groups in the public sector have settled enterprise agreements consistent with budget estimates (an outcome is still to be determined with respect to teaching and lecturing staff). Wage and salary costs have been consistent with provisions made in the 1999-2000 Budget.

Australian Bureau of Statistics data show that public sector average weekly ordinary time earnings of full time adults grew by 9 per cent in South Australia from August 1997 to November 1999. Over the same period, comparable earnings grew by 10.7 per cent in New South Wales, 10 per cent in Victoria, and 10 per cent Australia-wide.

Public Sector Employment

Since 1998-99 the Government's forward strategy has been to set targets in terms of the budget impact on the non commercial sector financial position rather than set explicit workforce targets. The 2000-01 Budget continues this approach.

The estimated aggregate workforce levels in the State public sector for the periods ending 30 June 2000 and 2001 are show in Table 4.3.

Table 4.3 Public Sector Employment Numbers

	Full Time Equivalent Employees	
	30 June 2000 Estimate	30 June 2001 Estimate
Non Commercial Sector Agencies	63 944	63 994
Commercial Sector Agencies	2 005	1 163
Estimated Total Public Sector Employment	65 949	65 157

In the year to 30 June 2001 employment in the State's non commercial sector is estimated to remain close to the 30 June 2000 level. The reduction in the commercial sector workforce estimate in this period largely reflects the removal of electricity entities from the public sector.

In the pursuit of improvements in the efficiency and effectiveness of service delivery, the Government will continue to promote competitive tendering and the contracting out of traditional public service functions where this is effective in terms of costs and risk management.

To ameliorate youth unemployment in the community, the South Australian Government Youth Training Scheme has employed over 8000 young South Australians as trainees in the public sector since 1993. The 2000-01 Budget provides a further $14 million over the next three years to continue providing trainee placements.

Goods and Services Tax

From 1 July 2000, government entities will be charged Goods and Services Tax (GST) on purchases of taxable supplies. In most instances government entities will be able to reclaim the GST paid as an input tax credit from the Australian Taxation Office (ATO) unless the acquisitions relate to an input taxed activity, for example, financial supplies or residential accommodation.

In addition government entities will be required to collect GST on the non-exempted supplies they provide, and pay it to the ATO. A wide range of health and education services, water and sewerage, and government taxes and regulatory charges such as licence fees do not attract GST.

Given that entities will be in a position to claim credits for the majority of GST incurred, and any GST payable will be collected from consumers, it is expected that the net effect of the GST on outlays will be minimal. The exception will be activities comprising financial services and supplies of residential accommodation, where input tax credits cannot be reclaimed. For residential housing this cost will be partly offset by additional funding provided by the Commonwealth under the Commonwealth–State Housing Agreement.

However the implementation of the New Tax System also carries with it associated tax reform initiatives, principally the abolition of wholesale sales taxes and reductions in diesel fuel levies. The Commonwealth expects that the abolition of these taxes will result in expenditure savings to the States, and is reducing transitional grants to the States by amounts which reflect Commonwealth estimates of the savings achievable by the States. This and other issues associated with the new Commonwealth–State financial arrangements are discussed in Chapter 6.

The savings are expected to arise from private sector suppliers passing on the benefit of reductions in wholesale sales taxes and diesel fuel excise through lower prices. The Commonwealth Government has put in place arrangements for the Australia Competition and Consumer Commission (ACCC) to monitor prices and ensure that savings are passed on.

The South Australian Government has used the same methodology as other States and Territories, and the same methodology that the ACCC is using, to estimate likely savings accruing to agencies. However such estimates are subject to a great degree of uncertainty. The Commonwealth has reduced South Australia’s transitional grant by $36 million in 2000-01 but, on the basis of the State’s estimates of the achievable savings, agencies are being asked to absorb only $27 million of this amount. The remaining $9 million is provided for in the 2000-01 Budget.

In addition, the implementation of the GST in government is expected to involve a one-off additional outlay for agencies. The implementation of the GST involves detailed reviews of agency systems and processes to ensure that government is in a position to handle the new administrative and compliance arrangements resulting from the introduction of this new tax system. Preliminary estimates are that this will amount to additional expenditure of around $30 million over 1999-2000 and 2000-01 for the non commercial sector. Additional funding has been allocated to agencies to cover incremental costs arising as a direct result of the implementation of the GST.

4.3. SERVICE DELIVERY

Outlays by Portfolio

In 2000-01, total outlays on a cash GFS basis to support the provision of services including health, education, transport and police, will be $6894 million. Total current and capital outlays by portfolio are displayed in Figure 4.3.

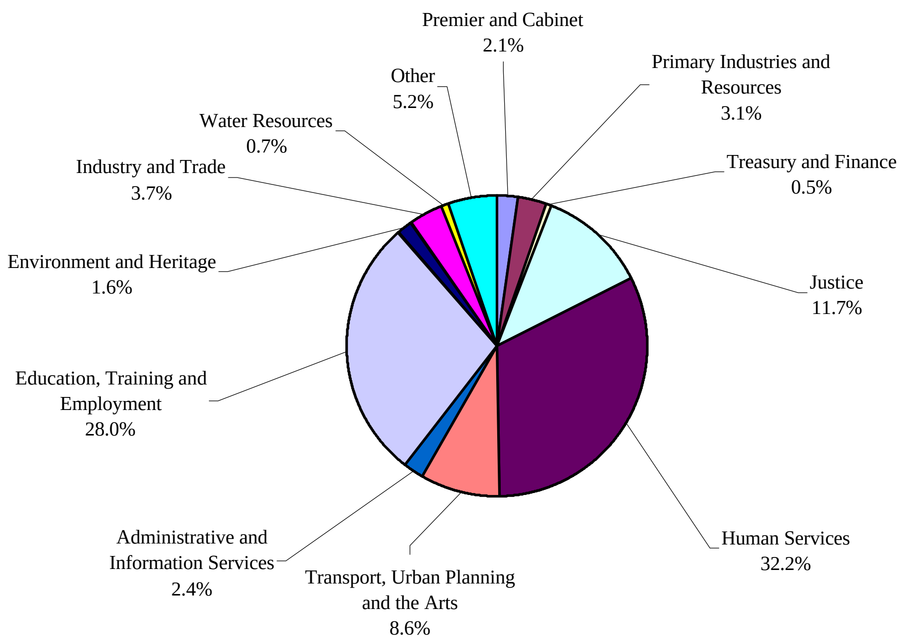


Figure 4.3 Outlays by Portfolio—2000-01 Budget

Accrual Expenditure on Outputs by Portfolio

The services provided by portfolios are described in the budget papers as outputs. In 2000-01 portfolios have identified 167 outputs, each of which has been costed on an accrual basis and measured with appropriate performance indicators. For detailed information on outputs by portfolio, refer to Budget Paper 4, Portfolio Statements.

The accrual expenditure on outputs for each portfolio is summarised in Table 4.4. The accrual expenditure is estimated according to generally accepted accounting principles, and includes non-cash items such as depreciation and employee entitlements. The total accrual expenditure across portfolios includes some output purchases between portfolios, and so is not comparable with total expenditure in Table 3.4 which removes inter-entity transactions and includes administered expenses.

Table 4.4 Accrual Expenditure[a] on Outputs by Portfolio—2000-01 Budget

	1999-2000 Estimated Result $m	2000-01 Budget $m
Premier and Cabinet	169	140
Auditor-General	10	10
Primary Industries and Resources	181	177
Treasury and Finance	62	65
Industry and Trade	112	159
Justice	796	835
Human Services	2 633	2 678
Transport, Urban Planning and the Arts	761	697
Administrative and Information Services	554	542
Education, Training and Employment	1 685	1 708
Environment and Heritage	172	149
Water Resources	46	45
Total Accrual Expenditure On Outputs	**7 182**	**7 205**

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

The more substantial variations shown in Table 4.4 reflect:

- reduced level of targeted voluntary separation payments expected in 2000-01 (Premier and Cabinet)
- Adelaide to Darwin rail link (Industry and Trade)
- initiatives such as the employment of additional police and providing for major criminal cases in 2000-01 (Justice)
- increased expenditure on disability services and ageing (Human Services)
- tendering and contracting of metropolitan bus services, the completion of a number of major projects (eg Aboriginal Cultures Gallery) and the impact of 1998-99 carryover expenditure in 1999-2000 (Transport, Urban Planning and the Arts).

Major Expenditure Initiatives

The 2000-01 Budget includes funding to implement a range of initiatives that will further stimulate the economy, boost employment opportunities, encourage regional development and improve core community services.

These initiatives build on the existing priorities funded in past budgets. Key operating expenditure initiatives are listed in Table 4.5 and key investing initiatives are listed in Table 4.6.

Table 4.5 Major Expenditure Initiatives - Operating

	2000-01	2001-02	2002-03
	$m	**$m**	**$m**
Education and Lifelong Learning			
VET for Apprentices and Trainees	15.0	15.0	15.0
Literacy Initiatives	1.0	1.5	1.5
Premier's Youth Challenge - Leadership Skills Development	1.0	1.2	1.5
	17.0	**17.7**	**18.0**
Employment and Economic Development			
Extension of Public Sector Trainee Employment Program	4.0	5.0	5.0
Industry Development	5.0	5.0	5.0
Minerals Resources Plan	3.0	2.5	2.5
SA Film Industry Revitalisation	1.2	1.2	1.2
Promotion of the State	1.0	1.0	1.0
Support for Biotechnology Industry Commercialisation	1.0	1.0	1.0
International Tourism Marketing Strategy	0.7	0.7	0.7
Industry Development - Overseas Representation	0.6	0.6	0.6
	16.5	**17.0**	**17.0**
Regional Communities			
Biosecurity Fund	2.0	2.0	2.0
Sport and Recreation Organisations	2.0	2.0	2.0
Mt Lofty Catchment Management	-	1.5	1.5
Aquaculture - Farmed Seafood Initiative	1.3	0.7	-
SE Groundwater Program and Lake Eyre Basin Agreement	1.1	0.8	0.8
Regional Infrastructure Development Fund	1.0	1.0	1.0
Regional Passengers Initiatives	1.0	1.0	1.0
Regional Development Boards	0.7	0.7	0.7
Get Connected Centres	1.0	-	-
Regional Directions for South Australia	0.3	0.3	0.3
Local Government Act Reforms - Rural Councils	0.1	0.1	0.1
	10.5	**10.1**	**9.4**
Culture, Lifestyle and the Environment			
Le Mans Race	4.7	-	-
Maintenance in Parks	1.0	1.0	1.0
Football Park Extra Seating	-	1.0	1.0
Adelaide Symphony Orchestra	-	0.6	0.6
Centenary of Federation	0.3	-	-
	6.0	**2.6**	**2.6**
Health and Communities			
Mental Health	2.5	2.5	2.5
Essential Services in Regional & Remote Aboriginal Communities	0.8	0.4	0.4
Illicit Drugs Strategy	2.0	2.0	2.0
Blood Transfusion Testing	1.0	1.0	1.0
Payments to Carers	1.6	2.1	2.1
Disability Services	6.0	6.0	-
Services for the Ageing	2.5	1.7	1.7
Needle Exchange	0.5	0.5	0.5
Gamblers Rehabilitation Fund	0.5	0.5	0.5
	17.4	**16.7**	**10.7**
Justice and Safety			
Additional Police Officers and Support Staff	3.1	6.8	7.0
Funding for Ambulance Service	4.0	4.0	4.0
Safety and Security Strategy for Metropolitan Rail	3.5	3.5	3.5
Major Criminal Cases and Associated Support	6.6	0.1	-
Legal Aid	0.5	1.1	1.1
Courts Security Upgrade	0.5	0.5	0.5
	18.2	**16.0**	**16.1**
Government Reform			
Information Technology Initiatives	5.0	3.0	3.0
Information Economy Policy Office	1.0	1.0	1.0
Playford Centre	-	1.5	1.5
Other Government Reforms	1.5	2.4	2.4
	7.5	**7.9**	**7.9**
Total Major Operating Initiatives	**93.1**	**88.0**	**81.7**

Table 4.6 Major Expenditure Initiatives - Investing

	Project Total $m	2000-01 $m	2001-02 $m	2002-03 $m
Education and Lifelong Learning				
Flinders Mathematics and Science School	10.8	2.1	8.7	-
Regency Institute TAFE Campus Upgrade	33.9	21.2	8.5	-
Employment and Economic Development				
Adelaide Convention Centre extensions	85.0	54.0	6.0	-
Gillman Highway - Third River Crossing	38.1	3.8	16.2	16.2
Industrial Park	35.0	8.0	12.0	10.0
Regional Communities				
Country Water Quality Improvements	30.0	8.9	4.3	5.1
Culture, Lifestyle and the Environment				
Centre for Performing and Visual Arts	30.3	6.5	-	-
Riverbank Project	13.5	6.0	7.0	-
State Library Redevelopment	40.0	3.0	18.0	11.0
The Botanic Garden Wine and Rose Development	36.5	18.5	-	-
Health and Communities				
Lyell McEwin Health Service, Stage A	87.4	3.0	13.3	26.7
Open Architecture Clinical Information System (OACIS)	64.7	11.0	15.9	12.4
Royal Adelaide Hospital Redevelopment, Stage 2/3A	74.0	6.0	21.1	21.5
The Queen Elizabeth Hospital Redevelopment, Stage 1	37.4	1.3	7.5	22.6
Justice and Safety				
Relocate Adelaide Police Station	35.0	17.9	16.0	-
Total Major Expenditure Initiatives - Investing	**651.6**	**171.2**	**154.5**	**125.5**
Major Expenditure Initiatives - Grant Related Community Investments				
Employment and Economic Development				
Adelaide Darwin Rail Link	125.0	50.0	25.0	25.0
Culture, Lifestyle and the Environment				
Infrastructure for the Le Mans Car Race	1.8	1.8	-	-
Loxton Irrigation District Rehabilitation	40.0	5.4	6.7	6.7
Upper South East Drainage	24.0	4.1	4.1	4.1
Regional Communities				
Regional Roads Upgrade Program	on-going	2.2	3.0	3.0
Total Major Expenditure Initiatives - Grant Related Community Investments	**190.8**	**63.5**	**38.8**	**38.8**

Portfolio Service Delivery

Premier and Cabinet

Table 4.7 Accrual Expenditure by Output Class—2000-01 Budget

	$m
Coordination and Advice (Premier and Cabinet)	30.8
Coordination and Advice (SA Tourism Commission)	1.4
Public Sector Human Resource Management	49.3
Multicultural Services	5.2
Tourism Development	10.6
Marketing South Australia	43.2
Total Accrual Expenditure on Outputs	140.4

Auditor General

Table 4.8 Accrual Expenditure by Output Class—2000-01 Budget

	$m
Auditing Services	9.8

During 2000-01 the Premier and Cabinet Portfolio will focus on the development of the State through its agencies including the South Australian Tourism Commission, the Centre for Lifelong Learning and Development, the Adelaide Convention Centre and the Adelaide Entertainment Centre.

The Department of the Premier and Cabinet will continue to strengthen its leadership, strategic and coordinating functions by streamlining and further integrating policy development and strategic advice to the Premier, Cabinet and Senior Management Council. In this context the department is preparing the Government's *Directions for South Australia* statement for 2000-01, and will promote and further develop the *Leadership SA* program and public sector employment opportunities for skilled young people through the Graduate Recruitment Program. The department will also continue to implement a whole of government communications strategy to promote government services, products and information to the community.

The department's Office of Multicultural and International Affairs (OMIA) will expand the *Multicultural Access to Justice* program across the State in partnership with the State Ombudsman, with an emphasis on regional South Australia. OMIA will also better focus its activities on the provision of access and equity support to public sector agencies.

The South Australian Tourism Commission will provide leadership and direction to the tourism industry with a sound information base for decision making; a proactive program to encourage enterprise and raise professional business skills; the staging of year-round, world-class events; well-targeted, high-quality marketing campaigns; and significant opportunities for industry partnerships and cooperative marketing.

The Centre for Lifelong Learning and Development will continue its program of research into learning through the Premier's Awards for two-year and three-year postgraduate research scholarships, as well as developing and implementing long-term projects to foster learning individuals, learning organisations, learning communities and learning cities.

The portfolio will coordinate and support a number of other initiatives including:

- agency action in response to the Government's *Statement of Economic Directions*
- strategies for the on-going reform of Commonwealth–State financial relations
- implementation of the National Competition Policy Agreement across government with reference to obligations for the third tranche of competition payments
- consolidation of the Capital City Project to ensure the revitalisation of the City of Adelaide
- work on functional reform and partnership projects with Local Government
- implementation of a comprehensive regional promotions program in conjunction with the Office of Regional Development
- Centenary of Federation activities in South Australia in conjunction with the State Committee for the Year 2001 and celebration of Federation in Australia
- consolidation of all portfolio media campaigns
- development, integration and maintenance of a government database on occupational health and injury management
- development of new niche tourism market products for national and international distribution (eg backpackers, arts and cultural heritage, fishing, wine and food trails, and outback drive trails) and the development of wine, nature and outback websites
- development of a stronger international brand awareness by implementing highly targeted consumer campaigns to increase international visitors to the State
- generation of national and international visitors to the State and significant economic activity through such events as the Clipsal Adelaide 500, Tour Down Under, 2000 International Rose Festival, Olympic Soccer preliminaries and quarter-final rounds, and the world famous Le Mans Car Race.

Primary Industries and Resources

Table 4.9 Accrual Expenditure by Output Class—2000-01 Budget

	$m
Information Services	66.3
State Resource Regulation Planning	27.2
Coordination and Advice	8.3
Facilitation Services	74.9
Total Accrual Expenditure on Outputs	**176.6**

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

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

Several major initiatives are being undertaken in the portfolio in 2000-01:

- The Farmed Seafood Initiative will be extended for a further two years to support the formulation of new legislation and strategic policy to manage the aquaculture industry. The development of a new legislative framework will provide confidence and certainty for industry and encourage future investment and growth. It will also support the implementation of adaptive management practices to foster the ecologically sustainable development of the State's aquaculture industry.

- The State Government is funding a range of high priority initiatives identified by the Resources Task Force (RTF) to help revitalise mineral exploration and mining in South Australia. The Government's full response to the RTF report will be released in June 2000.
- In partnership with the community, the State and Commonwealth governments have allocated $4 million over the next two years to assist farmers in the central north-east of South Australia affected by the downturn in the wool industry, ineffective rainfall patterns, and locust and grasshopper plagues. The program includes business planning, productivity improvement grants, new and upgraded infrastructure, locust and grasshopper control, and research and development.
- Funding has been allocated to complete the co-location of plant and food biotechnology facilities of the South Australian Research and Development Institute and The University of Adelaide on the Waite Agricultural Research Precinct. This project was commenced in 1999-2000 to re-establish Adelaide as the international centre for plant and food biotechnologies.
- The 2000-01 Budget also provides $0.7 million to acquire robotic diagnostic equipment for the Centre for Plant and Food Biotechnologies, to improve root disease diagnostic services and other biotechnology applications.

Treasury and Finance

Table 4.10 Accrual Expenditure by Output Class—2000-01 Budget

	$m
Coordination and Advice	18.1
Financial Service Provision	47.1
Total Accrual Expenditure on Outputs	**65.2**

In 2000-01, Treasury and Finance will continue to implement a range of major reforms which support government priorities and contribute directly to the achievement of government outcomes.

In particular, there will be a focus on maintaining and improving the State's financial position by ensuring outlays in aggregate are sustainable and reducing the Government's exposure to financial risk. Key parts of this will be the finalisation of the electricity asset disposal program and the continuation of the program to eliminate unfunded superannuation liabilities.

In addition, there will be an increased emphasis on ensuring efficient service delivery across Government along with a strengthened policy review role. The State Budget development process will be refined further, with a focus on the Capital Investment Prioritisation methodology.

Treasury and Finance will continue to focus on strengthening the State's economy through supporting the various national taxation reform initiatives and implementing National Competition Policy. Work for 2000-01 includes: implementing GST requirements within the Government; ensuring competitive neutrality principles are applied to Government businesses; and continuing the reform of the electricity industry.

In the area of financial service provision, Super SA and RevenueSA will continue to develop systems to improve electronic access to information and facilitate transfer of funds for their clients. The South Australian Government Financing Authority (SAFA) will continue to manage the State's debt, including using proceeds from the electricity disposals to repay debt. SAFA will also continue to expand its provision of financial risk management services to the public sector generally.

Table 4.11 Accrual Expenditure by Output Class—2000-01 Budget

	$m
Coordination and Advice	2.1
Infrastructure Development	66.8
Industry Development	90.0
Total Accrual Expenditure on Outputs	**159.0**

The Industry and Trade Portfolio aims to contribute to the development of the State so that South Australia is recognised as one of the best places in the world to live, visit, work and do business. The broad outcomes that the portfolio supports include job creation, wealth generation and the development of sustainable communities.

During 2000-01, the portfolio will:

- support Adelaide–Darwin rail link construction
- help provide access to high-speed broad band-width, competitively priced, whole of State information technology and telecommunications infrastructure within three years
- help establish an enhanced national gas network by 2004 to provide alternative sources of gas supply
- establish an industrial park of international standing within two years
- provide an additional $1 million annually to the Regional Infrastructure Development Fund
- provide funding for industry restructure and opportunities to components suppliers in SA to consolidate and develop a more efficient supply industry including world leading logistics management practices
- provide additional funding to the Regional Development Boards to enable enhancement of their role in regional economic development
- attract investment to focus on information technology, electronics, food and telecommunications sectors; across all sectors, the target will be to attract a commitment to $350 million in new investment resulting in the potential to create or retain 3500 jobs
- attract new telecommunications providers within two years
- provide new programs and services that focus on innovation and product development, through South Australian Centre for Manufacturing (SACFM) to promote manufacturing exports and employment
- facilitate up to $65 million of import replacement contracts through the Industrial Supplies office
- establish an overseas office in Dubai which will seek to facilitate the attraction of investment and jobs to South Australia and establish new export markets for South Australian Industry.

In addition, the portfolio will continue to strengthen policy directions and develop future strategies in line with government outcomes. During 2000-01 specific emphasis will be placed on:

- establishing an action plan for the Innovation, Science and Technology Council aimed at developing an innovation culture and knowledge-based enterprises
- reviewing the progress of microeconomic reform including project and planning approval processes
- developing a strategy for emerging industries and technologies to ensure opportunities for future wealth creation and economic competitiveness are captured

- working with local governments and local communities to improve methods of service delivery for economic development
- conducting detailed analyses across key industry sectors and infrastructure systems in order to identify the most appropriate role for DIT in the development of these sectors.

Justice Portfolio

Table 4.12 Accrual Expenditure by Output Class—2000-01 Budget

	$m
Preventative Services	68.8
Legal and Court Services	152.4
Coordination and Advice	5.0
Incident Response Services	258.0
Regulatory and Investigatory Services	224.5
Offender Supervision	100.8
Electoral Services	3.4
Non Emergency Ambulance Services	22.0
Total Accrual Expenditure on Outputs	**834.9**

By adopting a collaborative and cooperative approach, the Justice Portfolio has continued as the coordinating entity for the provision of justice and emergency services to the community and government of South Australia. Justice services are delivered in order to maximise the portfolio's contribution to government outcomes in the areas of justice and safety. The justice service provision in 2000-01 will have a focus on community and industry partnerships, crime prevention, better laws and systems, legal support and a responsive justice system, and reducing harm from drugs.

Key commitments for the 2000-01 Budget include:

- reducing harm to the community and reducing drug related crime by continuing to implement diversionary policing strategies as part of operational tactics designed to prevent crime, (eg Operation Mantle, pre-court diversion by police of illicit drug users into education, treatment and rehabilitation programs) and consolidating the Drug Court pilot program in the Adelaide Magistrates Court
- improving the efficiency and effectiveness of the delivery of police services by:
  - ensuring that police station services are responsive and culturally sensitive to community members from different ethnic backgrounds
  - continuing to seek improvement in the service that the police provide to the community as a result of the Premier's Taskforce
  - recruiting an additional 113 police officers
  - continuing the implementation of revised emergency incident management procedures, including improved training in order to enhance SAPOL's capacity for responding to disasters on a proactive basis
  - continuing to improve SAPOL's readiness to respond to and manage emergency incidents
- increasing the cultural responsiveness of the justice system for Aboriginal people by implementing or strengthening support arrangements for specialist courts with respect to Aboriginal people and continuing the on-going implementation of the recommendations of the Royal Commission into Aboriginal Deaths in Custody relating to the care of prisoners
- increasing safety within the courts through a major upgrading of the security services provided in court buildings in the city and metropolitan courts

- improving resolution of Native Title issues by working closely with Aboriginal people, the Aboriginal Legal Rights Movement, the SA Farmers Federation and the SA Chamber of Mines and Energy to explore whether Indigenous Land Use Agreements can be developed as an alternative to resolving native title issues through the Courts
- improving support for volunteers by enhancing the training and support available to emergency services volunteers to enable them to better serve their communities
- funding major criminal cases and associated support services
- facilitating the relocation of all functions occupying the Adelaide Police Station building to enable demolition by October 2001 to allow the construction of the new Commonwealth Court Complex
- purchasing additional emergency services vehicles including five new South Australian Metropolitan Fire Services appliances, seven rescue vehicles, three light rescue vehicles and 16 Country Fire Services appliances
- supporting the Government's program of legislative reform and ensuring that the legislative framework of the State reflects contemporary need
- ensuring appropriate delivery of ambulance transport services for patients by establishing a viable financial structure for the South Australian Ambulance Services
- improving legal aid services to the disadvantaged through the provision of additional funding to the Legal Services Commission.

Department of Human Services

Table 4.13 Accrual Expenditure by Output Class—2000-01 Budget

	$m
Promotion and Protection of Health and Well-being	78.2
Personal Financial Assistance	122.7
Housing Services	367.4
Community Based Care	430.1
Accommodation and Support	172.2
Hospital Based Treatment Services	1505.9
Coordination and Advice	1.5
Total Accrual Expenditure on Outputs	**2 678.1**

The Human Services Portfolio includes the Department of Human Services, public and community housing agencies, and health units and agencies incorporated under the SA Health Commission. The department aims to provide coordinated and integrated health, housing and community services through building links across government and partnerships with the South Australian community.

In 2000-01 it will remain necessary for public hospitals to continue to manage the demand for services within tight budgets. The service delivery and financial management strategies applied during 1999-2000 have met with some success and will continue to be adopted during 2000-01. Activity levels within hospitals will be maintained in 2000-01 and efforts will continue to manage waiting lists for planned hospital admissions and outpatients.

With the strategies in place to manage demand in the acute sector, it is possible to implement some specially targeted community-based programs to support families and individuals in vulnerable circumstances. Program areas benefiting from additional funding include:

- mental health ($2.5 million) to support and extend community-based services to reduce bed pressures and improve mental health services
- disability and ageing ($8.5 million) to provide additional services in this area

- carers to receive increased payments ($1.6 million) to support South Australian families prepared to foster children and adolescents
- Clean Needles Program ($0.5 million) to be implemented as part of the Government's drug strategy
- blood testing ($1.0 million) to support nucleic acid testing of blood for more effective screening for the hepatitis C virus and HIV in blood donors
- Gamblers Rehabilitation Fund ($0.5 million) to provide additional services to families affected by gambling.

Public housing will receive an additional $29 million from the Commonwealth over the next three years as compensation for the impact of the GST on the provision of residential properties for rent.

The $192 million Human Services capital budget for 2000-01 includes funding towards a $200 million, five-year plan for the major redevelopment of the Royal Adelaide Hospital, the Queen Elizabeth Hospital and Lyell McEwin Health Service. The following highlight key projects in this area:

- $11.0 million will be spent in 2000-01 to rollout the Open Architecture Clinical Information System (OACIS) to all metropolitan public hospitals. At a total cost of $64.7 million, OACIS will result in the development of integrated record keeping to improve medical service delivery.
- $17.0 million in 2000-01 will provide for the development of information management systems for various health services.
- A major redevelopment of infrastructure at the Lyell McEwin Health Service will provide a new women's health centre, new wards, intensive care, theatre, emergency and imaging facilities at a total cost of $87.4 million including $3.0 million in 2000-01.
- A major upgrade of the Royal Adelaide Hospital will provide new emergency, imaging, theatre, critical care, inpatient and ambulatory service facilities at a total cost of $74 million including $6.0 million in 2000-01.
- The Queen Elizabeth Hospital Stage 1 redevelopment, at a total cost of $37.4 million, will include $1.3 million in 2000-01 which will provide new inpatient facilities for 200 beds.

Department for Transport, Urban Planning and the Arts

Table 4.14 Accrual Expenditure by Output Class—2000-01 Budget

	$m
Coordination and Advice	12.3
Regulatory Services	39.3
Maintenance and Operations of the Transport System	488.8
Planning and Development	32.4
Information Services	40.8
Art, Museum and Heritage Services	18.2
Arts Industry Development and Access to Artistic Product	41.4
Other Government Services	13.4
Aboriginal Development	7.4
Heritage Conservation	1.5
Local Government Frameworks	1.8
Total Accrual Expenditure on Outputs	**697.2**

The portfolio structure of Transport, Urban Planning and the Arts provides an effective administrative means for integrating urban and regional development, Local Government initiatives, transport infrastructure and services, and cultural and artistic development for South Australia. The department also provides services to Aboriginal people to advance economic and community development.

The portfolio places a strong emphasis on cultural development and the creative capacity of the arts to promote pride and prosperity in South Australia. In addition, the increased opportunities for women to participate in consultative and decision-making forums will ensure South Australia is a better place to live, work and visit.

During the coming year the department intends to:

- introduce measures to improve the level of security of the metropolitan rail system, including the employment of staff with a security and fare compliance role, and improved infrastructure including lighting and defined safe areas on platforms under video surveillance
- establish transport and urban planning industry and community networks for policy and strategic advice
- improve access to information about public transport services by providing new information units in metropolitan and regional areas at bus stops
- emphasise the safe operation of the transport system with a balanced program of education, encouragement and inspection
- assist public transport services in regional cities and country areas in partnership with local government groups
- coordinate the update of the Planning Strategy to include emerging social, environmental and economic policy directions and issues
- commence development of an electronic lodgement system for development applications in partnership with Local Government associations and the development industry
- encourage councils to amend Development Plans to implement the Planning Strategy and provide greater certainty for proponents and the community
- revitalise the State’s film industry
- provide Internet access for the community in all South Australian public libraries through partnership with Local Government and regional development bodies
- promote greater Aboriginal economic and partnership developments to create long-term and secure employment that increases prosperity for Aboriginal people
- promote greater cooperation and stronger working relationships between the State’s three Aboriginal landholding authorities: Anangu Pitjantjatjara, Maralinga Tjarutja and Aboriginal Lands Trust
- advance State–Local Government functional and financial reform, in partnership with Local Government
- progress “Family and Work” initiatives across government agencies
- identify women suitable for appointment to government boards and committees
- provide outreach women’s information services to rural, regional and remote communities
- highlight the International Year of Volunteers and the integral role volunteers play in the Woman’s Information Service
- undertake major investments during 2000-01 including $3 million as part of the $40 million redevelopment of the State Library Complex, continuation of the $18.7 million Adelaide Festival Centre Master Plan, continued sealing of the unsealed rural arterial network, a further $44.3 million to continue Stage 2 of the Southern Expressway from Reynella to Old Noarlunga, and public Transport Infrastructure upgrades.

Department of Administrative and Information Services

Table 4.15 Accrual Expenditure by Output Class—2000-01 Budget

	$m
Services to Government	154.4
Asset Management Services	95.9
Coordination and Advice	8.9
Output Procurement and Contract Services	143.3
Project Delivery Services	39.1
Public Records and Land Services	36.6
Industry Support Services	63.6
Total Accrual Expenditure on Outputs	**541.8**

The vision of the Department for Administrative and Information Services (DAIS) is to be recognised as an important contributor to the economic and social development of South Australia through excellence in public sector administration and service. Its mission is to deliver innovative solutions and quality services which will improve the efficiency and effectiveness of government and its agencies in meeting the needs of the community.

In fulfilling these aims DAIS provides a range of services in the following key areas:

- whole of government responsibilities for policy development and implementation in building asset management, project risk management, the procurement of goods and services and capital works, government office accommodation and records management
- direction and policies on the application of information technology and advanced communication systems for government businesses
- information economy opportunities for business and the broader community
- occupational health and safety and workplace relations policy, advisory and compliance functions
- protection of public health and safety and prevention of environmental damage in relation to hazardous materials, plant, machinery and equipment
- policy advice on government business enterprise and business review capability for commercial operations of government
- management of South Australia’s plantation forest resources
- government services in fleet management, forensic science, land valuation, survey and registration and public records management.

During 2000-01 DAIS will undertake the following:

- a series of information technology industry development initiatives designed to assist building an information economy in South Australia
- the launch of the Fleet SA Internet site, within the year 2000, will allow Fleet SA to gain more interactive feedback and to reach a greater number of end users
- Real Estate Management will conduct a tenant survey that will question tenants about the different services they receive from government real estate management with the aim of enhancing service provision
- development of a formalised customer service strategy
- the timely completion and handover of the Government Radio Network will enable emergency services to have effective integrated whole of State communications system for voice, paging and

data transmission to enable better emergency services across the State with roll out in metropolitan and regional areas scheduled for 2000-01

- improvement of government procurement processes via the use of e-commerce and other innovative strategies
- Land Services will implement the Automated Torrens Land Administration System (ATLAS) for business reform of land administration. It will reduce the time taken for land transactions and improve availability and access to data for consumers and business.

Department of Education, Training and Employment

Table 4.16 Accrual Expenditure by Output Class—2000-01 Budget

	$m
Education and Training	1638.4
Child Care	30.7
Employment Services	25.4
Coordination and Advice	10.6
Youth Services	2.6
Total Accrual Expenditure on Outputs	**1707.8**

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

The department will maintain its high service delivery in 2000-01 by focusing on the broad strategic directions, set out in its Portfolio Statement. Major initiatives in 2000-01 include the following:

- providing education in the use of information technology and telecommunications for senior students which will result in students leaving school with an industry recognised information technology qualification
- meeting the need of regional and rural students, communities and businesses through strategic regional and rural partnerships and new approaches of service delivery
- supporting state based assessment in literacy (reading, writing and spelling) and numeracy at years three and five, and funding the development and trialling of rigorous and appropriate assessments in literacy and numeracy at year seven, in close consultation with the educational community
- continuing, as indicated in the 2000-01 Employment Statement, to build on the successful programs outlined in previous statements with additional emphasis being placed on increasing the skill levels of the workforce
- developing a Blueprint for Employment (through the Employment Council) to feed into the State Government's budgetary and economic planning processes for 2001-02
- continuing with the Government Youth Training Scheme with $14 million being allocated over the next three years
- implementing a comprehensive youth development scheme involving community service organisations and schools at a cost of $3.7 million over 3 years to provide young South Australians with a range of adventurous and challenging opportunities that promote self-reliance, self-confidence, voluntary work, leadership and community service
- enhancing vocational education and training through the provision of $37.2 million (which reflects an increase of $15 million in funding over previous levels) for the training of new and continuing apprentices and trainees as a result of the New Apprenticeships program; this will support the improvement of South Australia's skill levels

- continuing to provide $4.5 million per annum to the Enterprise and Vocational Education Strategy which supports the development of regional partnerships to improve the coordination and delivery of vocational education programs at the local level that respond to regional skill requirements, facilitate transitions between school and work, and enhance the employability of our young people

- continuing to implement the Partnerships 21 Local Management Scheme which provides direct support to, and assists, local communities in implementing local management

- continuing to implement major projects identified in the department's Strategic Information Technology Plan including systems to support Local School Management, Human Resource Management System, Virtual Learning Environment System and Library System

- providing a Capital Investment Program for 2000-01 of $84.0 million including the Flinders Mathematics and Science School at a total cost of $10.8 million. The program also provides $3.8 million for the expansion of the Woodend Primary School, $0.5 million towards the $3.5 million replacement of the Gawler TAFE and $4.5 million to fund major upgrades at Moonta Area School (total project cost of $3.9 million), Roxby Downs Area School (total project cost of $1.5 million) and Urrbrae Education Centre (total project cost of $19.7 million). A total of $3.5 million has been provided for the Taperoo schools amalgamation.

Department for Environment and Heritage

Table 4.17 Accrual Expenditure by Output Class—2000-01 Budget

	$m
Administration and Stewardship of Crown Lands	1.8
Animal Welfare	0.8
Biodiversity Conservation	13.6
Heritage Conservation	2.3
National Parks and Botanic Gardens Management	70.0
Environment Protection	20.5
Spatial Information	13.1
Recreation and Sport	25.7
Coordination and Advice	1.7
Total Accrual Expenditure on Outputs	**149.4**

The Department for Environment and Heritage (DEH) manages the protection, conservation, enhancement and utilisation of South Australia's natural resources and heritage within a framework of ecologically sustainable development; and promotes South Australian's participation in recreation and sport and the development of the racing industry.

Priorities and new commitments for DEH during 2000-01 include:

- national parks and eco-tourism—boosting awareness of conservation and opportunities for nature-based tourism with major initiatives including the Greater Mount Lofty Park with linkages and environmental corridors, Cleland as the gateway to SA's parks and showcasing Flinders Chase

- implementing a five-year, multi-agency strategy to improve and protect water quality in the Mount Lofty Ranges watershed, and thus reduce the incidence of water borne parasites and pesticide contamination

- assessing options for coast protection initiatives for metropolitan Adelaide to reduce the risk of property damage and to maintain sandy beaches; implementing the Marine and Estuarine Strategy through multiple-use planning for SA marine waters

- conserving biodiversity and rehabilitating ecosystems through projects including National Heritage Trust programs, Land for Wildlife, Flinders Ranges Bounceback, Ark on Eyre, Regional Biodiversity Planning and Threatened Species Management Programs
- providing industry and the community with on-line access to environmental and natural resource information
- promoting Trails Networks in South Australia and facilitating the development and better management of trails through the Recreational Greenways Bill
- selling the South Australian Totalisator Agency Board and enabling proprietary racing and the corporatisation of racing in South Australia, to ensure that racing in South Australia remains vibrant and well positioned for the future
- developing a whole of government strategy to increase volunteer participation, provide for training opportunities and recognise the efforts of volunteers
- providing of an additional $1 million per annum towards preventative maintenance of asset infrastructure in the State's national parks and gardens system to enhance visitor amenity
- increasing community funding by $2 million in grants to the Office for Recreation and Sport
- reallocating staffing to the extent of $400 000 per annum within the Environment Protection Agency to deal with site inspections of licensed and non-licensed premises and assessment of environmental impacts of the increasing numbers and complexity of development applications
- initiating Second Generation Parks program which represents an integrated approach to the management of public land including parks, forest reserves and other State and Local Government land in the Greater Mount Lofty Ranges.

Water Resources

Table 4.18 Accrual Expenditure by Output Class—2000-01 Budget

	$m
Coordination and advice	2.7
Water resources management	42.0
Total Accrual Expenditure on Outputs	**44.7**

During 2000-01 the Department for Water Resources will establish its role as the lead government portfolio for the management and development of the State's water resources. The objective will be to achieve a strong, consistent and collaborative focus on water issues for the benefit of South Australia by drawing together the key water-related activities of the government into the portfolio.

At the national level, the portfolio will develop strategies to ensure that South Australia's interests are recognised and protected in water reform initiatives and the water resources shared with other States, and that the State takes a lead role in managing water resources in the Murray–Darling Basin, the Lake Eyre Basin and the Great Artesian Basin.

The State's economy and future growth and prosperity will be significantly influenced by how well the Government, the Murray–Darling Basin Commission (MDBC), the catchment water management boards and planning committees, the water industry and the wider community work in partnership to manage and develop the State's water resources. A key focus will be the continual supply of good quality water for South Australia within sustainable limits from the Murray–Darling Basin and the State's surface water and groundwater systems.

The portfolio will provide the leadership and direction by coordinating and driving the Government's water initiatives and delivering sound advice, information and data to its key clients and stakeholders, together with specialist services in water allocation planning, licensing, monitoring and assessment services.

The effectiveness of the portfolio's service delivery is enhanced by the regional management of water resources through the network of regional service centres located in its Riverland, South East and Port Augusta offices.

During 2000-01 the portfolio's priorities for service delivery will include:

- initiating the priority actions in the State Water Plan 2000
- facilitating the completion of the first round of water allocation plans for fifteen prescribed water resources in the State (thereby enabling them to be adopted by the Minister for Water Resources under the *Water Resources Act 1997*)
- releasing a South Australian River Murray Salinity Strategy (complementary with a MDBC whole of basin strategy currently being developed) in September 2000 for public comment
- developing proposals with the MDBC for new salt interception schemes at Waikerie, Bookpurnong and Chowilla
- with MDBC funding, conducting a major study of the management of the whole Lower Lakes–Coorong–Murray Mouth area and addressing improved management of flows to increase flushing of sand at the mouth, as well as heritage, recreation and ecotourism values and the requirements of commercial and recreational fishing and irrigation
- developing and managing other River Murray remediation projects
- replacing bore drains and rehabilitating a significant proportion of the remaining uncontrolled bores within SA under the Great Artesian Basin Sustainability Initiative (with SA likely to be the first State in the basin to complete this task, probably within the next three years)
- conducting an assessment of the current water balance of the Blue Lake system as part of a Government–South East Catchment Water Management Board partnership to develop a management plan for the system
- implementing the findings of the Parliamentary Select Committee on Water Allocation in the South East
- accelerating assessments of groundwater sustainability in the South East
- contributing towards the Lake Eyre Basin Agreement.

4.4. HIGHLIGHTS OF SERVICE DELIVERY BENCHMARKING

The following information presents highlights from the latest available data (1997-98 financial year) published by the Productivity Commission in February 2000, benchmarking the performance of State and Territory government services under the auspices of the Steering Committee for the Review of Commonwealth–State Service Provision (RGS). The RGS performance measures assess both the efficiency (cost of inputs per unit of output) and the effectiveness of services (the extent to which services meet their objectives).

Hospitals

The public hospital system in South Australia is highly efficient. Aggregate unit costs (per case mix adjusted separation) in South Australia's public acute care hospitals in 1997-98 were the third lowest of any jurisdiction and 4.5 per cent below the all jurisdictional average. Total labour costs in South Australia were 10 per cent below the national average and the second lowest of the eight jurisdictions. These efficiencies have been achieved without compromising the quality of the services offered.

Schools

Class sizes in South Australia's primary and secondary schools (as measured by student/teacher ratios) are significantly smaller than the national average in a climate where primary and secondary class sizes increased in most jurisdictions between 1997 and 1999.

Vocational Education and Training

Client satisfaction surveys compiled in 1998 and reported in the RGS show that the VET system in South Australia is highly regarded by both employers and students. Employer satisfaction with South Australian vocational education and training providers was the highest of all States and Territories. Student satisfaction with the content of South Australian TAFE courses achieved the second highest ranking of all jurisdictions. The same RGS data shows that high levels of effectiveness in the VET sector have not been achieved at the expense of efficiency. For example, South Australia recorded the second lowest unit cost of all States and Territories in the provision of vocational education and training during 1998 which was 5 per cent less than the national average.

Housing

The RGS reports that in 1998-99, public housing in South Australia was highly efficient in comparison with other States and Territories. Average administration costs per dwelling in South Australia, for example, were less than the all-jurisdictional average. The proportion of tenants in arrears in South Australia was the lowest of any jurisdiction reported. Tenant satisfaction surveys reported in the RGS showed that the proportion of public housing tenants in South Australia who were "very satisfied" was the highest of any jurisdiction.

Police

The police force in South Australia is both highly efficient and highly effective. Community surveys published in the RGS report indicate that the South Australian community has a higher than average level of overall satisfaction with police compared to other jurisdictions. Indicators measuring community perceptions of SA police as being "fair" and "professional" are higher than the all jurisdictional average.

Courts Administration

Performance indicators in respect of 1998-99 published in the RGS show that South Australian courts are highly effective in terms of affordability and accessibility. For example, lodgement fees in magistrates' and district courts in South Australia (a measure of affordability) are well below average and ranked second lowest and lowest respectively. Case finalisation times (a measure of accessibility) are shorter than average in most South Australian jurisdictions.

5. REVENUES

HIGHLIGHTS

- Emergency Services Levy relief of $24 million per annum is provided in addition to existing concessions and remissions of $28 million per annum.
- Revised Commonwealth–State funding arrangements under national tax reform are introduced.
- Payroll tax rebates for the employment of trainees will be better targeted.

5.1 OVERVIEW

Total revenue and grants received are projected to grow by less than 1 per cent in real terms over the forward estimate period. The impact of national tax reform will be to change the composition of State revenue. State own-source revenue will account for a smaller percentage of total revenue reflecting the abolition of some State taxes and reductions in others to make room for the GST while Commonwealth funding will increase in relative importance.

Strong real terms growth in Commonwealth funding in 2000-01 is offset by a similarly strong real terms decline in State own-source revenue including taxation.

5.2 REVENUE MEASURES

In 2000-01, there will be a number of changes to State taxation arrangements that result from national tax reform. The arrangements encapsulated in the Intergovernmental Agreement with the Commonwealth ensure that the revenues of the States and Territories are not adversely affected notwithstanding major changes in Commonwealth–State funding and taxing arrangements. State tax changes arising out of national tax reform are outlined later in this chapter.

Tax measures that form part of the Government's budget strategy for 2000-01 comprise further relief measures amounting to $24 million for the Emergency Services Levy and revised arrangements to target payroll tax relief for trainees who are under 25 years of age when they commence their traineeships.

5.3 EMERGENCY SERVICES LEVY

In September 1999, the Government established a reference panel to examine unintended impacts on taxpayers resulting from the introduction in 1999-2000 of the Emergency Services Levy. In addition, numerous issues raised by the public were referred to the Justice portfolio for examination and policy advice. In response to the findings of the reference panel and policy advice received from the Justice portfolio, the Government has decided to introduce a range of amendments to the operation of the levy which will deliver relief to both fixed and mobile property owners. The total cost of the reform measures is $24 million per annum.

This is in addition to existing remissions and concessions amounting to $28 million of which $6 million was provided in the 1999-2000 Budget for pensioner concessions and $22 million relates to measures taken during the course of 1999-2000. In aggregate, the on-going level of Emergency Services Levy relief amounts to $52 million per annum.

Changes to Levy Arrangements

Changes to the levy arrangements for fixed property are given in Table 5.1 and for mobile property in Table 5.2.

Fixed Property

Table 5.1 Variable Levy Rates for Fixed Property(a)

Land use	Weighting applied to capital value	Current variable levy rate	Proposed variable levy rate
Industrial	1.05	.001675	.001675
	(previously 1.0)		
Commercial	1.0	.001675	.001050
Residential	0.4	.000875	.000280
Rural			
- Regional Area 4	0.3	.000875	.000280
- Regional Areas 1 and 2	0.3	.001275	.000100
- Regional Area 3	0.1	.001675	.000100
Other	0.5	.000875	.000280
Other—Special Community Use [(b)]	0.1	.000875	.000438
Vacant Land			
- Regional Area 4	0.3	.001675	.000280
- Regional Areas 1, 2 and 3	0.3	.001675	.000100

(a) A fixed charge also applies.

(b) New category to cover cemeteries, hospitals, retired, aged and nursing home accommodation (currently included in Residential and Commercial land use categories), social welfare, halls, scouts and guides premises, churches and places of assembly.

Other Changes to Fixed and Variable Charges

Changes to fixed and variable charges are as follows:

- Regional Area 3
  - Full remission of $50 fixed charge
  - Full remission of variable charge if less than $20
- Regional Areas 2 and 3
  - Full remission of fixed and variable charge for properties with capital value below $1 000
- Other—Special Community Use Category
  - $20 fixed charge to apply instead of $50 for property in "Special Community Use" category

Redefinition of Regions

There are currently four regional areas each with its own area factor which is applied to the capital values of properties located in those regions.

- Greater Adelaide 1.0
- Regional Area 1 (Regional cities and towns) 0.8
- Regional Area 2 (Rural council areas) 0.5
- Regional Area 3 (Remote/unincorporated areas) 0.1

Changes to regional definitions comprise:

- Greater Adelaide Regional Area to be renamed Regional Area 4
- council areas of Mt Barker, Alexandrina, Victor Harbor, Yankalilla and Barossa to be reclassified either to Regional Area 1 (for towns in the nominated council areas with a population greater than 3000) or to Regional Area 2 (for the remainder of the nominated council areas)
- towns of Clare and Ceduna to be reclassified from Regional Area 1 to Regional Area 2.

Concessions

The following changes have been made to eligibility for concessions:

- Self-funded retirees—eligibility has been extended to couples where both partners are self-funded retirees working less than 20 hours per week even if one partner does not meet the 60 year age criterion.
- The $40 concession for fixed property has been extended to recipients of Austudy and Abstudy allowances, and Special Benefits payments and holders of the Veteran Affairs Gold Repatriation Health Card.
- Beneficiaries of the estate of persons who qualified for a concession will be eligible for remission on the property they occupy as beneficiaries.
- Public housing tenants will be remitted of liability for the 1999-2000 year and beyond to ensure that they are treated similarly to tenants of properties subject to the *Residential Tenancies Act 1995*.

Mobile Property

Table 5.2 Emergency Services Levy Rates on Mobile Property (effective from 1 July 2000)

	Current ($)	Proposed ($)
Cars and larger motor cycles	32	24
Historic vehicles	8	6
Trailers and caravans	8	nil
Recreational boats	12	nil
Primary producer goods carrying vehicles in the metropolitan area	32	12

5.4 PAYROLL TAX TRAINEE REBATES

Arrangements for the provision of payroll tax relief for trainees will be amended to target relief at young trainees. The cost of the payroll tax trainee rebate scheme has increased significantly in 1999-2000 from a budgeted $7.5 million to a revised estimate of $18 million. As from 25 May 2000 assistance will be targeted to trainees who commence their traineeship before their 25th birthday. The rate of rebate will be 80%.

Traineeships for which employers have received a payroll tax rebate in 1999-2000 and which continue in existence after 30 June 2000 will continue to be eligible for rebate but at the lower rate of 80%. The estimated saving against the forward estimates from these changes amounts to $1.6 million in 2000-01. Expenditure on the scheme in 2000-01 is estimated at $16.4 million.

5.5 IMPLICATIONS OF NATIONAL TAX REFORM

The structure of State finances has been significantly reshaped by national tax reform. From 2000-01, State own-source tax revenues will account for a much smaller share of total revenues while general purpose grants from the Commonwealth will increase in importance. State own-source revenues are estimated to account for about 42 per cent of total revenues in 2000-01 compared to about 53 per cent in 1999-2000.

South Australian taxes to be abolished as part of national tax reform comprise:

- financial institutions duty (from 1 July 2001)
- stamp duty on the transfer of marketable securities quoted on recognised stock exchanges (from 1 July 2001)
- debits tax (by 1 July 2005, subject to review by the Ministerial Council).

The Ministerial Council will also review by 2005, the continuing need for stamp duties on unquoted marketable securities, non-residential conveyances, leases, mortgages, and a range of other financial transactions.

Gambling tax arrangements will also be adjusted to make room for the impact of the GST on gambling operations. The loss of State revenues from the reduction in State gambling tax rates will be compensated through GST revenue grants.

Changes to gambling tax arrangements are summarised in Table 5.3.

GST will represent 1/11th or 9.09 per cent of the gambling margin or net gambling revenue (NGR) where NGR is the difference between total "ticket sales" or "bets taken" by gambling operators and the "value of monetary prizes" paid out.

Gambling tax arrangements have been adjusted to achieve revenue neutrality after the impact of the GST. Gambling tax adjustments can be grouped into four categories:

- Tax rates applicable at the casino and on gaming machines in hotels and clubs have been reduced by the equivalent of GST—equal to 9.09 per cent of net gambling revenue.
- Currently all of the Lotteries Commission surplus and 45 per cent of the TAB surplus is distributed to the Government. The liability of these entities for GST will reduce the amount distributed. State tax rates are also being introduced for these entities, effective from 1 July 2000, at 41 per cent of net gambling revenue for the Lotteries Commission and 6 per cent of net wagering revenue for the TAB. The introduction of these tax rates will not affect the level of distribution to government but will separate the amount into two components: State taxation and after tax distribution. This change in arrangements provides for an on-going tax revenue stream to the government in a post-sale environment. Additional payments by the TAB to the racing industry (equal to 18.45 per cent of net wagering revenue on racing totalisators) and to the SANFL (equal to 15.09 per cent of net wagering revenue on football totalisators) have also been introduced to achieve revenue neutrality for all parties.
- State tax rates on wagering conducted through on-course totalisators and with bookmakers will remain unchanged but GST payable by these operators on the supply of gambling will be reimbursed through State grants.
- State tax rates on small lotteries (instant tickets, major fundraiser lotteries and bingo) will be abolished; licence fees for trade promotion lotteries will be unchanged since net gambling revenue is not generated by this activity.

Table 5.3 Gambling tax rate adjustments

	Current rates %	From 1 July 2000 %
Casino		
Table games (% of NGR)	10.00	0.91
Gaming machines (% of NGR)	43.50	34.41
Gaming Machines (marginal tax rates)		
Hotels		
Annual NGR		
Up to $399 000	35.00	25.91
$399 001–$945 000	43.50	34.41
Above $945 000	50.00	40.91
Clubs and community hotels		
Annual NGR		
Up to $399 000	30.00	20.91
$399 001–$945 000	35.00	25.91
Above $945 000	40.00	30.91
Lotteries Commission		
Tax (% of NGR)	-	41.00
Distribution paid to Government [(a)]	100.00	100.00 (after tax)
Small Lotteries		
Instant tickets (% of ticket sales)	2.00	abolished
Major fundraiser lotteries and bingo (% of ticket sales)	4.00	abolished
Trade promotion lotteries—licence fees	$50 to $1000	$50 to $1000 [(b)]
TAB		
Tax (% of NWR)	-	6.00
Distribution paid to Government [(a)]	45.00	45.00 (after tax)
On-course Totalisator (marginal rates)		
Turnover (per club per meeting)		
up to $30 000	1.00	State tax rates unchanged
$30 001–$60 000	2.00	GST reimbursed by State
$60 001–$120 000	3.00	
above $120 000	5.25	
Bookmakers		
Turnover		
Metropolitan—SA races	1.57	State tax rates unchanged
Metropolitan—Interstate races	2.17	GST reimbursed by State
Country—SA races	1.40	
Country—Interstate races	1.97	
Sports betting	1.75	

NGR = net gambling revenue NWR= net wagering revenue

(a) Post sale, there will be no after tax distribution to Government.
(b) Unchanged since entry to these lotteries is free and hence no NGR or GST is generated.

The abolition of State taxes combined with reductions in gambling tax rates will have the effect of reducing the tax component of total State revenues while the share of funds from general purpose grants from the Commonwealth will increase. Changes in the composition of State finances will also reflect a number of presentational and classification changes.

Since August 1997, the States and Territories have received general purpose grants from the Commonwealth in lieu of invalidated State taxes on petrol, liquor and tobacco. These franchise fee replacement grants, which will be replaced by GST revenue grants from 1 July 2000, were previously classified by the ABS as State taxes and their abolition will further reduce the share of State revenues that is attributed to State taxes.

Franchise fee replacement grants are considered by the ABS to have been collected by the Commonwealth acting in an "agency" capacity on behalf of the States and Territories. In contrast, the GST is considered to be a Commonwealth tax with the earmarking of revenue raised for the States reflecting a discretionary decision of the Commonwealth.

Zonal subsidies paid for petroleum product and on-road diesel together with subsidies for off-road diesel, cellar door wine sales and low alcohol products were previously netted against replacement revenue grants from the Commonwealth. From 1 July 2000, when revenue replacement grants cease, subsidies will be reported on the payments side of the budget.

The abolition of Commonwealth wholesale sales tax as part of national tax reform will also result in the termination of wholesale sales tax equivalent payments by government business enterprises from 1 July 2000. These revenues previously formed part of the revenue line "income distributions from commercial public trading enterprises". The loss of this revenue stream has been brought to account in the calculation of the guaranteed minimum amount of funding required by the States under national tax reform in order to remain revenue neutral.

5.6 FUEL SUBSIDIES

From 1 July 2000, the Commonwealth will provide a 100 per cent rebate of excise on most forms of off-road diesel use. Current excise rates include the surcharge introduced by the Commonwealth in 1997 to replace invalidated State franchise fees on fuel. State subsidies equivalent to the excise surcharge were introduced for off-road diesel since this product also became liable for the excise surcharge whereas it had been exempt from State tax.

The availability of a full excise rebate from the Commonwealth removes the need for State subsidies for off-road diesel; these will cease from 1 July 2000. State zonal subsidies for leaded and unleaded petrol and for on-road diesel use will continue.

5.7 LIQUOR SUBSIDIES

The Budget reflects the continuation of subsidies for low alcohol wine and beer and for cellar door wine sales. The Government is however reviewing the low alcohol subsidy in the light of recently announced changes to Commonwealth excise rates for beer. Some States and Territories have indicated that they will be terminating their low alcohol subsidies in the light of this decision.

Administrative modifications may also need to be made to existing subsidy arrangements to reflect changes in the timing of tax payments resulting from the replacement of wholesale sales tax with the GST, the Commonwealth's Wine Equalisation Tax and adjustments to excise rates for beer. These administrative changes will not alter the net level of benefit available under State subsidy arrangements but may affect the timing of payments.

5.8 SOUTH AUSTRALIA'S RELATIVE TAX EFFORT

The Commonwealth Grants Commission's 2000 Update Report, released in February, suggests that South Australia's relative tax effort has increased from 100.1 in 1996-97 to 104.7 in 1997-98 and 105.9 in 1998-99. An index of 100.0 represents the average of all States and Territories. This trend is very heavily influenced by progress made in South Australia, relative to other States, in making its government business enterprises liable for the full range of taxes (Commonwealth, State and Local) consistent with commitments made under the Competition Principles Agreement.

In 1997-98, all government business enterprises included in the Tax Equivalent Regime became liable for State taxes including land tax. This included the South Australian Housing Trust. The large size of the Trust's property holdings has meant that it accounts for more than one-third of total land tax receipts for the State. There is no net benefit to the budget from these tax payments since additional funding is provided to the Trust to meet its land tax liabilities.

Public housing authorities in other jurisdictions are not liable for land tax (although in Queensland the public housing authority is required to include a notional land tax liability in its financial statements). To the extent that other States and Territories have not expanded the coverage of their Tax Equivalent Regimes to include public housing authorities, there has been no comparable increase in their land tax receipts relative to South Australia. Consequently, South Australia's *relative* land tax effort has increased significantly between 1996-97 and 1998-99.

Removing the influence of land tax payments made by South Australian entities in the Tax Equivalent Regime reduces South Australia's tax effort assessment for 1997-98 from 104.7 to 100.5 and for 1998-99 from 105.9 to 102.2. Details are provided in Table 5.4.

Table 5.4 Tax Effort Ratios by Jurisdiction

	1997-98		1998-99	
	As published	Adjusted [(a)]	As published	Adjusted [(a)]
New South Wales	105.5	105.8	109.8	110.1
Victoria	106.3	106.6	99.8	100.0
Queensland	84.3	84.5	84.5	84.7
Western Australia	85.9	86.1	88.0	88.3
South Australia	**104.7**	**100.5**	**105.9**	**102.2**
Tasmania	99.6	99.7	92.8	92.9
Northern Territory	98.7	98.9	92.7	92.9
Australian Capital Territory	100.1	100.3	97.2	97.4

(a) Adjusted to remove land tax paid by South Australian entities in the Tax Equivalent Regime

On an adjusted basis, South Australia's relative tax effort assessment is only slightly above average. The increase in effort between 1997-98 and 1998-99 reflects the combined effect of tax measures introduced in South Australia in 1998-99 and tax reductions in a number of the larger States.

The introduction of the Emergency Services Levy in 1999-2000 is unlikely to affect relative tax assessments since levies of this kind are currently not classified as taxes by the Commonwealth Grants Commission but as revenue offsets to expenditure on emergency services.

In terms of projected total taxation revenue per capita for 2000-01, South Australia remains third lowest of the States. Figure 5.1 provides details.

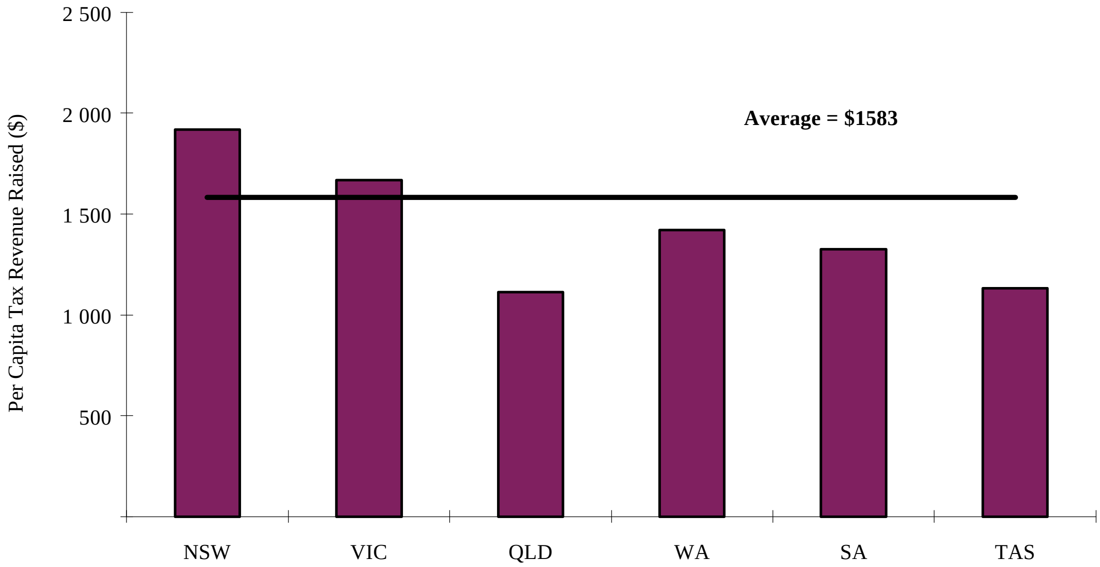


Figure 5.1 **State Comparisons of Per Capita Estimated Tax Revenue—2000-01 Financial Year**[(a)]

Source: Victoria, Western Australia—Respective 2000-01 Budget Papers.
New South Wales, Queensland, Tasmania—SA Dept of Treasury and Finance Estimates.

(a) Based on 2000-01 taxation revenue estimates published in State Budget Papers for Victoria, Western Australia and South Australia. For States which had not delivered their 2000-01 Budgets prior to the preparation of South Australia's Budget Papers, taxation revenue for 2000-01 has been estimated by (i) taking published 1999-2000 estimates, removing franchise fee replacement taxes which will cease on 1 July 2000, and adjusting for the average improvement above budget for the remaining taxes in 1999-2000 based on the experience of those States that have delivered budgets and (ii) inflating those revised 1999-2000 estimates by the underlying growth in projected 2000-01 taxation revenues for States which have published 2000-01 estimates (after adjusting for policy change influences including national tax reform).

5.9 REVENUES: EXPECTED RESULT FOR 1999-2000

Notwithstanding large variations against budget in individual revenue lines, total revenue and grants received are expected to come in only slightly below the original budget estimate for 1999-2000.

State-own source revenues are expected to fall short of budget while Commonwealth grants are expected to exceed budget.

"One-off" revenue of $110 million from stamp duty paid on the long term sale/lease of electricity assets is more than offset by the deferral until later in the forward estimate period of $187 million of distributions from the South Australian Asset Management Corporation (SAAMC) and lower than budgeted income distributions from commercial public trading enterprises reflecting progress made with the long term sale/lease of the State's electricity assets.

After excluding the large "one off" stamp duty payment on leased electricity assets and removing the cost of additional relief provided during the year for the Emergency Services Levy, there has been an underlying improvement against budget in taxation revenue. This underlying improvement is mainly attributable to a buoyant residential property market, continued growth in gambling expenditure and higher than expected tobacco replacement grants.

An improvement above budget in Commonwealth funding mainly relates to specific purpose grants.

5.10 REVENUE PROJECTIONS

Forward estimates of revenue (Commonwealth grants and State own-source revenues) have been prepared on the basis of the Commonwealth's New Tax System to take effect from 1 July 2000.

The guarantee provisions contained in the Intergovernmental Agreement on tax reform ensure that the overall financial position of the State is protected in the transition to full implementation of the New Tax System. Notwithstanding that various State taxes are to be abolished, equivalent revenue will be received by the State through its share of GST revenue and from transitional grants under the guarantee provisions.

While the guarantee provisions apply, the introduction of tax reform will alter the composition rather than the total level of revenue available to the State.

5.11 STATE OWN-SOURCE REVENUE PROJECTIONS

Key features affecting the projections include:

- the timing of distributions from SAAMC
- abnormal stamp duty receipts in 1999-2000 from transactions associated with the long term sale/lease of electricity assets
- reduced dividend streams reflecting the privatisation of electricity assets
- the abolition of some State taxes and the downward adjustment of gambling tax rates in accordance with agreements set out in the Intergovernmental Agreement on tax reform.

The overall outlook for State own-source revenues is summarised in Table 5.5.

Table 5.5 State Own-Source Revenue

	1999-2000 Budget $m	1999-2000 Estimated Result $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
Taxation	2610.4	2746.0	2088.7	2032.5	2102.2	2172.7
Income from commercial PTEs	476.4	371.7	279.2	267.9	282.8	282.1
Other revenue	599.9	418.7	489.2	368.2	307.0	432.1
Total State Own-source Revenue	**3686.7**	**3536.5**	**2857.0**	**2668.7**	**2692.0**	**2886.8**
Total excluding SAAMC distributions and stamp duty on electricity assets	**3486.1**	**3412.9**	**2748.0**	**2624.7**	**2692.0**	**2799.8**
% growth on previous year						
nominal terms growth						
%		**9.3**	**–19.2**	**–6.6**	**0.9**	**7.2**
% (excluding SAAMC distributions and stamp duty on electricity assets)		**5.5**	**–19.5**	**–4.5**	**2.6**	**4.0**
real terms growth						
%		**6.6**	**–21.3**	**–9.1**	**–1.6**	**4.7**
% (excluding SAAMC distributions and stamp duty on electricity assets)		**2.9**	**–21.6**	**–7.1**	**-**	**1.5**

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

5.12 TAXATION

Taxation revenue is estimated to exceed budget by $136 million in 1999-2000 of which $110 million is due to stamp duty on transactions associated with the long term sale/lease of electricity assets. The remaining improvement mainly reflects a much stronger property market than had been budgeted. Stamp duty receipts from property conveyances (excluding the electricity transactions) are expected to exceed budget by $36 million in 1999-2000 while tobacco replacement grants are expected to exceed budget by $10 million.

The net proceeds from the Emergency Services Levy will fall short of budget by $22 million, reflecting remissions and additional exemptions provided during the course of 1999-2000.

Stamp duty on motor vehicle registrations and transfers will also fall short of budget by an estimated $7 million in 1999-2000 reflecting a slowdown in motor vehicle turnover in anticipation of the removal of wholesale sales tax when the GST is introduced on 1 July 2000. This source of revenue shortfall is offset by an expected $7 million improvement against budget in gambling tax receipts.

All other State taxes are expected to exceed budget by a net $2 million.

The forward outlook for tax revenue is provided in Table 5.6.

A large fall in the estimated level of taxation receipts in 2000-01 reflects the abolition of franchise fee replacement grants as part of national tax reform, the adjustment to gambling tax rates to accommodate the introduction of the GST from 1 July 2000 and abnormal stamp duty receipts amounting to $110 million in 1999-2000 resulting from the long term sale/lease of electricity assets. A further small decline in taxation receipts in 2001-02 reflects the full year impact of tax reform-related changes in

2000-01 as well as the abolition of financial institutions duty and stamp duty on quoted marketable securities from 1 July 2001.

In order to derive the underlying growth in on-going State taxes throughout the forward estimate period, adjustments have been made to remove taxes to be abolished as part of national tax reform, to adjust gambling tax receipts as if GST-adjusted tax rates had applied from 1 July 1998 and to remove GST-related timing and "tax-on-tax" effects on State tax revenues. The results are provided in Table 5.6. On an adjusted basis, taxation revenues are estimated to decline in real terms in 2000-01 and to grow by about 1 per cent per annum in real terms over the forward estimate period.

Table 5.6 Taxation

	1999-2000 Budget $m	1999-2000 Estimated Result $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
Employer payroll tax	550.6	547.0	579.7	613.2	649.6	684.3
Taxes on property	687.9	821.6	686.8	604.1	618.4	635.8
Taxes on gambling	366.2	373.0	293.2	292.0	298.1	307.8
Taxes on insurance	173.2	176.9	181.5	186.1	190.4	194.7
Motor vehicle taxes	318.8 (a)	309.5	316.9	335.6	344.1	348.6
Franchise fee replacement revenue	507.4	511.7	26.9	-	-	-
Other taxes (b)	6.3	6.3	3.7	1.5	1.5	1.5
Total taxation	**2610.4**	**2746.0**	**2088.7**	**2032.5**	**2102.2**	**2172.7**
Total taxation adjusted to remove GST-related impacts and to exclude stamp duty on electricity assets		**1938.0**	**1944.9**	**2013.6**	**2093.6**	**2164.2**
% change on previous year						
Employer payroll tax		1.6	6.0	5.8	5.9	5.3
Taxes on property		36.6	–16.4	–12.0	2.4	2.8
Taxes on gambling		8.0	–21.4	–0.4	2.1	3.2
Taxes on insurance		–17.3 (c)	2.6	2.5	2.3	2.3
Motor vehicle taxes		13.7	2.4	5.9	2.5	1.3
Franchise fee replacement revenue		4.3	–94.7 (d)	–100.0 (d)	-	-
Other taxes (b)		–35.2	–41.0	–58.9	-	-
Total taxation						
- **Nominal growth**		**11.1**	**–23.9**	**–2.7**	**3.4**	**3.4**
- **real terms growth**		**8.4**	**–25.9**	**–5.3**	**0.9**	**0.9**
Total taxation adjusted to remove GST-related impacts and to exclude stamp duty on electricity assets						
- **nominal growth**		**6.0**	**0.4**	**3.5**	**4.0**	**3.4**
- **real terms growth**		**3.4**	**–2.3**	**0.7**	**1.4**	**0.9**

(a) The Budget estimate for 1999-2000 has been adjusted to remove drivers' licence fees for consistency with subsequent years and to conform with ABS classification standards.
(b) Includes the gas levy which will be phased out by 2001-02.
(c) Reflects the termination of fire services levy contributions in 1998-99.
(d) Percentage growth rates reflect the phasing out of revenue replacement grants with the equivalent of only one month's receipts in 2000-01.

Much publicity has been given to the decision by all States and Territories to apply stamp duties to GST inclusive values. This improves stamp duty receipts in some instances (such as conveyances) but reduces them in others (such as stamp duty on motor vehicle registrations and transfers). In other cases, such as insurance, the stamp duty impacts are mixed reflecting differences in the way GST impacts on business versus household insurance policies and because the value of insured items will be increasing for some goods and decreasing for others. In aggregate, the net impact of GST inclusive values on stamp duty receipts is estimated to add less than $10 million per annum to taxation receipts from 2000-01.

Projected growth in payroll tax receipts reflects estimated employment and earnings growth together with the timing of increases in the superannuation guarantee levy, scheduled for 2000-01 and 2002-03. Very low growth in 1999-2000 mainly reflects the increase in payroll tax trainee rebate costs in that year; rebate costs are netted against payroll tax receipts in accordance with ABS classification standards.

Property taxes include land tax, stamp duty on conveyances, mortgages, shares and other transactions, financial transaction taxes and water catchment levies. The residential property market has been buoyant in 1999-2000 reflecting, at least in part, the pull forward of activity in advance of the introduction of the GST. Both activity levels and property values have exceeded budget expectations in 1999-2000. Turnover of the housing stock is expected to slow in 2000-01 and property values are assumed to grow slowly notwithstanding the introduction of the GST. Experience in 1999-2000 suggests that established house prices have already risen in anticipation of the GST. Although GST will not apply to established homes, the relative price advantage in favour of established homes will increase demand for these properties.

Land tax receipts by and large will not reflect the improvement in the residential property market since the principal place of residence is exempt from land tax. For 2000-01, land tax receipts (which will be based on land valuations as at 30 June 2000) are expected to grow by about 1.8 per cent per annum.

Gambling tax receipts will fall in 2000-01 reflecting the reduction in State gambling tax rates to accommodate the introduction of the GST. Growth in expenditure on gambling is expected to slow over the forward estimate period. The outlook for individual gambling taxes is provided in Table 5.7.

Table 5.7 Gambling Taxes

	1999-2000 Budget $m	1999-2000 Estimated Result $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
Gaming Machines	201.5	211.3	183.4	188.6	192.4	199.2
Lotteries Commission	85.5	84.9	78.2	74.1	76.0	78.5
TAB	21.5	20.8	14.5	12.6	12.8	12.9
Casino	19.9	19.6	13.7	13.5	13.8	14.1
Other (a)	37.8	36.5	3.4	3.2	3.2	3.1
Total	**366.2**	**373.0**	**293.2**	**292.0**	**298.1**	**307.8**
% change on previous year						
Gaming Machines		12.4	–13.2	2.8	2.0	3.5
Lotteries Commission		4.9	–7.9	–5.2	2.6	3.3
TAB		–2.2	–30.2	–13.1	1.1	1.1
Casino		–1.7	–30.1	–1.5	2.2	2.2
Other (a)		3.9	–90.8	–6.0	-	–3.2
Total		**8.0**	**–21.4**	**–0.4**	**2.1**	**3.2**

(a) Includes commissions on bets, small lotteries, soccer pools and, up until 1999-2000, contributions from the TAB to the Racing Industry Development Authority (RIDA) for the support of racing clubs. Under ABS classification standards, distributions from TAB to RIDA are classified as taxes even though the final destination of these funds is to racing clubs. From 2000-01, RIDA will cease to exist and TAB distributions to clubs will be paid direct rather than through another government body.

Taxes on insurance are expected to grow in line with CPI forecasts while growth in motor vehicle tax revenues is assumed to strengthen in 2000-01 reflecting lower motor vehicle prices with the introduction of the GST.

Franchise fee replacement revenue will cease from 1 July 2000 as part of changes to Commonwealth–State funding arrangements under national tax reform.

5.13 INCOME FROM COMMERCIAL PUBLIC TRADING ENTERPRISES

Commercial public trading enterprises (PTEs) comprise the electricity entities, Ports Corporation, SA Water Corporation, and the Industrial and Commercial Premises Corporation. Revenue distributions from these entities take the form of dividends and tax equivalent payments (income tax, sales tax and local government rate equivalents).

The composition of income distributions from commercial PTEs is summarised by category of income stream in Table 5.8.

Table 5.8 Income Distributions from Commercial Public Trading Enterprises, by Category of Income Stream

	1999-2000 Budget $m	1999-2000 Estimated Result $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
Dividends	331.0	265.6	195.0	181.8	192.3	181.1
Income tax equivalents	135.4	101.7	82.8	85.1	89.5	99.9
Wholesale sales tax equivalents	9.0	3.4	0.3	-	-	-
Local government rate equivalents	1.0	1.0	1.0	1.0	1.0	1.0
Total	**476.4**	**371.7**	**279.2**	**267.9**	**282.8**	**282.1**
% change on previous year						
- nominal		**–0.9**	**–24.9**	**–4.0**	**5.5**	**–0.3**
- real terms		**–3.3**	**–26.8**	**–6.6**	**3.0**	**–2.6**

Income distributions are expected to fall short of budget in 1999-2000 and to fall again in 2000-01 reflecting progress made with the long term sale/lease of the State's electricity assets. A breakdown of income distributions by entity is provided in Table 5.9.

Table 5.9 Income Distributions from Commercial Public Trading Enterprises, by Entity

	1999-2000 Budget $m	1999-2000 Estimated Result $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
Electricity Entities	247.3	147.0	49.7[(a)]	48.0[(a)]	50.3[(a)]	52.6[(a)]
SA Water Corporation	220.5	213.6	219.4	208.6	220.9	217.4
Ports Corporation	8.5	10.9	9.8	11.2	11.5	11.9
Industrial and Commercial Premises Corporation	0.1	0.3	0.2	0.1	0.1	0.1
Total	**476.4**	**371.7**	**279.2**	**267.9**	**282.8**	**282.1**

(a) Refers to distributions from electricity entities that are yet to be sold.

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

5.14 OTHER STATE OWN-SOURCE REVENUE

This revenue category comprises:

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

Other State own-source revenue will fall short of budget by an estimated $181 million in 1999-2000 mainly reflecting the decision to defer $187 million of distributions from SAAMC.

The net operating result of non-commercial public trading enterprises is expected to exceed budget mainly reflecting the operating result for TransAdelaide as reported in accordance with ABS classification standards. Additional funding has been provided to TransAdelaide to meet long service leave costs arising from its failure to win service contracts in the recent round of metropolitan bus service tendering. These funds are treated as part of TransAdelaide's operating revenues resulting in an improvement in TransAdelaide's operating result. The long service leave payments themselves are reflected as a reduction in TransAdelaide's long service leave liability and do not form part of operating expenses.

Revenue from fines is expected to fall short of budget by $17 million. The number of traffic infringement notices issued has fallen below budget while the delayed introduction of revised systems for collecting court fines has resulted in part year rather than full year revenue gains from improved collection arrangements. This shortfall is offset by improvements in a range of miscellaneous receipts which in aggregate amount to an improvement of almost $18 million.

The forward outlook for other State own-source revenue is provided in Table 5.10.

Table 5.10 Other State Own-Source Revenue

	1999-2000 Budget $m	1999-2000 Estimated Result $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
Net operating surplus of non-commercial PTEs	89.8	98.7	59.5	51.8	49.1	60.6
Income from public financial institutions						
- SAAMC	200.6	14.0	109.0[(a)]	44.0	-	87.0
- Funds SA Subsidiary Holding Corporation	0.1	0.1	18.0	-	-	-
- HomeStart	7.2	7.4	7.1	7.0	6.8	6.5
- Motor Accident Commission	10.0	-	10.0	10.0	10.0	10.0
- SAFA	53.0	53.0	50.0	22.0	9.0	31.5
Royalties	64.5	69.9	71.7	76.4	75.9	74.1
Fines	76.7	59.8	69.8	69.6	70.0	73.8
All other	98.0	115.8	94.1	87.4	86.2	88.6
Total	**599.9**	**418.7**	**489.2**	**368.2**	**307.0**	**432.1**
Total (excl SAAMC distributions)	**399.3**	**404.7**	**380.2**	**324.2**	**307.0**	**345.1**
% change on previous year						
Nominal growth						
%		**7.8**	**16.8**	**–24.7**	**–16.6**	**40.7**
% (excl SAAMC distributions)		**4.2**	**–6.1**	**–14.7**	**–5.3**	**12.4**
Real terms growth						
%		**5.1**	**13.8**	**–26.8**	**–18.7**	**37.4**
% (excl SAAMC distributions)		**1.6**	**–8.5**	**–17.0**	**–7.6**	**9.7**

(a) An additional $26 million will be received from SAAMC as a return of capital and is reflected as repayment of an advance.

Fluctuations in the level of other State own-source revenue throughout the forward estimate period reflect the timing of distributions from SAAMC to a large extent. Excluding SAAMC distributions, other State own-source revenues are projected to fall throughout the forward estimate period until 2002-03; growth in 2003-04 mainly reflects the timing of SAFA distributions.

Revenue levels in 2000-01 reflect a number of "one-off" revenues. Distributions from SAFA in 1999-2000 and 2000-01 are higher than in subsequent years reflecting the carry forward of distributions from 1998-99 to 1999-2000 and the availability of accumulated profits on an "off-shore" transaction maturing in 2000-01. A large "one-off" income tax equivalent payment will also be made in 2000-01 by Funds SA Subsidiary Holding Corporation reflecting the gain on the sale of the Adelaide Casino.

The net operating surplus of non-commercial PTEs will fall in 2000-01 mainly on account of TransAdelaide (partly due to the abnormal impact of long service leave funding arrangements on TransAdelaide's 1999-2000 operating result) and lower projected surpluses for Forestry SA, the South Australian Housing Trust and the Passenger Transport Board.

Royalties are estimated to increase in the initial years of the forward estimate period reflecting the impact of expansion at Roxby Downs and the completion in 2000-01 of Cooper Basin capital deductions for expenditure incurred prior to 1991. Beyond 2001-02, royalty levels will stabilise reflecting production levels at the Cooper Basin and more conservative price assumptions.

5.15 COMMONWEALTH GRANT REVENUE PROJECTIONS

Commonwealth grants are expected to exceed budget by $101 million in 1999-2000 mainly due to upward revisions to specific purpose grants reflecting the new Australian Health Care Agreement and additional funding for non-government schools.

The forward outlook for Commonwealth grants is summarised in Table 5.11.

Table 5.11 Commonwealth Grants

	1999-2000 Budget $m	1999-2000 Estimated Result $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
General purpose grants						
Financial assistance grants	1674.6	1679.3	-	-	-	-
GST revenue grants	-	-	2249.1	2540.4	2637.7	2754.4
Transitional grants	-	-	241.5[a]	150.4	167.1	101.9
Competition grants	34.3	34.5	36.1	55.3	56.5	57.4
Subtotal	1708.9	1713.8	2526.7	2746.1	2861.3	2913.7
Specific purpose grants						
Direct grants	1104.4	1173.1	1148.4	1187.4	1224.5	1252.2
On-passed grants	254.8	281.9	286.9	291.8	296.3	301.2
Subtotal	1359.2	1455.0	1435.3	1479.2	1520.8	1553.4
Total	**3068.1**	**3168.8**	**3962.0**	**4225.3**	**4382.1**	**4467.1**
% change on previous year						
- nominal		**3.8**	**25.0**	**6.6**	**3.7**	**1.9**
- real terms		**1.2**	**21.8**	**3.7**	**1.2**	**–0.5**

(a) Includes interest-free loan of $166.8 million from the Commonwealth under the guaranteed minimum amount arrangements in the Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations.

The strong growth in general purpose grants between 1999-2000 and 2000-01 reflects revised Commonwealth–State funding arrangements that take effect with the introduction of the GST from 1 July 2000.

GST revenue grants will replace other forms of Commonwealth funding (financial assistance grants and revenue replacement grants) and State taxes that are to be abolished or reduced under national tax reform. Except for a qualification relating to the first two years of the transitional period when States receiving net financial gains from national tax reform assist in funding shortfalls experienced by other States, all of the revenue raised by the Commonwealth from the GST is to be distributed to the States and Territories in accordance with fiscal equalisation principles.

From 2000-01, South Australia’s grant share is expected to improve relative to other States through the annual update of Commonwealth Grants Commission relativities. Details of the impact of the 2000 relativity update are provided in Chapter 6.

The Commonwealth has undertaken to underwrite the revenue yield from the GST to ensure that States and Territories receive, as a minimum, the equivalent of what they could have expected to receive under existing Commonwealth–State funding arrangements. This is known as the guaranteed minimum amount. Supplementary grants will be provided by the Commonwealth until each State’s share of GST revenues at least matches this guaranteed amount. In South Australia’s case, supplementary funding to GST revenue grants is expected to be required up to and including 2005-06.

To the extent that economic growth is assisted by national tax reform, revenue growth from on-going State taxes should be enhanced. Allowance has been made for this potential revenue gain to the States and Territories in setting the methodology for calculating the guaranteed minimum amount. Provision has also been made for additional interest costs arising from differences in the timing of revenue streams under the new funding arrangements.

The guaranteed minimum amount also provides funding for additional costs to be borne by the States and Territories as a result of national tax reform including grants to first homebuyers to offset the impact of the GST on the cost of purchasing a home and contributions to the Australian Taxation Office to cover GST collection and administration costs. These additional costs are partly offset by other expenditure savings for the States and Territories. Reflecting a Commonwealth undertaking to provide a full rebate of excise payable on diesel used for off-road purposes, the States and Territories will no longer need to provide subsidies for off-road diesel use. The introduction of the GST will also coincide with the abolition of wholesale sales tax. Removal of wholesale sales tax embedded in the purchase price of goods will deliver significant cost savings to government agencies. These savings are reflected in the calculation of the guaranteed minimum amount.

The derivation of the guaranteed minimum amount for South Australia in the forward estimate period is summarised in Table 5.12.

In addition to GST revenues, supplemented by transitional grants to reach guaranteed minimum funding levels, the States and Territories will continue to receive competition grants and specific purpose grants.

In accordance with the third tranche of the payment schedule, competition grants are expected to increase in real terms by 50 per cent in 2001-02. Competition grants remain conditional on States complying with Competition Policy requirements.

Specific purpose grants are expected to remain flat in 2000-01 before resuming modest growth in subsequent years.

Further detail on Commonwealth funding is provided in Chapter 6.

Table 5.12 Guaranteed Minimum Amount

	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
Revenue forgone from:				
Abolition of other forms of Commonwealth funding				
- financial assistance grants	1788.8	1869.3	1950.8	1992.1
- franchise fee replacement grants	566.2	621.0	646.0	671.8
Abolition of State taxes				
- Financial institutions duty[(a)]	-	85.5	96.6	100.1
- Share duty[(a)]	-	14.5	16.1	17.0
- Debits tax[(b)]	-	-	-	-
- Wholesale sales tax equivalents	12.7	12.7	12.7	-
Reduced gambling tax rates				
- Gaming machines	43.2	49.5	51.3	53.1
- Casino	6.2	6.9	7.0	7.1
- TAB	6.8	9.3	9.5	9.7
- Lotteries Commission	10.4	11.7	12.0	12.4
- Small lotteries	0.6	0.6	0.6	0.6
Plus				
Additional expenditure				
First home owners' grants	63.0	63.2	63.3	63.5
Contribution to ATO for administration costs	63.1	29.1	28.8	28.2
Grants to reimburse the racing industry for GST costs				
- bookmakers	0.3	0.4	0.4	0.4
- on-course totalisators	0.6	0.7	0.7	0.8
Interest costs	4.0	1.1	1.4	-
Less				
Reduced expenditure from:				
Termination of off-road diesel subsidies	32.1	36.7	38.5	40.3
Embedded savings from removal of wholesale sales tax	36.4	38.8	41.4	44.1
Revenue growth stimulated by tax reform				
Growth dividend in State tax revenues	6.8	9.2	12.5	16.1
Plus				
Additional funding from Commonwealth to repay transitional funds provided as loans	-	166.8	-	-
Equals				
GUARANTEED MINIMUM AMOUNT	2490.6	2857.6	2804.8	2856.3
Comprising:				
Share of GST revenues	2249.1	2540.4	2637.7	2754.4
Transitional grant	74.7	317.2 [(c)]	167.1	101.9
Transitional loan	166.8			

(a) to be abolished on 1 July 2001.
(b) to be abolished by 2005, subject to review by the Ministerial Council.
(c) of which $166.8 million will be repaid to the Commonwealth for the 1 year interest-free transitional loan received in 2000-01.

6. COMMONWEALTH–STATE FINANCES

HIGHLIGHTS

- The Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations is being implemented and the inaugural meeting of the Ministerial Council overseeing the reforms was held in March 2000.
- States are guaranteed to be no worse off under the tax reform arrangements.
- The Agreement stipulates that GST revenues will be distributed among the States according to horizontal fiscal equalisation principles.

6.1 INTRODUCTION

The recent developments in financial relations between the Commonwealth and the States and Territories (referred to as "the States") and their implications for South Australia are summarised in this chapter, which includes sections on national tax reform and local government relations.

6.2 RECENT DEVELOPMENTS

Ministerial Council

The inaugural meeting of the Ministerial Council for Commonwealth–State Financial Relations was convened in Canberra on 17 March 2000. The Council, comprising the Commonwealth, State and Territory Treasurers, was established by the *Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations* (IGA) and replaces the annual financial Premiers' Conference.

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

- endorsement of the Commonwealth Grants Commission's *Report on General Revenue Grant Relativities 2000 Update* recommendations for the distribution of 2000-01 GST revenues, in accordance with the IGA requirement that GST revenues be distributed among the States on the principle of horizontal fiscal equalisation (HFE)
- confirmation that each State will require budget balancing assistance in 2000-01 to ensure that, in accordance with the transitional guarantee provided by the IGA, no State is worse off under the national taxation reform arrangements
- assurance from the Commonwealth that it will honour its commitment under the IGA not to cut aggregate specific purpose payments (SPPs) to the States as part of the reform process
- continuation of competition payments to the States, as specified in *the Agreement to Implement the National Competition Policy and Related Reforms*.

The Ministerial Council also considered the progress of GST administration issues such as the First Home Owners Scheme, Local Government GST compliance and Ministerial determinations under the GST legislation. A detailed discussion of National Tax Reform issues, including the key features of the IGA, is included later in this chapter.

Commonwealth Grants Commission 2000 Update

In February, the Commonwealth Grants Commission (CGC) released its 2000 Update of per capita relativities for the distribution of Commonwealth general purpose payments to the States in 2000-01.

Based on the principle of HFE, explained in more detail later in this chapter, the relativities are designed to ensure that each State has the capacity to provide public services at a similar standard and level of efficiency to the other States for a comparable revenue-raising effort.

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

- to apply to a pool of GST revenue grants and health care grants (the GST relativities)
- to apply to a pool of financial assistance grants and health care grants, which would have resulted from the continuation of Commonwealth–State financial arrangements applying in 1999-2000 (the Financial Assistance Grants (FAG) relativities). The FAG relativities are required to ensure that no State is worse off under the national tax reform arrangements and are in practice the relativities which determine general purpose grants in 2000-01.

On the basis of the FAG relativities, shown in Table 6.1, South Australia's relativity has increased from 1.20680 as assessed in the 1999 Review to 1.23481 in the 2000 Update. This equates to a $53 million increase in general purpose grants, compared to the payments received using the previous relativities.

The increase for South Australia was largely the result of the addition of 1998-99 and the deletion of 1993-94 from the CGC's rolling five-year average assessment period, contributing $46 million of the change, and was evident primarily in the assessment of South Australia's revenue capacity. In particular, South Australia's slower than average growth in wages led to a substantial drop in relative revenue raising capacity in the payroll tax assessment between the 1993-94 and 1998-99 assessment years, while the State's capacity for land and mining revenue was also assessed as having fallen. The remainder of the State's funding increase, approximately $6 million, stems from data revisions within the earliest four years of the assessment period.

Overall, the 2000 Update relativities, adopted at the Ministerial Council meeting, resulted in a redistribution among the States of $101 million, with five States gaining (Queensland, South Australia, Tasmania, the Australian Capital Territory and the Northern Territory) at the expense of New South Wales, Victoria and Western Australia. The CGC's next data update is due in February 2001, for application to the 2001-02 grant pool, with the next major methodology review scheduled for 2004.

Table 6.1 Commonwealth Grants Commission 2000 Update Results

	1999 Review Relativity	2000 Update FAG Relativity	Implied Effect on Grant Share ($m)
New South Wales	0.89948	0.89642	-22.8
Victoria	0.86184	0.85780	-22.6
Queensland	1.00687	1.01079	+18.6
Western Australia	0.94793	0.92399	-56.0
South Australia	**1.20680**	**1.23481**	**+52.8**
Tasmania	1.60905	1.62565	+9.9
Australian Capital Territory	1.10270	1.14522	+16.5
Northern Territory	4.84429	4.85767	+3.6
Total redistributed among States			101.4

6.3 COMMONWEALTH GRANTS TO THE STATES

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

- *GST Revenue Grants* are "untied" payments that can be used freely by the States to finance their expenditure priorities. Paid monthly on the basis of actual Commonwealth GST collections, they will be distributed to the States using CGC per capita relativities.
- *Guaranteed Minimum Amount (GMA)* is provided within the IGA to ensure that no State is made worse off by the national tax reform arrangements. Calculated on the basis of an agreed formula that takes account of the changes to funding arrangements contained in the IGA, it is based on the pool of funds that would be available had the reforms not been implemented.
- *Budget Balancing Assistance* represents the difference between the GMA calculated for each State and that State's share of GST revenues. It will take the form of one-year interest-free loans and grants to the States in 2000-01 and quarterly grants in subsequent years. The one-year interest-free loans in 2000-01 are effectively grants, as the Commonwealth will be providing the funds to repay those loans when they fall due in 2001-02. They are treated as grants for the purposes of calculating the overall budget deficit or surplus.
- *Financial Assistance Grants (FAGs)* are also "untied" payments to assist in the financing of State expenditure priorities, which are distributed using CGC relativities. With the advent of national tax reform and the IGA, the payment of FAGs has been discontinued, and will be replaced by the distribution of GST revenue to the States from 2000-01 onwards.
- *Specific Purpose Payments (SPPs*) are grants that are "tied" to particular Commonwealth Government expenditure objectives. SPPs are classified as those paid *"to"* the State, for programs administered by the State Government; or *"on-passed"* SPPs, which involve funding for non-government schools and Local Government. The administration of SPPs by the States is subject to guidelines agreed with the Commonwealth. The distribution and magnitude of SPPs are determined through the Commonwealth budget, usually following negotiations between State and Commonwealth governments (see section on Specific Purpose Payments in this chapter).
- *Special revenue assistance* is occasional general revenue assistance provided in special circumstances to some or all States. Payments may either be funded directly by the Commonwealth or from within the pool of general purpose funds distributed by CGC relativities.
- *National Competition Policy (NCP) payments* are payments by the Commonwealth to the States to ensure the States share in additional revenue accruing to the Commonwealth from the economic gains of implementing competition policy. Payment is conditional upon compliance with the NCP agreement as assessed by the National Competition Council (NCC).
- *Contributions* are funds provided to the States not classified as SPPs because payment is made through a Commonwealth "non-budget agency" or is considered to be a Commonwealth own-purpose outlay. For example, Veterans' Affairs funding is provided through the South Australian Health Commission. Such payments are classified as Commonwealth contributions in State Budget documents. In addition, minor payments are received in relation to services provided by States on behalf of the Commonwealth.
- *Revenue replacement payments* are wholesale sales tax and excise surcharges levied by the Commonwealth on liquor, petrol and tobacco (replacing business franchise fees on those products) on-passed to the States in accordance with agreed shares. The States stopped levying franchise fees following a High Court decision in August 1997 which held the New South Wales tobacco franchise fee to be an excise and invalid for States to collect. In line with the IGA, revenue replacement payments will be discontinued after 1999-2000.

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

Table 6.2 Commonwealth Payments to South Australia 1999-2000 and 2000-01[a]

	1999-2000	2000-01	
	Estimated Result	Budget	Change
	$m	$m	%
General Purpose Payments			
Financial Assistance Grants	1679.3	n.a.	n.a.
GST Revenue Grants	n.a.	2249.1	n.a.
Budget Balancing Assistance	n.a.	241.5	n.a.
National Competition Payments	34.5	36.1	4.6
Total General Purpose Payments	1713.8	2526.7	n.a.
Specific Purpose Payments "to" the State			
Health Care Grants	504.8	532.5	5.5
Commonwealth–State Housing Agreement (CSHA)	59.5	65.9	10.8
Government Schools	106.2	110.9	4.4
Roads	66.9	53.7	-19.7
Australian National Training Authority (ANTA)	69.6	71.1	2.2
Other "to" Payments[b]	366.1	314.3	-14.1
Total Specific Purpose Payments "to" the State	1173.1	1148.4	-2.1
Revenue Replacement Payments[c]	574.9	29.8[d]	-95.0
Total Payments "to" the State	3461.8	3704.9	7.0[b]
Major Contributions [d]			
Veterans' Affairs Arrangements	57.6	55.5	-3.6
Pathology Laboratory Grants	34.9	35.7	2.3
"On-passed" Specific Purpose Payments[e]	281.9	286.9	1.8

(a) Data are compiled from agency budget estimates as published in Budget Paper 3 *Estimates Statement* and from Commonwealth Budget Paper No.3 *Federal Financial Relations 2000-01*.

(b) Includes for 1999-2000 Natural Heritage Trust payments totalling $26 million (no equivalent payments are yet included in 2000-01) and the one-off payment of $20 million for the Adelaide Airport runway extension.

(c) RRPs discontinued after 1999-2000, but due to a lag in collections a small payment will be made in 2000-01 related to the 1999-2000 collections.

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

(e) Includes Commonwealth grants for Local Government and non-government schools.

General Purpose Payments

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

Consequently, 2000-01 GPPs will consist of GST revenue grants, budget balancing assistance and competition payments. The budget balancing assistance will be provided to all States, as there is a shortfall between the estimated GST revenues and the GMA in 2000-01.

South Australia will receive an estimated $2.5 billion in GPPs in 2000-01. Although this represents a significant increase over the 1999-2000 GPPs estimate, the complexities of the GMA calculation (including the allowance for State revenues forgone and GST related savings) make comparisons with previous years' GPPs misleading. However, it is noted that the guarantee arrangement is designed to be revenue neutral.

Horizontal Fiscal Equalisation

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

This principle of HFE is based on Australia's commitment to ensuring that each State has the capacity to provide public services at a similar standard and level of efficiency to the other States for a comparable revenue-raising effort.

History and international practice both support implementation of some form of fiscal equalisation. Equalisation is practised explicitly in most federations and implicitly takes place in nations with unitary systems of government. Equalisation payments cannot be viewed as "subsidies"; they are an integral part of the distribution of resources inherent in the federal system.

In the absence of equalisation, those States which, through no fault of their own, face high costs or have a low capacity to raise revenues would be unable to provide their communities with the level of service offered elsewhere in Australia. Without equalisation transfers, these States would have to impose higher rates of taxation in order to fund an average level of services or else settle for fewer or lower standard services. Equalisation is thus an important element in ensuring equity for States, regardless of their demographic, economic or geographic circumstances. It would also be inefficient nationally if resources were attracted to regions with (say) a low payroll tax rate merely because of the concentration of other revenue sources such as mining developments or financial market activity in those regions.

It is fact that some States are disadvantaged in terms of their revenue raising capacities (for example through a lower level of economic activity) or expenditure requirements (for example an older population requiring more health services). Such disadvantages exist regardless of State Government policy.

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

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

In making its revenue assessments, the CGC attempts to find a measure of the capacity of each State to raise taxation. That is, it derives the notional amount of revenue (or "standardised" revenue) each State could raise from its base if it applied the average tax effort. Whether a State chooses to do so remains its policy choice and does not affect its level of Commonwealth funding. In this way, the CGC's assessments are policy neutral.

Needs for each State are derived by comparing standardised revenue and standard revenue (based on the average revenue effort of the States). A positive need indicates that the State has a below-average revenue capacity and thus requires relatively more Commonwealth funding, while negative needs indicate that the State has above-average capacity and thus requires relatively less Commonwealth funding.

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

- the age profile of the population
- socio-demographic composition
- access to scale economies in administration

- the effects of dispersed populations
- costs of inputs such as wages and salaries and electricity
- costs of the physical environment.

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

The assessments for all revenue and expenditure categories are combined to derive an overall relativity for each State. South Australia's per capita relativity from the CGC's 2000 Update was 1.23481, meaning that after implementation of the CGC's recommended distribution of general revenue grants, South Australia will receive about 23 per cent above the average per capita grants. That is, the State will receive approximately $401 million more than its population share of funding in 2000-01.

Specific Purpose Payments

SPPs are provided under Section 96 of the Constitution for both recurrent and capital expenditure purposes. In 2000-01, South Australia will receive an estimated $1.4 billion of funding in this form—a marginal decrease over 1999-2000.

Of the total amount of SPPs to be received by South Australia in 2000-01, $287 million (or 20 per cent) will be "on-passed" to non-government schools and Local Government. This represents an increase of 1.8 per cent over 1999-2000.

SPPs "to" the State (for a range of purposes including health, housing and government schools which are discussed later in this section) are forecast to fall by 2.1 per cent to $1148 million. However, this decrease reflects omission of Natural Heritage Trust grants from the 2000-01 figures (due to their funding being determined on a "merit selection basis" which has not yet been determined) and a one-off payment in 1999-2000 for the Adelaide Airport runway. Excluding these payments, total SPPs on a comparable basis are up $21 million or 1.9 per cent in 2000-01.

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

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

Health

Despite some improvements in the new agreements increasing State flexibility and providing for automatic adjustments to funding for changes in private health insurance levels, State dissatisfaction at overall health funding remains. States have argued that Commonwealth funding under the Australian Health Care Agreements (AHCAs) is inadequate given increased demands.

Following a Leaders Forum meeting last year, the Premiers called for an urgent Productivity Commission inquiry into health funding, but the Commonwealth refused to hold such an inquiry. In its place a Senate committee is conducting an inquiry into public hospital funding and is due to report by June 2000.

An outstanding issue from the AHCAs negotiations in 1998 was the Hospital Output Cost Index to be used to adjust Commonwealth funding for changes in hospital output costs. The States invoked the arbitration clause in the Agreements to resolve the issue.

The independent arbiter appointed by the Commonwealth reported in October 1999, recommending that the index be based on the Consumer Price Index plus 0.5 per cent. On the most recent figures, this would equate to an increase of about 2.5 per cent for 1999-2000.

The Commonwealth rejected the arbiter’s finding, instead offering 1.5 per cent for 1999-2000 based on its wage cost index (WCI-1) used for some other SPPs, which is based largely on the Safety Net Adjustment. This translates (using an assumption of 2 per cent CPI each year) to some $629 million less Commonwealth funding for the States in total ($54 million less for South Australia) over the 4 years remaining of the AHCAs than if the arbiter’s decision had been accepted.

Despite the Commonwealth’s refusal to discuss this issue at the Ministerial Council meeting in March, the States will continue to press for more equitable funding arrangements.

Coordinated care trials

From 1 July 1997 until December 1999, 5000 South Australians were involved in coordinated care health reform trials aimed at informing the health system about ways of reducing, to sustainable levels, the growth of health care costs in South Australia. The trials showcased earlier interventions for people with chronic conditions (such as diabetes) to prevent the progression to complications requiring admissions to acute hospitals. Commonwealth and State funding was pooled to provide the resource base for these trials.

Results of the trials were inconclusive in showing a reduction in acute hospital demand although there was evidence of improved patient self management, improved clinical practice and improvements in health status. Independent evidence exists that these results lead to reductions in acute episodes of illness but these have not been detected in the life of the trials. While the coordinated care trials have improved care, they have not at this time conclusively demonstrated any reduction in demand for acute hospital services. Although this outcome may improve over time, any future reductions are not likely to greatly impact on hospital costs.

Home and Community Care

A new agreement between the Commonwealth and the State for the Home and Community Care (HACC) Program was signed in May 1999. It continues the previous arrangement for Commonwealth offers of growth in the program to be matched by the State at the prevailing ratio of 61.63:38.37. It is estimated that the total HACC allocation in 2000-01 will be $81.4 million, made up of $50.2 million from the Commonwealth and $31.3 million from the State. This represents an increase of 8.7 per cent.

Housing

Housing assistance funding to the State is provided through the Commonwealth–State Housing Agreement (CSHA). These funds are used for public, community and Aboriginal housing and the South Australian Housing Trust’s smaller programs of private rental support and supported tenancies. The agreement provides for Commonwealth grant funds, allocated on a per capita basis, to be matched by a State contribution. In 2000-01, it is estimated that Commonwealth funds to South Australia will be $65.9 million.

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

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

Roads

Most SPPs for roads are made under the Australian Land Transport Development Program—incorporating specific funding for National Highways and Black Spots. A minor amount of funding is provided under the *Interstate Road Transport Act 1985*.

It is expected that SPPs in 2000-01 for National Highways and Black Spots in South Australia will be $53.7 million, a fall of almost 20 per cent compared to 1999-2000, reflecting the completion of the Crafers Freeway project in March 2000.

Schools

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

The Commonwealth estimates that SPPs in 2000-01 for government schools will be $110.9 million (an increase of 4.4 per cent compared to 1999-2000). SPPs for non-government schools are estimated to be $233.8 million (an increase of 7.8 per cent). The trend of an increasing share of SPPs for non-government schools is expected to continue, reflecting the Commonwealth Government's policy initiatives in this area.

Vocational Education and Training

The present Australian National Training Authorities (ANTA) Agreement covers the period 1998 to 2000. Under the agreement, the Commonwealth is to maintain its funding in real terms for the three years. A new agreement to cover the calendar years 2001 to 2003 will be negotiated between the Commonwealth and the States over the remainder of this year.

It is estimated that, in 2000-01, the Commonwealth will provide $71.1 million in SPPs "to" the State for ANTA.

Reform

The States have for some time been concerned at the increasing share of SPPs as a proportion of total Commonwealth grants, and at the conditions imposed on SPPs including maintenance of effort and matching conditions and targets that are often expressed in terms of inputs.

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

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

Three projects were agreed:

- development of a comprehensive database on SPPs
- coordination of a project on the feasibility and scope for the development of SPP guidelines

- investigation of a pilot project examining outcome based agreements, as a means of educating and publicising the benefits of an outcome-based approach.

The "best practice" SPP guidelines have since been endorsed by all Heads of Treasuries and have been disseminated throughout South Australian departments and agencies. The database project is also well advanced, with completion expected in the second half of this year. A suitable SPP is still to be identified for use as a pilot for the third project.

Competition Payments

In April 1995, all Australian governments reached agreement on the implementation of the NCP package of pro-competitive reforms.

As the revenue benefits of NCP would accrue primarily to the Commonwealth while the States faced the costs of reform, the Commonwealth agreed to make additional general purpose payments to the States provided they made satisfactory progress in implementing NCP. There were at the time two components to the financial incentives for States to meet competition policy requirements:

- additional GPPs in the form of competition grants from the Commonwealth
- growth in the FAGs pool based on national population growth.

South Australia's share of the payments was initially estimated to be approximately $1.2 billion over the period to 2005-06.

The new financial arrangements associated with the implementation of the proposed GST will effectively sever the tie between NCP and the per capita component of FAGs as FAGs will no longer be paid. National competition payments will continue to be paid, subject to compliance with NCP.

The NCC was established to assess each government's progress in meeting its reform commitments in July 1997, 1999 and 2001, and to provide a recommendation to the Commonwealth Treasurer on whether payments should be made.

In July 1998, the NCC finalised its first tranche (1997-98 and 1998-99) assessment of progress by South Australia in implementing its NCP obligations and recommended that South Australia receive full payment as it had substantially met its commitments. The Commonwealth Treasurer accepted the recommendation of the NCC and South Australia received in full its first tranche of competition payments.

The second tranche, which is double the level of the first, began in 1999-2000 and will be continued in 2000-01. The States' obligations for the second tranche payments are to:

- continue to give effect to the Competition Policy Intergovernmental Agreements including meeting all deadlines
- effectively implement Council of Australian Governments (COAG) agreements on:
  - the establishment of a competitive national electricity market
  - the national framework for free and fair trade in gas
  - the strategic framework for the efficient and sustainable reform of the water industry
- effectively observe road transport reforms.

The NCC again found that South Australia had fully met its commitments and recommended full payment of the competition payments due in 1999-2000. The NCC also identified several outstanding issues in relation to payments due in 2000-01 for all States and has progressively been undertaking supplementary assessments of these issues.

Further details on the NCP are provided in Chapters 8 and 9.

Trends in Payments to the States

Commonwealth payments to the States have shown a declining trend over the past fifteen years. As shown in Figure 6.1, the level of Commonwealth payments to the States has fallen significantly since 1984-85 in comparison to the level of economic activity (measured by GDP) and Commonwealth taxes collected over the same period.

Moreover, the increasing trend of the Commonwealth to provide these payments in the form of SPPs, as shown in Figure 6.2, has significantly reduced budget flexibility, particularly where SPPs cover State expenditure responsibilities.

The funding arrangements provided to the States under the IGA are predicted to make the States better off, with GST revenues expected to outstrip the GMA within the next ten years. However, it is important to note that the new arrangements do not reduce the significant responsibility that the Commonwealth has in ensuring that States are adequately funded to provide services.

Furthermore, if the Commonwealth does not maintain its level of funding from sources other than the GST, the trend of a declining share of payments to the States will continue into the future, making it increasingly difficult for States to meet their expenditure commitments.

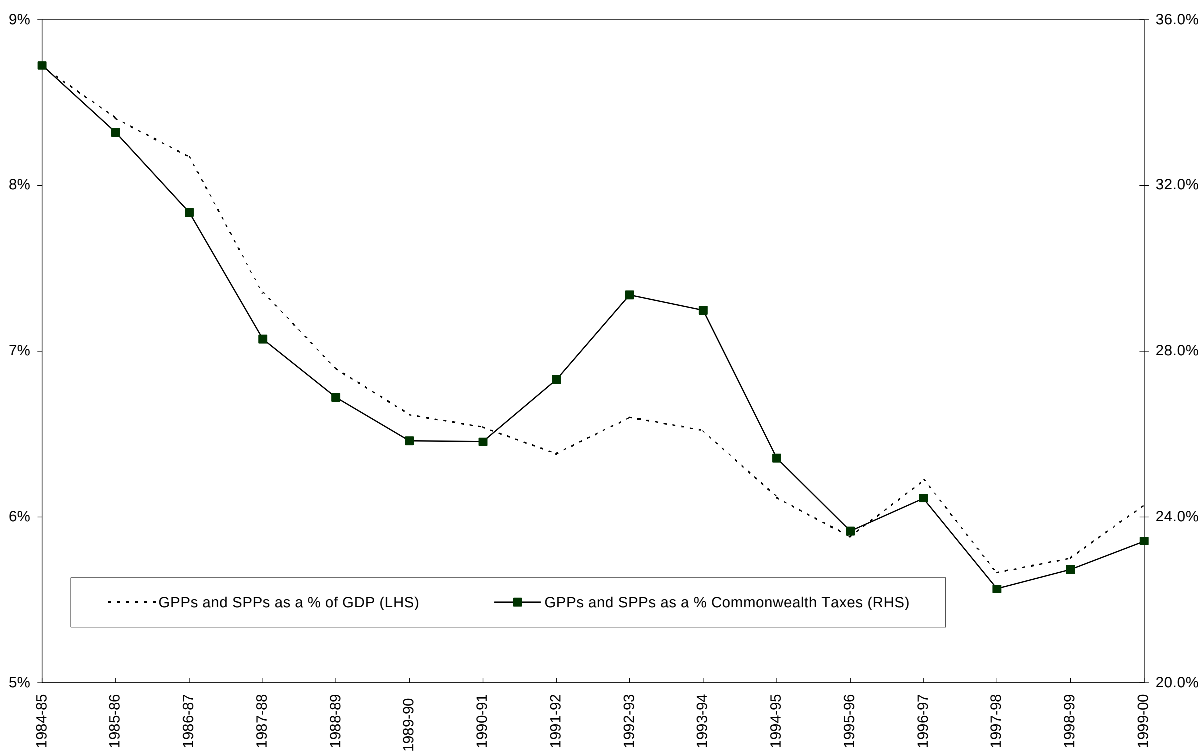


Figure 6.1 Commonwealth Payments to the States

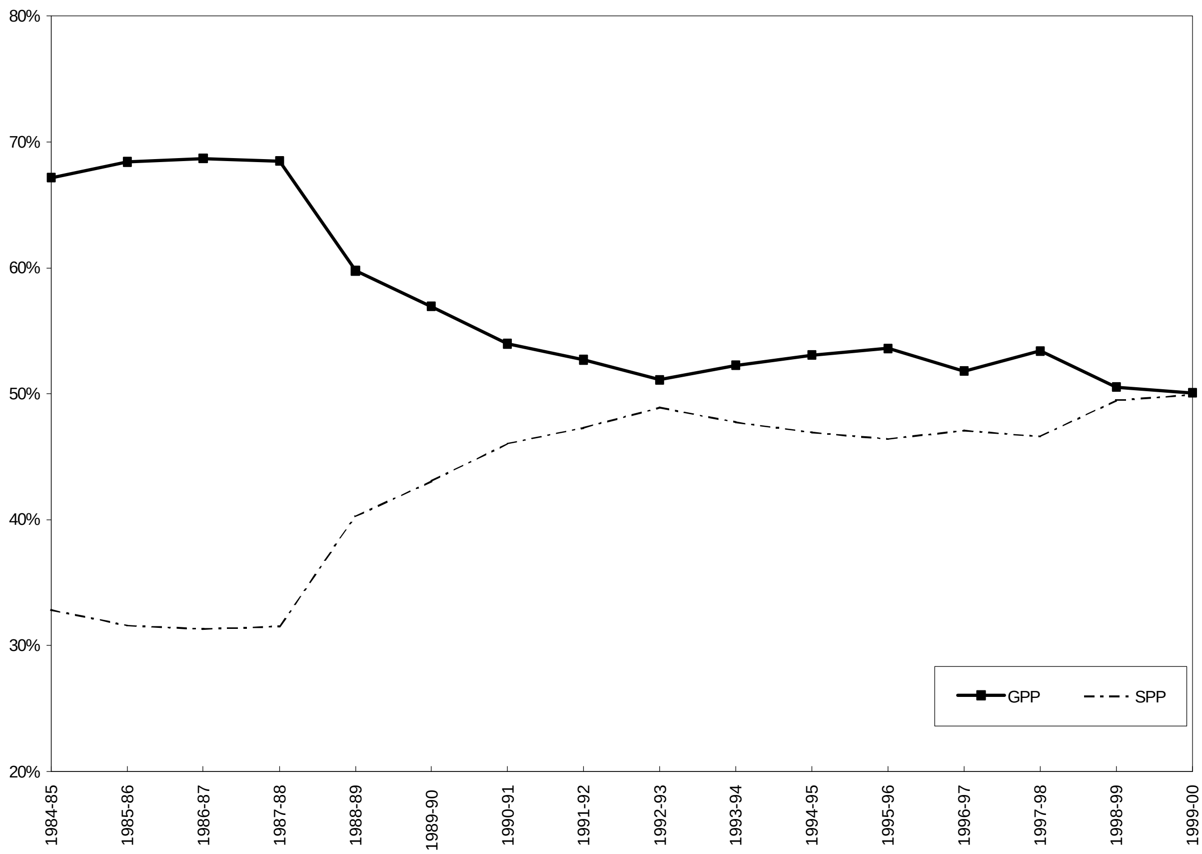


Figure 6.2 Proportion of Commonwealth Payments to the States provided for General and Specific Purposes

6.4 FINANCIAL ASSISTANCE TO LOCAL GOVERNMENT

Commonwealth

The Commonwealth presently provides both general and specific grants to Local Government in South Australia. The majority of this funding is provided as general purpose assistance. This is paid to States and on-passed to local governing bodies on the recommendation of Local Government Grants Commissions in each State. Arrangements for the payment of general purpose assistance are embodied in the Commonwealth's *Local Government (Financial Assistance) Act 1995*. This includes identified local road funding previously paid as SPPs. For South Australia, Commonwealth financial assistance grants to Local Government are estimated to be $94.3 million in 2000-01, an increase of $3.7 million on the previous year.

The current Act provides for allocations to councils on the basis of full HFE subject to a minimum grant provision. A review of the Act is mandatory before June 2001.

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

The current interstate distribution of Local Government financial assistance grants is on an equal per capita basis, while the distribution of the identified road grants is on an undefined historical basis. There is a sound case for the distribution of Local Government grants using fiscal equalisation. It is an anomaly that equalisation is used for allocation of grants *within* States but not *between* States.

Reform of Local Government

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

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

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

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

Particular emphasis is given in the new legislation to enhanced local accountability, transparency in council operations, and clear roles and responsibilities for elected bodies and administrations, in terms of providing for the flexibility needed for the diversity of South Australian councils.

Boundary and legislative reforms are providing a sharpened focus on the way councils deliver their services. The creation of financially stronger, better resourced councils which have the capacity and expertise to develop and implement regional priorities provides the foundation for functional reform, the third major thrust of the reform program.

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

6.5 NATIONAL TAX REFORM

Overview

The 1999-2000 Budget Statement contained a detailed overview of the reforms to Commonwealth–State financial relations, agreed at the April 1999 Premiers' Conference.

Since the 1999-2000 State Budget was delivered, amendments have been made to the reform commitments originally agreed at the April 1999 Premiers' Conference because of changes to the GST legislation during its passage through the Federal Parliament. In particular, the extension of GST-free treatment to basic foods, which resulted from negotiations between the Commonwealth Government and the Australian Democrats, significantly reduced the pool of GST revenue available to be distributed to the States.

The major changes to the Agreement originally signed at the April 1999 Premiers' Conference are as follows.

- The Commonwealth retains responsibility for funding local government, rather than transferring this responsibility to the States as previously envisaged.

- The abolition of financial institutions duty (FID) has been deferred by six months (from 1 January 2001 to 1 July 2001).
- The abolition of debits tax has been deferred by four and a half years (from 1 January 2001 to 1 July 2005).
- The abolition of a range of business stamp duties, which were originally proposed to be abolished from 1 July 2001, has been deferred for an unspecified period. The Ministerial Council will, by 2005, review the need for the retention of stamp duties on:
  - non-residential conveyances
  - leases
  - mortgages, debentures, bonds and other loan securities
  - credit arrangements, instalment purchase arrangements and rental arrangements
  - cheques, bills of exchange, promissory notes
  - unlisted marketable securities.

  The abolition of stamp duty on listed marketable securities will, however, still proceed as originally planned from 1 July 2001.
- The States are to ensure that increases in pensions and allowances specified in the tax reform package will not flow through to increased public housing rents where those rents are linked to the level of pensions.

As a result of the reduction in GST revenue resulting primarily from the GST-free treatment of basic foods, a number of inefficient State taxes which were previously earmarked for abolition will now either be abolished according to a deferred timetable or, in the case of the business stamp duties, have their abolition put on hold. Notwithstanding that the States will retain the revenues from these taxes for a longer period, the net financial benefits of the overall reform package will be delayed as a result of the changes to the Agreement.

The above changes were reflected in a revised IGA which was signed by the Prime Minister and State and Territory Leaders in June 1999. The key features of the revised IGA are set out below.

GST Revenue Grants

All of the revenue generated by the GST will be shared amongst the States in the form of GST Revenue Grants. The GST Revenue Grants will be freely available for use by the States for any purpose. Beyond the first two years of the new arrangements, the GST Revenue Grants will be distributed solely in accordance with HFE principles, as is currently the case with FAGs. The explicit stipulation that HFE will be used to distribute the GST revenues among the States is a considerable advance on the current situation in which the use of equalisation for FAGs has no legislative or formal basis, and periodic attempts have been made by the larger States to overturn its use.

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

Cessation of Existing General Purpose Grants from the Commonwealth

As a partial offset to the provision of the GST revenues to the States, the Commonwealth will cease providing, from 1 July 2000:

- FAGs
- Business Franchise Fee Revenue Replacement Grants.

However, the Commonwealth will continue to provide the other major form of grant funding—SPPs—and has provided an undertaking in the IGA that it has no intention of cutting aggregate SPPs as part of this reform process. Additional grant funding will be provided by the Commonwealth through the CSHA as compensation for the increased costs of providing public housing under the GST. The additional funding totals $269 million nationally, spread over the first three years of the GST. South Australia will receive additional funding of $29 million over three years.

The Business Franchise Fee Replacement Grants have been provided to the States since 1997-98. These grants were established as a result of a 1997 High Court decision which threw into doubt the Constitutional validity of State taxes (termed business franchise fees) on tobacco, liquor and petroleum. The States subsequently stopped collecting these taxes and the Commonwealth placed surcharges on its taxes on these products to ensure that the overall tax burden remained unchanged and to generate revenue sufficient to compensate the States for the loss of their franchise fees.

Under the tax reform proposals these arrangements will cease and the taxes on these products will become purely a Commonwealth responsibility. The loss of revenue to the States will be offset by the GST Revenue Grants.

The States have provided various subsidies under these arrangements, to maintain exemptions in the previous franchise fee arrangements. The States will no longer be required to provide subsidies for tax paid on diesel for off-road use. Such subsidies will no longer be required because the Commonwealth will provide a full rebate of excise paid on diesel used for most off-road purposes.

Notwithstanding the fact that the States will no longer retain a revenue interest in the taxation of such products, some other subsidy arrangements will remain in place. In South Australia, the zonal subsidies for petrol will remain in place in order to provide an offset for petrol sold in regional and country South Australia. In addition, subsidies on wine products such as cellar door sales, mail order sales, promotional stock and tastings will be maintained. These subsidies will remain in place in order to provide a partial offset to the Commonwealth Wine Equalisation Tax (WET) which will be introduced at the same time as the GST. The Commonwealth has also announced a WET rebate scheme for cellar door sales, mail order sales, promotional stock and tastings. The Commonwealth scheme will be targeted at smaller wine producers. When combined with the State subsidy arrangements, the Commonwealth scheme will provide a full WET refund for wine producers with sales of eligible product up to $300 000. For winemakers with annual sales above $300 000 the Commonwealth assistance will phase down to zero such that wine producers with annual sales above $580 000 will only receive a State subsidy. The Commonwealth WET rebate scheme is not a specific commitment under the IGA.

The other major State subsides are those provided for low alcohol products. The Budget reflects the continuation of subsidies for low alcohol wine and beer. The Government is, however, reviewing the low alcohol subsidy in light of recently announced changes to Commonwealth excise rates for beer. Some States have indicated subsequently that they will be terminating their low alcohol subsidies.

Abolition of State Taxes

Along with Commonwealth wholesale sales tax, the introduction of the GST will result in the abolition of State taxes as follows.

State Taxes to be Abolished

Bed Taxes (NSW and NT only)	1 July 2000
Financial Institutions Duty (FID)	1 July 2001
Stamp duty on listed marketable securities	1 July 2001
Debits Tax	1 July 2005

As noted above, a range of business stamp duties previously earmarked for abolition from 1 July 2001 will now remain in place pending a review by the Ministerial Council to occur by 2005.

In addition to abolishing some taxes, the States will need to adjust taxes on gambling under the tax reform proposals. This is because the GST will be imposed on gambling and is applied to the "margin" of the gambling operator, that is the difference between the amounts wagered and the prizes paid out. The imposition of GST on gambling margins will necessitate a change in State gambling tax arrangements to avoid an increase in the overall tax burden on gambling. These adjustments are a requirement of the IGA.

Amendments to gambling tax arrangements are to be made through:

- reductions in the current tax rates applicable to the casino and gaming machines in licensed premises
- reimbursements of gambling related GST for bookmakers and racing clubs operating on-course totalisators
- abolition of bingo and small lotteries taxation.

The opportunity will also be taken to introduce taxation arrangements for the TAB and Lotteries Commission, both of which currently do not pay tax directly but distribute their surplus to the Government—fully in the case of the Lotteries Commission and 45 per cent in the case of the TAB with the remaining 55 per cent distributed to the racing industry. The racing industry distribution will be amended to ensure that its revenue from the TAB is not reduced from these changed arrangements. Further details of changes in gambling taxation are contained in Chapter 5.

Finally, with the abolition of wholesale sales tax from 1 July 2000, the States will no longer receive the revenue streams currently generated from imposing wholesale sales tax equivalents on their commercial business activities. Wholesale sales tax equivalents are imposed as a competitive neutrality requirement under NCP, to ensure that commercial government business activities, which are generally exempt from a legal liability to pay wholesale sales tax, do not obtain a tax advantage relative to private sector competitors. Wholesale sales tax equivalents are imposed on commercial agencies but remain within the State budget. The IGA provides for compensation to the States from the Commonwealth for the loss of wholesale sales tax equivalents—$338 million over three years nationally, of which $38 million will be provided to South Australia.

First Home Owners Scheme

As part of the IGA commitments, the States will fund and administer a new First Home Owners Scheme, which will offset the impact of the GST on housing affordability.

The scheme will be a nationally uniform assistance package. Eligible first home buyers will be able to claim a $7000 payment which is designed to offset the impact of the GST on housing costs. While GST does not apply to the sale of established housing, it does apply to the sale of newly constructed housing and will result in price increases in the housing market. First home buyers will be eligible for assistance under the scheme irrespective of whether they are purchasing a new or established dwelling. The assistance provided through the scheme will be in addition to existing stamp duty concessions provided by the Government of South Australia for first home buyers.

The $7000 First Home Owners Grant will not be means tested. To qualify for the grant, neither the applicant nor their spouse may have held a previous interest in residential property and must be entering into a binding contract or commencing building (in the case of owner-builders) on or after 1 July 2000.

The scheme will be administered by RevenueSA. The cost of the scheme in South Australia is estimated to be $63 million in 2000-01.

Other Aspects of the IGA

The States will be required to compensate the Commonwealth for the costs incurred by the Australian Taxation Office (ATO) in administering the GST.

All levels of government will benefit from cost savings as a result of indirect tax reform, resulting from the abolition of wholesale sales tax, the reductions in effective tax rates on diesel and abolition of some State taxes. These reforms will reduce the costs incurred by governments in purchasing goods and services, even though State Government agencies are exempt from direct liability for wholesale sales tax. The costs of goods and services purchased are inflated by the imposition of wholesale sales tax on the earlier production and distribution of these goods and services. Even though governments will incur GST on their purchases, like any other registered taxpayer they will be able to claim input credits from the ATO, which means that the GST will have no net impact on the cost of purchases. The only exception to this is government agencies involved in either financial services or residential rental activities—these activities are denied GST input credits, either in full or part, which will result in increased costs. It is in recognition of this that the Commonwealth agreed to compensation through the CSHA for the impact of the GST on public housing (see above).

While South Australian Government agencies will benefit from cost reductions in purchases of goods and services, under the IGA the Commonwealth has taken this benefit into account in the transitional funding arrangements and will reduce transitional grants to the States by amounts which reflect Commonwealth Treasury estimates of the magnitude of the likely savings. For South Australia, the reductions in transitional grant funding, which relate to cost savings on general government sector operations, are $36 million in 2000-01, rising to $47 million by 2004-05. Indications are that the realisable cost savings for State Government agencies during at least 2000-01 will fall significantly short of the Commonwealth funding reduction.

Ministerial Council

The Ministerial Council established to oversee the operation of the IGA is chaired by the Commonwealth Treasurer and is made up of the State and Territory Treasurers.

The Ministerial Council has established a GST Administration Sub-Committee (GSTAS), which comprises Commonwealth, State and Territory Treasury officials. GSTAS commenced operation on 1 July 1999 and has convened on five occasions and pursued a range of issues by correspondence. Issues considered by GSTAS include:

- Ministerial determinations under the GST legislation which impact on the GST base in areas such as education, health and aged care and Government taxes, fees and charges
- the GST treatment of Government appropriations and statutory compensation schemes
- progress with respect to GST implementation by the ATO
- the eligibility principles for the First Home Owners Scheme
- projections of the budgetary impact of the reforms to Commonwealth–State financial relations
- a range of other indirect tax reform issues.

Impact of the GST on State Government Fees and Charges

A further aspect of the GST which has been negotiated through the auspices of GSTAS and the Ministerial Council is the Division 81 determination of GST-exempt Government taxes, fees and charges.

Under the GST legislation, the Federal Treasurer is provided with the power to issue a determination which excludes from the GST a range of Commonwealth, State and Local government taxes, fees and charges. An initial version of the Division 81 determination was endorsed by the Ministerial Council and gazetted by the Commonwealth Government on 1 March 2000. Further additions to the determination are currently under consideration for endorsement by the Ministerial Council.

A large range of South Australian Government taxes, fees and charges will be GST-exempt as a result of the Treasurer's determination, including:

- State Government taxes (eg payroll tax, stamp duties, FID and debits tax)
- the Emergency Services Levy
- a large range of other regulatory charges such as licence fees (eg driver's licences, occupational licences), registration fees (eg business registration fees, motor vehicle registration fees, fees associated with registration of births, deaths and marriages) and application fees
- search fees such as those associated with land titles, FOI requests.

Some other key State Government services such as water and sewerage and a range of health and education services are also GST-free as a result of specific provisions in the GST legislation. In addition, fines and penalties will not be subject to GST.

Beyond these areas, however, where the State Government is involved in delivering goods and services, GST will apply to the charges for such goods and services. This is particularly the case for goods and services provided by commercial sector government businesses, but GST will also apply to some goods and services provided by non commercial sector agencies.

State Government bodies are presently exempt from wholesale sales tax which limits the extent of cost savings that they derive from indirect tax reform (although some Government business enterprises will make savings as a result of the abolition of wholesale sales tax "equivalents" which have been imposed by the State Government as part of competitive neutrality requirements). As a result, cost savings to State Government operations flowing from the reforms to the indirect tax system will predominantly be in the nature of indirect savings—reflecting the benefit over time of savings from the abolition of taxes which have been "embedded" in the price of goods and services supplied to government bodies because such taxes have been borne by private sector suppliers.

One aspect of the financial reforms set out in the IGA is highly relevant to savings from indirect tax reform for State Government activities. The transitional financial assistance provided by the Commonwealth to the States as part of the guarantee arrangement will be reduced by amounts reflecting Commonwealth Treasury estimates of the "embedded" tax savings available to the State general government sector as a result of indirect tax reform. For South Australia the reductions in the guaranteed minimum amount on account of this aspect of the IGA will be $36 million in 2000-01, rising to $47 million by 2004-05. In effect the Commonwealth is taking away the cost savings on State Government operations resulting from indirect tax reform.

The reduction in Commonwealth funding of $36 million for 2000-01 associated with indirect tax reform cost savings is likely to exceed the cost savings which are actually achievable by the State Government on its general government operations as a result of indirect tax reform.

In order to accommodate the budgetary impact of this reduction in Commonwealth transitional grant funding, general government agencies will have their funding from the State Budget reduced on the basis of cost savings estimated on their operations. As the cost savings will be removed from agency budgets to offset the reduction in Commonwealth grants, and the cost savings likely to be achievable in the short term are unlikely to exceed these funding reductions, fees and charges imposed by general government sector agencies which attract GST will in most cases rise by a full 10 per cent from 1 July 2000. This is the net result of both the GST itself and the budgetary impacts of the funding arrangements under the IGA outlined above which result in the removal of cost savings from agency budgets and thus an inability to pass such cost savings on to prices of fees and charges.

Charges levied by South Australian Government agencies outside of the general government sector will, however, reflect the pass through of embedded tax savings and thus will increase by less than 10 per cent as a result of the GST. Further details are provided in Chapter 8, Government Businesses.

In addition to GST, annual indexation of fees and charges will also apply from 1 July as is the case each year. In particular, regulated non commercial sector fees and charges are subject to a coordinated annual indexation process which aims to maintain the level of cost recovery associated with regulatory activities. For 2000-01 increases in non commercial sector fees and charges will be based on an indexation factor of 2.8 per cent, which is a weighted average of both recent movements in the CPI and public sector wage costs. While a large range of non commercial fees and charges are exempt from GST by virtue of the Division 81 determination, for those charges where GST applies price increases will reflect both GST and State Government annual indexation adjustments.

Financial Impact of National Tax Reform

The proposed reforms result in budgetary benefits to the States from:

- receiving the GST Revenue Grants
- stopping their off-road diesel subsidies
- cost savings resulting from tax reform which reduce the costs of purchasing goods and services.

These budgetary benefits are reduced by the negative impacts of:

- abolishing certain State taxes, reducing gambling taxes and ceasing to collect wholesale sales tax equivalents from commercial government entities
- stopping FAGs and Business Franchise Fee Revenue Replacement grants from the Commonwealth
- increasing expenditures in the form of funding the First Home Owners Scheme and compensating the Commonwealth for the ATO’s costs in administering the GST.

In the medium to longer term the proposed reforms will produce net budgetary benefits for the States, benefits which will increase over time. This is because the growth potential of the GST is superior to the growth potential of FAGs (which were only maintained in real per capita terms each year) and the State taxes which are being abolished (because they are more narrowly based taxes than the GST).

However, the revised IGA resulting from the negotiations between the Commonwealth Government and the Australian Democrats has meant that the net financial benefits to the States from the overall reform package will be delayed. Consistent with this, the States will experience budgetary shortfalls of greater than expected magnitude and over a longer period than initially estimated.

As per the original IGA signed in April 1999, the Commonwealth has agreed to provide a guarantee to offset budgetary shortfalls experienced by the States during the initial years. The Commonwealth legislation provides for the transitional guarantee period to last for the first three years, but does allow for an extension of the guarantee beyond this period by way of a regulation under the Act. The IGA commits the Commonwealth to extending the guarantee period by way of regulation in the event that transitional assistance is required by any State after the first three years. As a result of the changes to the IGA, this regulation is now more likely to be required.

The guarantee arrangements provide that each State receives a GMA of revenue each year, calculated on an agreed formula that takes account of the changes to Commonwealth–State funding arrangements contained in the IGA. To the extent that GST revenue received by the State is less than the GMA of revenue for that year, the Commonwealth will provide additional funding equivalent to the difference. That funding will take the form of a mix of interest-free loans and grants in the first year and grants in subsequent years.

The transitional arrangements are structured in such a way that during the first two years the Commonwealth will not meet the full cost of the compensation to the States. In these years, the potential surplus of any State will be used to partly fund the shortfalls experienced by other States. In particular this has implications for Queensland because it will move into a surplus position more rapidly than other jurisdictions, as it does not presently levy FID and is therefore forgoing less of its existing taxation revenue than other States when FID is abolished.

After the first two years, however, States receiving net benefits from the reform package will be able to retain their surpluses and the Commonwealth will fully meet the costs of compensating those States that have not met their GMA of revenue.

As noted above, over the medium to longer term national tax reform will generate significant financial benefit to the States as it provides them with revenue from a genuine growth tax. Importantly, the Commonwealth has also guaranteed that during the transitional period State budgets will not be adversely affected by tax reform.

However, the implementation of the GST requires major changes in business processes and systems and significant staff training for State Government agencies. These costs are not compensated for in the IGA funding arrangements and must be borne by the State Government.

Table 6.3 shows the estimated net impact of the national tax reform package on South Australia.

Table 6.3 Estimated Impact of National Tax Reform—South Australia

	GST Revenue *Less* Guaranteed Minimum Amount $m	Commonwealth Guarantee loans/grants $m	Net Impact $m
2000-01	(241.5)	-	-
- Loan	-	166.8	-
- Grant	-	74.7	-
2001-02	(317.2)	317.2	-
2002-03	(167.1)	167.1	-
2003-04	(101.9)	101.9	-
2004-05	(43.7)	43.7	-
2005-06	(39.1)	39.1	-
2006-07	22.1	-	22.1
2007-08	93.8	-	93.8

(a) Numbers contained in the Commonwealth Budget papers vary from these estimates since in some instances the Commonwealth estimates rely on shares of national data rather than State specific information.

It is estimated that the Commonwealth one-year interest-free loan to the State in 2000-01 will be $166.8 million, with a grant in that year of $74.7 million.

Commonwealth guarantee grants are then estimated to be required through to 2005-06 in South Australia with the total level of grants estimated at $743.7 million over the period. It is noteworthy that budget neutrality includes the repayment of the loan provided in 2000-01 and that to achieve this the 2001-02 guarantee grants incorporate sufficient revenue to enable the State to remain in a budget neutral position after repayment of that loan.

From 2006-07 South Australia is estimated to make budget gains from the GST tax reform package.

The estimates of the net impact of tax reform, and hence the period before which budgetary gains accrue to the State, are heavily dependent upon the actual level of GST revenue collected. It must be acknowledged that while the above analysis is based on the estimates of the Commonwealth Treasury, this estimate is particularly problematic. The net benefit of reform will be significantly different should GST revenue estimates prove to be inaccurate.

7. MANAGING THE STATE'S ASSETS AND LIABILITIES

HIGHLIGHTS

- Net debt of the public sector (excluding Government financial institutions) is estimated to be $4302 million as at 30 June 2001, a decrease of $3418 million from 30 June 1999, largely attributable to the receipt of electricity asset sale/lease proceeds in 1999-2000.

- A debt reduction program is in place to manage electricity asset sale/lease proceeds.

- Net worth of the public sector as at 30 June 1999 was $10.5 billion, comprising assets of $37.1 billion and liabilities of $26.6 billion.

- Provision has been made over the forecast period of payments to FundsSA consistent with achieving full funding of superannuation liabilities by 2034.

7.1 FINANCIAL POSITION AND OUTLOOK

The statement of financial position provides an indication, at a point in time, of the nature and value of assets controlled by the public sector together with the liabilities that have been incurred. The statement of financial position includes the assets and liabilities of all public sector entities that are controlled by the Government of South Australia. In this context, "control" is consistent with its usage in Australian accounting concepts and standards and is defined as the capacity to dominate the financial and operating policies of another entity so as to enable that other entity to operate with the controlling entity in pursuing the controlling entity's own objectives. Consistent with this definition of control, the statement of financial position excludes the assets and liabilities of Local Government bodies, universities, most marketing and professional regulatory authorities, the joint Houses of Parliament, and associations and financial institutions incorporated under State statute but not controlled by the Government (such as building societies and credit unions).

Table 7.1 shows the financial positions as at 30 June 1999 of the Government and of each of the major government sectors. The whole of government figures exclude any balances between the sectors of Government. The sum across sectors will therefore not equal the whole of government figures. Net assets for the General Government sector decreased from $400 million at 30 June 1998 to a net liability of $219 million at 30 June 1999. The major factor affecting the turnaround was superannuation expense as explained later in this chapter.

The State Government's net assets decreased by $125 million in 1998-99 compared with an increase of $506 million in 1997-98. The change in net assets can be disaggregated as shown in Table 7.3.

After adjusting for volatile expense items related to the valuation of unfunded superannuation liability and certain assets (mainly road network) an underlying net deficit for the non financial sector of $311 million is reported for 1998-99. Combined with an increase in net assets of $148 million in the financial enterprises sector a whole of government underlying deficit of $163 million was incurred. This compares with a corresponding figure of a surplus of $174 million in 1997-98.

Table 7.1 Financial Position of the South Australian Government as at 30 June 1999

	Financial Position			
	Whole of Government [(a)]	General Government Sector [(a)]	Public Trading Enterprise Sector	Financial Institution Sector
	$m	$m	$m	$m
Assets				
Cash	812	1 883	248	580
Investments	10 710	890	31	10 596
Receivables	2 300	1 667	410	11 043
Inventories	174	87	86	-
Physical Assets	22 832	8 589	14 062	187
Other	256	42	232	213
Total Assets	37 084	13 158	15 069	22 619
Liabilities				
Payables	1 169	488	431	529
Borrowings	18 901	7 833	3 035	20 173
Employee Entitlements	1 028	892	133	2
Superannuation	3 909	3 629	279	-
Other	1 594	535	413	1 074
Total Liabilities	26 601	13 377	4 291	21 778
Net Assets	10 483	(219)	10 778	841

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

Table 7.2 sets out the composition and the value of the State's infrastructure assets based on deprival value principles (mainly replacement or recent acquisition cost).

Table 7.2 The State's Infrastructure Assets as at 30 June 1999

	Infrastructure Assets	
	Gross Value (Depreciation)	Net Value
	$m	$m
Power Generation and Transmission	6 340	
Less: Accumulated Depreciation	(3 254)	3 086
Water, Sewerage and Drainage	8 653	
Less: Accumulated Depreciation	(3 186)	5 467
Harbour and Port Facilities	53	
Less: Accumulated Depreciation	(7)	46
Road Network	5 631	
Less: Accumulated Depreciation	(2 346)	3 285
Rail and Bus Tracks	355	
Less: Accumulated Depreciation	(107)	248
Total Infrastructure Assets		12 132

The total superannuation expense for 1998-99 was $655 million compared with a gain of $34 million in 1997-98. Superannuation expense comprises new service expense (included in operating surplus in Table 7.3) plus the expense (gain) for any increase (decrease) in the employee liability for past service. The turn-around in superannuation expense can largely be explained by material changes in two items relating to past service liability. The first relates to the excess of net earnings above the implicit rate assumed in actuarial assumptions on funds invested. The 1997-98 year was one of well above average earnings that did not continue into 1998-99. A reduction in earnings on assets between the two years increased the superannuation expense in 1998-99 by $338 million. The second relates to revisions in actuarial assumptions, including changes based on experience to date. Major actuarial reviews are undertaken triennially, and the 1998-99 results reflected the results of the triennial review carried out in that year. The effect on the superannuation expense due to revisions to actuarial assumptions was to increase it in 1998-99 by $292 million.

Table 7.3 Composition of Change in Net Assets

	1998 $m	1999 $m
Increase/(decrease) in net assets (after prior year adjustments)	506	(125)
Less: Change in net assets of financial institutions excluding dividends paid or payable to the non-financial sector	181	148
Increase/(decrease) in net assets of the non-financial sector before dividends from financial institutions	325	(273)
Comprising:		
Operating surplus before net interest, depreciation, and revaluations and excluding dividends from financial institutions	1 538	1 124
Net interest and financing expenses	(827)	(728)
Nominal interest expense on unfunded superannuation liability	(280)	(281)
Revaluation increments taken to reserve	217	216
Depreciation and amortisation expenses	(655)	(642)
Subtotal: Current cost comprehensive income before volatile revaluation items	(7)	(311)
Gains/(losses) on revaluations of unfunded superannuation liability	575	(55)
Net gains/(losses) on revaluation of physical and financial assets taken to operating statement and consolidation adjustments	(243)	93
	325	(273)

Reported total asset values vary across States depending on how public infrastructure or community service assets are financed and the extent to which utilities have been privatised. For example, States entering into arrangements with the private sector for the construction and operation of infrastructure such as transport, hospitals, prisons, water or power will report lower assets than those States in which assets are directly financed and operated by the government. States that have sold some, or all, of their utilities will report even lower values.

A higher absolute level of investment is obviously required by the more populous States to provide similar levels of service to the smaller States. Assets per capita may therefore enable a better comparison of the States.

Higher asset levels are often associated with higher debt levels. A better measure of financial position is net assets (total assets less total liabilities) as this takes into consideration debt incurred to finance the assets.

Information on the financial position of South Australia and other States for which information is available is shown in Table 7.4. The net asset figures for each of the States is influenced by their expenditure patterns over many years. A significant factor affecting the level of net assets is the extent to which operating revenues have been invested in capital assets or used to meet operating expenses (including interest on borrowing). States currently reporting higher net assets are likely to be those with larger past operating surpluses.

Table 7.4 Value of Whole of Government Total Assets and Net Assets per Capita at 30 June

Jurisdiction	Total Assets per Capita 1998 $	Total Assets per Capita 1999 $	Net Assets per Capita 1998 $	Net Assets per Capita 1999 $
New South Wales	19 804	20 530	11 385	12 239
Victoria	16 548	16 723	6 008	7 950
Queensland	26 946	Na	15 987	na
Western Australia	28 086	27 970	17 559	16 918
South Australia	24 487	24 837	7 252	7 021

Source: Financial data of jurisdictions and ABS Catalogue no. 3101.0

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

Net Debt

Table 7.5 sets out the trends in public sector net debt since 1990. Until 1997-98 central borrowing authorities and universities were classified by the ABS to the general government sector. Since then central borrowing authorities have been classified to the financial institution sector and the universities to a multi-jurisdictional sector. This results in a higher reported net debt level for the non-financial public sector because of the transfer of net financial assets to these sectors, comprising SAFA's capital contribution, a difference in principal values of public sector debt to SAFA as compared with debt of SAFA to financial markets, and universities' cash assets.

Table 7.5 Total Non Financial Public Sector Net Debt and Unfunded Superannuation Liability

	Net Debt as at 30 June		
	SAFA and Universities included in general government sector $m	SAFA and Universities excluded from general government sector $m	Unfunded Superannuation Liability $m
1990	4 682	n.a.	2 892
1991	7 155	n.a.	3 231
1992	8 055	n.a.	3 545
1993	8 249	n.a.	4 291
1994	8 440	n.a.	4 272
1995	8 468	n.a.	4 270
1996	7 752	n.a.	4 234
1997	7 499	8 051	3 893
1998	7 237	7 589	4 001
1999	-	7 720	3 991
2000 (estimate)	-	4 226	4 114
2001 (estimate)	-	4 302	4 229

The reduction in net debt between 30 June 1999 and 30 June 2000 is largely attributable to the net proceeds from the ETSA disposal process being applied to debt reduction. Further proceeds expected early in 2000-01 from the disposal of the remaining three electricity entities have not been reflected in the June 2001 estimate.

Contingent Liabilities

Contingent liabilities are liabilities that have not been recognised in the non commercial sector statement of financial position or the whole of government statement of financial position for one of the following reasons:

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

Contingent liabilities of the Government often arise as a result of legislative provisions that require the Government to guarantee the liabilities of a number of public sector organisations, particularly those in the financial institutions sector.

Table 7.6 outlines the guarantees and contingent liabilities of the Government of South Australia as at 30 June 1999, with comparative data for 30 June 1998.

The decline in the value of guarantees for the year ended 30 June 1999 mainly reflects the expiry of guaranteed liabilities associated with the sale of BankSA.

Table 7.6 Contingent Liabilities of the Government of South Australia to Entities External to the Public Sector as at 30 June

	30 June 1998 $m [(a) (b)]	30 June 1999 $m [(a)]
Guarantees [(c)]	1 299	1 163
Off Balance Sheet Exposures [(d)]	1 184	1 136
Net Present Value of Operating Leases [(e)]	259	245
Other [(f)]	67	56
Total	2 809	2 600

(a) Valued at nominal values. No adjustments have been made to take into account the probability of actual liabilities occurring.

(b) The figures for 30 June 1998 have been updated to reflect audited data.

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

(d) Interest rate and currency swaps, indemnities etc.

(e) Net present value (NPV) of operating leases with a NPV of $1 million or greater which includes the NPV of the operating lease of the EDS Building.

(f) Includes contingent liabilities for joint venture schemes.

7.2 MANAGEMENT OF ASSETS AND LIABILITIES

Government Asset Sale Rationale

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

Using the proceeds of asset sales for debt reduction has the effect of immediately decreasing the Government's exposure to increases in interest rates and the consequent increases in interest costs. The asset sale also reduces the Government's exposure to the risk of the operations of the enterprise sold.

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

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

This aspect of the Government's asset sale program has been noted by the Auditor-General (see page A.2-53, Part A2 of the Auditor-General's Report, 30 June 1999).

Financial Asset Management

The Government's financial assets are managed by a number of statutory authorities. The operations of two specialised authorities which manage defined assets are outlined below.

South Australian Asset Management Corporation

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

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

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

SAAMC continued through 1999-2000 to successfully recover loans, which were previously written off, through legal actions and settlements. The total amount recovered by SAAMC in finalising these matters was in excess of $10 million. Litigation has reduced significantly and the risk of any contingent liabilities arising from such actions is now negligible. SAAMC was also successful in managing its balance sheet throughout the year and achieving significant returns on the assets held.

Since it was established, SAAMC has scaled down its balance sheet from $8.4 billion of assets and $8.2 billion of liabilities to $2.3 billion of assets with net assets of $288 million as at 30 April 2000.

In excess of $250 million has been realised through the successful continuation of legal actions since 1994.

The great majority of SAAMC's objectives have now been completed. Statutory requirements, obligations to long-term investors in former State Bank of South Australia bond issues, some of which mature as late as 2005, and three legal cases are the only matters outstanding before SAAMC is wound up as an operating entity.

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

South Australian Government Captive Insurance Corporation

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

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

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

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

SAICORP's principal objectives are:

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

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

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

- Aviation Liability.

The current annual net premium cost of the program is approximately \$5.3 million.

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

Estimated premium revenue received from client agencies for 1999-2000 is \$33.3 million (\$36.8 million for 1998-99).

SAICORP has a policy of accumulating reserves over time sufficient to meet the cost of retained risks. A free reserve target of \$30 million in excess of reserves held against estimated liabilities has been set by the SAICORP Board. At 30 June 1999, SAICORP had free reserves of \$13.2 million (\$20.9 million as at 30 June 1998). The reduction in free reserves from the level of the previous year resulted from a large underwriting loss in the 1998-99 year in the area of medical malpractice. This issue has been addressed during 1999-2000 and revised insurance arrangements have been put in place for the Department of Human Services to increase its administrative and financial responsibility for medical malpractice claims.

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

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

Non-Financial Asset Management

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

Further work is required on the development of new and improved policies and processes which will result in better management of non-financial assets.

Capital Investment Process

A key aim is to improve capital investment monitoring so that appropriate information is available to assist Cabinet in deciding which capital projects will proceed. The process should also help to ensure that capital projects are delivered on time and on budget. Several steps have been taken to improve performance in this area.

Each project should go through a thorough initial planning phase before the project is considered for funding in the budget. The aim is to ensure that a project has proceeded to a stage where the scope of the project is clear, an accurate estimate of the cost is available and a business plan, including an economic evaluation, has been prepared before it is included in the budget. This should ensure that projects will proceed on time and will increase the likelihood that the budget allocation will be spent as planned.

Capital investment projects often require long periods to complete the preliminary planning phases. As a result there is a need to develop plans which allow for the major capital investment requirements in future years. Work is currently proceeding on the development of new processes which will help Cabinet to identify high priority proposals to be included in future programs.

Initial steps were taken in 1999-2000 to increase the extent of monitoring of the performance of the Capital Investment Program, and further steps will be taken in 2000-01. For 2000-01 a database was developed covering details of the projects included in the program. This will be used to seek information on the time and cost targets set out in the budget. The implementation of a more rigorous program review process is expected to provide an early indication of any slippage and the potential for reallocation of funding.

Ownership Framework

Development of the Government's role as owner of the public sector agencies is an integral element of the budget reform. There are a number of aspects to ownership including the procurement, operation and maintenance of assets.

Work is required to define the elements of the ownership framework which includes performance targets, both financial and non-financial, and the financial position which Government expects the agency to achieve. The targets are expected to include measures relating to the use of assets by the agency.

Strategic Asset Management Plans

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

Information on portfolio Strategic Asset Management plans was sought as part of the process for the development of the Capital Investment Program. The plans are improving but there is still a need for further work to improve the quality of information available on future asset requirements.

The development of a Strategic Asset Management Plan requires the support of an appropriate information system on the use, values and costs associated with the assets under an agency's control. To this end, the Department of Administrative and Information Services has been developing a Strategic Asset Management Information System (SAMIS). The aim is to commence the implementation of SAMIS in 2000-01. The project will be rolled out to agencies over the next three years starting with a trial in several schools.

Project Initiation Process

The *Project Initiation Process* was issued in January 1996 to assist government agencies to understand the steps involved in carrying out major capital works projects. Since then there have been several significant changes in project processes, in particular the implementation of the acquittals process for projects requiring review by the Public Works Committee. As a result there is a need to update the content of the publication and to develop it in electronic form to make it more accessible to users. The aim is for the Department of Treasury and Finance to work in conjunction with the DAIS to revise the document during 2000-01.

Project Acquittals

The project acquittals procedure was implemented late in 1998. The procedure involves an initial review of submissions on public works projects by the Acquittals Committee which consists of representatives from the Department of the Premier and Cabinet, the Department of Treasury and Finance and the Crown Solicitor's Office. Submissions are then submitted to Cabinet to seek approval for referral to the Parliamentary Public Works Committee for review.

The process has seen a general improvement in the quality of the submissions submitted to the Acquittals Committee. However there are opportunities for further improvement particularly in the area of identifying and measuring all of the costs and benefits to the community. The Acquittals Committee is planning a seminar for Government parties involved in the process which will provide an opportunity to discuss these issues.

Management of Government Real Property

During 1999-2000 Cabinet approved revised arrangements for the purchase and disposal of Government real property by Government agencies. The arrangements are contained in the revised Premier and Cabinet Circular No 114—*Purchase and Disposal of Government Real Property (including Crown Lands)*.

The main changes in the arrangements are the inclusion of a strategic land use assessment before the property is considered for sale and the transfer of the responsibilities for property sales in the metropolitan area from the Department for Environment and Heritage to the Land Management Corporation. The strategic land use assessment aims to ensure that the Government makes the best use of the surplus property recognising that there are often competing interests in the disposal of property.

Further measures are being considered to provide incentives for agencies to hold those properties which are essential to meet foreseeable needs and to encourage the disposal of properties which are under-utilised or surplus to requirements. These measures include consideration of how agencies might be charged for the use of assets which are currently treated as free goods.

Liability Management

Introduction

The Government's debt management policy over 1999-2000 has been determined in the light of the receipt of the proceeds from the sale/lease of ETSA Power and ETSA Utilities in January 2000 and the expected receipt of proceeds from further electricity asset sale/lease tranches.

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

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

Management and use of lease proceeds

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

SAFA has managed its external funding liabilities to ensure a high proportion of debt matures during 2000 to enable a speedy reduction in debt following the receipt of initial proceeds. Proceeds not used immediately upon receipt have been invested in high quality financial assets with terms approximately matching debt to be retired at later stages. Interest is paid on the account in which the lease proceeds are held and, in accordance with the Electricity Corporations (Restructuring and Disposal) Act, the interest income will also be applied towards the reduction of State debt.

Debt management benchmarks

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

SAFA manages the non commercial sector's debt to a benchmark with a modified duration of approximately 2.8 years, with SAFA given discretion to alter the portfolio's duration by 0.5 of a year either side of that figure. (Modified duration is a measure of average maturity and also a measure of the sensitivity of the value of debt to changes in interest rates). This benchmark and other limits are set by the Treasurer.

The 2.8 year benchmark reflects a neutral view of interest rates. It has been set with a view to the trade-off between volatility (which increases with lower duration) and to lower on-going interest costs (which are assumed to increase as duration increases).

The electricity asset sale/lease proceeds have been hedged to the 2.8-year benchmark to protect the Government's exposure to interest rates in respect of those proceeds.

Debt of electricity entities

In April 2000 responsibility for the indebtedness of RESI Corp (formerly ETSA Corporation) and RESI Utilities (formerly ETSA Utilities) to SAFA was transferred to the Treasurer. The interest rate swap and external debt portfolios of RESI Corp were transferred from the balance sheet of RESI Corp to SAFA's balance sheet. No debt was transferred to the lessor of ETSA Utilities and ETSA Power under the sale/lease agreement.

Electricity entities still in Government ownership retain access to SAFA funding facilities until sale/lease arrangements are completed.

Commercial sector debt management

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

Future debt management framework

A review of the Government's debt management structure and guidelines is under way to consider the most appropriate framework to be in place after the debt retirement process following sale/lease of electricity assets is completed. Factors to be considered include the level of the remaining debt, the type of debt, and the ability and necessity to hedge and manage the interest rate exposure it generates.

Superannuation Assets and Liabilities

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

As an employer, the Government of South Australia meets the Commonwealth mandated superannuation guarantee arrangements by means of the Southern State Superannuation (Triple S) Scheme. The Triple S Scheme is a contributory scheme as well as providing Superannuation Guarantee benefits.

The Triple S Scheme is an accumulation scheme to which the employer contributes at a rate of 9 per cent if members contribute at least 4.5 per cent of salary. The employer rate for these members will increase to 10 per cent when the Commonwealth Superannuation Guarantee contribution rate of 9 per cent is attained in the financial year 2002-03. For non-contributory members or members who contribute less than 4.5 per cent of salary, the employer contribution rate is the Guarantee Charge percentage which is currently 7 per cent, and which will increase to 8 per cent from 1 July 2000.

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

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

Table 7.7 outlines the schemes operating in the State public sector, together with the actuarially estimated accrued liabilities of those schemes and the assets available to meet those liabilities, as at 30 June 1999. Also provided are estimates of the net liabilities for these schemes at 30 June 2000.

Table 7.7 Public Sector Superannuation Liabilities as at 30 June 1999 and 2000

	1999 Accrued Liability $m	1999 Assets $m	1999 Net Liability $m	2000 Estimate Net Liability $m
Schemes administered by SA Government [(a)]	7 804	4 049	3 755	4 057
Schemes administered:				
Statutory authorities [(b)]	119	128	(9)	(9)
Health units [(b)]	48	50	(2)	(2)
Public trading enterprises [(b)]	418	421	(3)	(3)
Total schemes	8 389	4 648	3 741[(c) (d)]	4 043[(c)]

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

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

(c) Total unfunded liability of the non financial sector after adjustment for internally invested assets (provisions) is $3991 million for 1999 and $4114 million for 2000.

(d) Includes effects of revaluations since completion of whole of government financial statements (see Table 7.1 in this chapter).

Estimates of the superannuation liabilities and assets at 30 June 2000 are based on 1999 data together with available information on contributions, earnings and benefits in 1999-2000. Table 7.8 details the components of the unfunded liability for the State Superannuation Scheme, the scheme having the largest unfunded liability. The Triple S scheme is now a fully funded scheme and has been since 30 June 1998.

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

The increase in the unfunded liability over the year 1999-2000 partly reflects the fact that new service contributions for the pension and lump sum schemes in 1999-2000 were prepaid in 1998-99.

From March 2000, the Government has commenced paying the pensions in respect of ETSA pensioners (ie ETSA employees who had retired prior to the sale/lease of ETSA). The Government has also taken over the liability for the preserved benefits of former employees of ETSA (ie employees of ETSA who had resigned, but not retired, prior to the sale/lease of ETSA). An unfunded liability of $67 million in respect of ex-employees has now been included in the Government's funding program. The overall unfunded liability has been reduced by $117 million because the unfunded liability for current employees with enterprises that have been sold or leased remains with those enterprises.

Superannuation liabilities represent the present value of estimated future benefit payments and are calculated assuming a discount rate of 7 per cent per annum, general salary increases of 4 per cent per annum and pension increases (adjusted by the CPI) of 3 per cent per annum. Allowance has been made in the projection of benefit payments for the effect of the GST tax reforms on the CPI in 2000-01. Pensions are assumed to increase by 5.5 per cent in October 2001.

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

It should be noted that Figure 7.1 is based on projections of the accrued liabilities derived from actuarial estimates of the benefit payments, contributions, investment earnings and past service payments. Variations in the earnings rate on investments in excess of 4 per cent real could result in the estimated unfunded liability ceasing before the financial year ending 2034.

Table 7.8 State Superannuation Scheme as at 30 June 1999

	$m
Liabilities	
Pension Scheme	
Pensioners	2 690
Contributors	2 272
	4 962
Lump Sum Scheme	690
Gross Liability	5 652
Less:	
Assets held by SA Superannuation Fund	1 298
Assets held by Employer Fund	1 044
	2 342
Unfunded Liability	3 310[(a)]

(a) Includes effects of revaluations since completion of whole of government financial statements

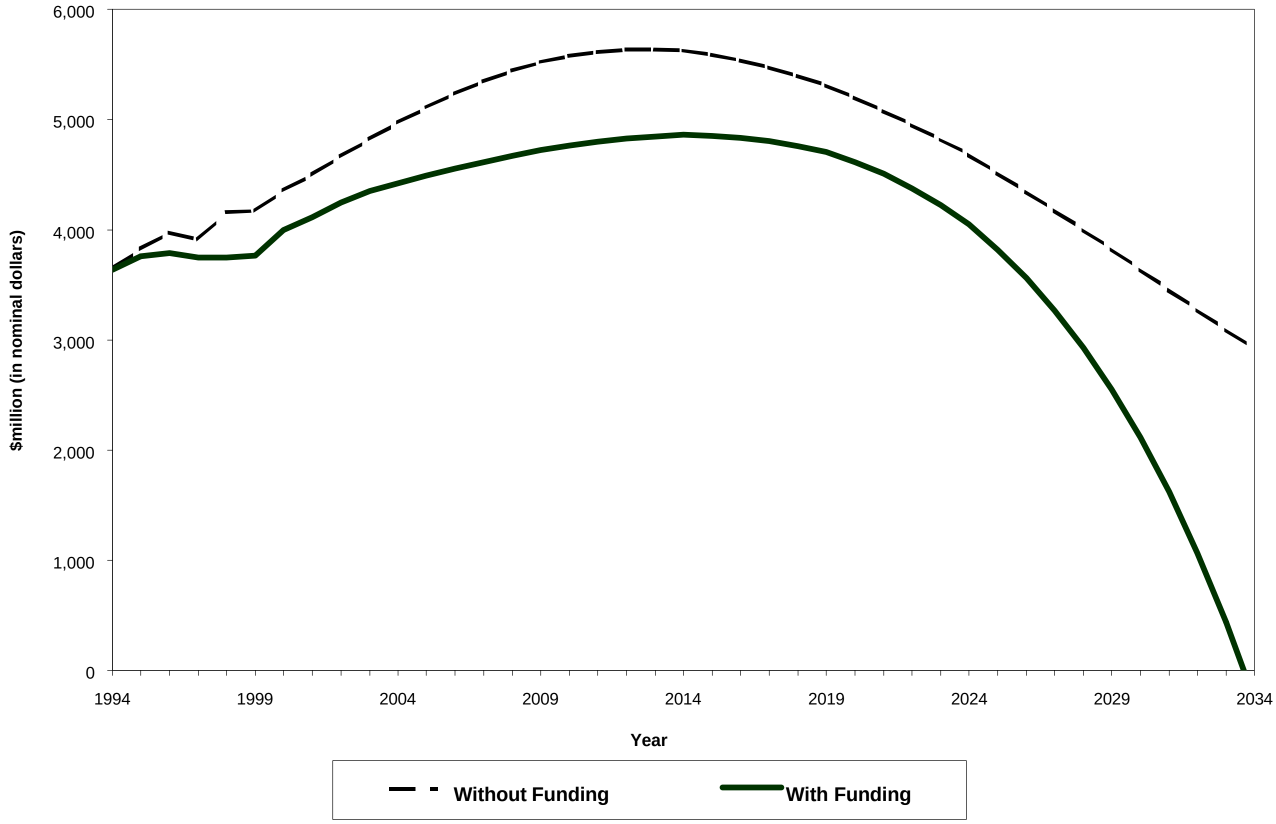


Figure 7.1 Superannuation Liabilities for Closed Defined Benefit Schemes– 40 year repayment schedule

Management of Superannuation Assets

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

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

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

Since its inception, FundsSA has been progressively increasing the proportion of its funds managed by external fund managers (from 35 per cent in June 1995 to 88 percent in February 2000). This is in keeping with its investment philosophy which emphasises the importance of diversification as a strategy for risk management and return enhancement.

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

Highlights of FundsSA's activities in 1999-2000 include:

- continued sound performance of funds under management with investment benchmarks being exceeded, once again placing FundsSA in the top quartile of investment managers in Australia

- continuation of the strategy of reorienting FundsSA's property investment approach towards indirect ownership, which was effected through the sale of Wakefield House during the year
- further rationalisation of ASER assets, most notably through the sale of the Hyatt Regency Hotel, Adelaide and negotiation of an agreement to sell Adelaide Casino Pty Ltd
- successful implementation of new Member Investment Choice products in partnership with the SA Superannuation Board.

8. GOVERNMENT BUSINESSES

HIGHLIGHTS

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

- Parliament approved the sale/lease of the State's electricity assets in June 1999 and the Electricity Reform and Sale Unit (ERSU) of Treasury and Finance is finalising a staged program of disposal.

- In December 1999 the Premier announced the privatisation of ETSA Utilities and ETSA Power to the HKE/CKI consortium for $3.5 billion. In January 2000, ETSA Power was on-sold to AGL for $175 million, providing an additional $25 million in gross proceeds to the Government under the terms of the sale/lease agreement. In May 2000 the Government announced the long-term lease of Optima Energy for $315 million and Synergen for $39 million. The remaining three electricity entities are in the process of being sold/leased.

8.1 INTRODUCTION

This chapter summarises major developments and reforms in 1999-2000 for South Australia's government businesses, as well as proposed reform activity for 2000-01.

The Government of South Australia owns a broad portfolio of businesses. It is important that all major State-owned government businesses operate efficiently to maximise the benefits that flow to the community from the investment of taxpayer funds in these businesses. It is also important to manage the level of risk that Government businesses operate under. The level of distributions (dividends and income tax equivalents less subsidies) paid by government businesses is estimated to be $358.9 million in 1999-2000 and $262 million in 2000-01. This decrease reflects the loss of electricity business dividends but must be viewed in light of interest savings on retired debt and reduced risk levels in public ownership of these businesses. This was discussed further in Chapter 2.

The Government is reviewing the corporate governance arrangements for many of its government business activities in order to improve the quality, efficiency and effectiveness of their service delivery. These reforms are also consistent with the Government's commitment to the implementation of competitive neutrality policy associated with the Competition Principles Agreement (CPA).

A major element of the Government's business reform program, and of the CPA, is structural reform of the electricity industry, which includes the long-term lease of ETSA utilities. This chapter reviews this reform as well as the Government's plans for future reforms.

8.2 COMPETITION PRINCIPLES AGREEMENT

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

The CPA has six broad policy components:

- prices oversight of government business enterprises
- competitive neutrality policy and principles
- structural reform of public monopolies
- legislation review
- access regimes
- application of the principles to local government.

Competitive Neutrality Policy and Principles

As outlined in the Government's original Competitive Neutrality Policy Statement of June 1996 and the revised policy statement of March 1999, competitive neutrality principles are being progressively applied to the Government's significant business activities.

Competitive neutrality is defined under Section 16 of the *Government Business Enterprises (Competition) Act 1996* (GBE Act). The three main competitive neutrality models are corporatisation, commercialisation and cost reflective pricing. The mechanism chosen to achieve competitive neutrality depends on the extent to which potential benefits outweigh the costs.

The original proclamation identified seven Category 1 government businesses which have annual revenue greater than $2 million or assets valued at greater than $20 million. A further proclamation under Section 16 of the GBE Act was made on 7 May 1998, so that 31 Category 1 government businesses are now gazetted. Seventeen Category 2 Government businesses (significant business activities which have revenue of less than $2 million per annum or assets valued at less than $20 million) were approved by Cabinet in March 1999 and gazetted later in that year.

A Guide to the Implementation of Competitive Neutrality was prepared by the Department of Treasury and Finance in March 1998 to assist agencies responsible for implementing the principles of competitive neutrality. Considerable progress has been made in implementing the principles of competitive neutrality for the majority of Category 1 government businesses. Work is also in progress for a number of Category 2 government businesses, particularly with respect to the implementation of cost reflective pricing. It is envisaged that the reform models of full corporatisation or commercialisation will not be cost effective for these smaller businesses, so most Category 2 businesses are likely to adopt cost reflective pricing to eliminate any net competitive advantages from government ownership. The recommended models will be presented to Cabinet for approval during the 2000 calendar year and will be followed by implementation.

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

- corporatisation of water and ports utilities
- leasing electricity businesses to private sector operators
- completion of the corporatisation of Adelaide Festival Centre Trust and TransAdelaide
- progress in the corporatisation of Public Trustee and Forestry SA
- progress in the commercialisation of West Beach Trust and Enfield General Cemetery Trust
- commencement of the commercialisation of Police Security Services Division of the South Australian Police
- completion of reviews on the most appropriate competitive neutrality reforms for the majority of Category 1 government businesses

- announcement of the sale of the SA TAB and the Lotteries Commission of South Australia by way of a trade sale (further details will be announced during the course of the 2000 calendar year)
- sale of SAGRIC International Pty Ltd in February 2000.

8.3 ELECTRICITY REFORM AND LEASE

Objectives of Electricity Reform

In February 1998, the Government announced its plan for the reform and privatisation of the electricity supply industry in South Australia. With impetus from the National Competition Policy, electricity supply industry reform in South Australia was undertaken to achieve the following key objectives:

- provide low and sustainable electricity prices to consumers over the long term
- create an efficient electricity supply industry in South Australia
- maximise consumer choice and encourage efficient investment
- ensure an appropriate regulatory environment to protect consumer service and safety standards
- ensure long term security of supply
- provide a framework for an effective, sustainable and competitive energy market.

The Government's objectives in privatising the State's electricity businesses are to:

- minimise the State's exposure to the risks of owning participants in the electricity supply industry after the introduction of the National Electricity Market (NEM)
- raise proceeds to reduce State debt
- encourage private sector innovation and efficiency, while protecting the rights of consumers and employees.

The 1999-2000 financial year has been a key transitional year in the development of the South Australian electricity supply industry, with substantial progress in meeting the Government's reform and privatisation objectives.

1999-2000 was the first full year of operation of the NEM, with pool prices in the wholesale electricity market displaying significant volatility. This volatility provides significant trading risks for companies operating in the market while the evolving nature of the market provides an additional level of risk for all participants. However, the majority of consumers have been protected from volatile prices through the Electricity Pricing Order (EPO).

By transferring the electricity assets to the private sector, the Government will have removed the State's exposure to the risks associated with the operation of the NEM. In addition, the sale/lease process will transfer responsibility for funding the large capital investment requirements of the electricity entities to the private sector. For example, the 1999-2000 Budget incorporated capital expenditures for the combined State-owned electricity entities totalling approximately $690million for the five-year period 1998-99 to 2002-03. Capital expenditure requirements of the monopoly network businesses are now financed through the regulated revenue allowed under the EPO, while capital expenditure requirements of the generation sector are funded through the revenues that businesses generate from the wholesale electricity market.

Following the completion of the privatisation process later this year, the State will no longer face the potential conflict associated with being the owner of the businesses and also being responsible for protecting the public interest more generally. Nor will it face governance issues associated with competing entities reporting to a single owner. The Government will be able to exclusively focus on the on-going development of the electricity market and on issues such as the adequacy and security of supply, other customer requirements, economic development opportunities and the environment.

National Electricity Market

In 1991, the States and Territories agreed to establish the NEM to encourage and coordinate the most efficient, economic and environmentally sound development of the electricity industry. The electricity industry was characterised by excess generation capacity, inappropriate plant mix and inflexibility of fuel use.

After incurring a number of delays, the NEM commenced on 13 December 1998 following the proclamation of the *National Electricity (South Australia) Act 1996* on 8 December 1998. The NEM incorporates the regional electricity markets of New South Wales, Victoria, South Australia, the Australian Capital Territory and the soon to be physically connected market of Queensland.

The NEM operates in accordance with the National Electricity Code (the Code) established under the National Electricity (South Australia) Act. The main features of the NEM are:

- an open access regime for the transmission and distribution networks, where regulated network service providers must provide network access to generators and customers at prices regulated under the Code
- the spot market, where market participants buy and sell electricity
- the operation of the system, comprising the transmission and distribution networks and the generation facilities, to ensure that power system security (safety and stability) is maintained.

The National Electricity Market Management Company Ltd (NEMMCO) is responsible for managing the wholesale electricity market in accordance with the Code while the National Electricity Code Administrator Ltd (NECA) is responsible for the administration and enforcement of the Code.

The Government strongly supported the establishment of, and is an active participant in, the NEM as it is a key tool for meeting the Government's electricity reform objectives. Fully established, the NEM will provide strong incentives to promote economic efficiency in the electricity industry, provide signals for appropriate investment, encourage low and sustainable prices over the long term, improve security of supply and maximise consumer choice.

South Australian Electricity Supply Industry

A new system of regulation for the State's electricity industry commenced on 11 October 1999 following the passage of the Independent Industry Regulator Bill 1999 and the Electricity (Miscellaneous) Amendment Bill 1999 by the South Australian Parliament on 4 August 1999.

The new regulatory regime is a central part of the Government's program of reform within the electricity industry. It provides the basis of a competitive industry within South Australia and brings a new focus on service standards and consumer protection.

The main elements of the new structure of regulation are listed below:

- The South Australian Independent Industry Regulator (SAIIR) has been established to take responsibility for monitoring the activities of companies operating in the electricity supply industry. Mr Lewis Owens was appointed as the SAIIR for a six-year term commencing 1 January 2000.
- A system of Licences and Codes, issued on 11 October 1999 and administered by the SAIIR, sets out mandatory customer service standards and penalties for not meeting those standards.

- An independent Electricity Industry Ombudsman Scheme has been established to resolve disputes between the transmission, distribution and retail licensees, on the one hand, and customers, on the other hand. Mr Nicholas Hakof, the initial Electricity Ombudsman, commenced duties on 4 January 2000.
- An EPO was issued on 11 October 1999 that sets out the maximum tariffs that may be charged by the transmission business until 1 January 2003 and the distribution business until 30 June 2005 as well as maximum tariffs that may be charged to non-contestable customers.
- A technical regulator will continue to ensure that safety is a priority.
- The Electricity Supply Industry Planning Council will advise the Government on the future development of the South Australian power system. The Board of the Electricity Supply Industry Planning Council was established on 11 November 1999, with a General Manager appointed on 13 April 2000.

This is an important year for these entities as they move from establishment to fully undertaking the role envisaged for them.

Characteristics of the South Australian Regional Market

The spot price is set in the NEM by the generator providing the last increment of electricity required to meet demand across the interconnected network. However, due to line losses and the physical constraints on the transfer of electricity between regions, a different spot price can be set in each region. South Australian wholesale pool prices have typically been set by gas-fired generation which comprises over 50 per cent of South Australia’s capacity.

South Australia’s tight supply and demand balance during periods of peak demand, has seen greater volatility in the spot price for electricity than in other regions of the NEM. South Australia is characterised by short periods of extreme peak demand associated with high temperatures. In the calendar year ending 31 December 1999, the peak demand in South Australia was 75 per cent higher than the average demand while Victoria (the next most “peaky” region in the NEM) had a maximum demand approximately 54 per cent higher than the average demand.

This volatility has seen the South Australian regional reference price set at the value of lost load (VOLL) at $5000/MWh on a number of occasions during the year. On 23 October 1999 and 2 December 1999, technical difficulties with the electricity supply network also saw prices set at VOLL in South Australia. In addition, the Yallourn industrial dispute and record high demand due to the extreme weather conditions during the first week of February 2000 saw the price set at VOLL for an extended period of time as load was shed to ensure that demand met the available supply of electricity.

These higher prices are having the expected market effect of encouraging new sources of supply (see below).

Transitional arrangements in an evolving market

The EPO issued by the Treasurer under the *Electricity Act 1996* on 11 October 1999 is administered by the SAIIR and protects non-contestable customers (ie those unable to choose their retailer) from high and volatile NEM wholesale prices. The EPO provides that the maximum annual increase for retail tariffs must not exceed increases in the Consumer Price Index (CPI).

The initial tariffs that apply under the EPO from 1 July 2000 are increased by the CPI and include the Goods and Services Tax (GST) and the GST associated cost savings for that year (approximate net GST impact on retail tariffs is 9.2 per cent). An adjusted CPI is to be used in the year following the introduction of the GST. However, under the EPO it is the responsibility of each Regulated Entity to ensure that it complies with the requirements of the *Trade Practices Act 1974* relating to passing on the savings associated with the GST to consumers.

Grace period customers (contestable customers which have not elected to enter a contestable contract with either AGL (formerly ETSA Power) or another retailer) are able to remain on the same retail tariff until 1 July 2001, although the grace period tariffs are increased by CPI + 2 per cent (adjusted for the effects of the GST) from 1 July 2000.

However, to enable AGL to supply its non-contestable and grace-period customers at no greater than the fixed maximum retail tariffs under the EPO and to reduce the residual market power retained by the South Australian generators, the Government has implemented a series of vesting contracts. Vesting contracts are a set of financial instruments between AGL and the South Australian generators (Flinders Power, Optima Energy and Synergen). The vesting arrangements comprise:

- a series of contracts between AGL and the generators, in which each generator provides cover for additional volumes of electricity purchased by AGL in the NEM
- insurance contracts between the generators to provide support in certain defined circumstances where a generator is unable to physically generate to match its financial obligations to AGL
- an additional contract that is intended to provide protection to AGL for reductions in the capacity of the interconnector which delivers electricity from Victoria to South Australia.

AGL and other market participants are also able to use the NEMMCO auction of inter-regional settlement residues to provide a significant hedge against pool price movements across price regions. The inter-regional settlements residue is generated when there is price separation between adjoining regions and equates to the difference between the prices set in those regions multiplied by the amount of electricity flowing between the regions. Participants that purchase power from generators in one region and sell to customers in another region face a significant risk associated with price separation between regions. By purchasing the rights to the settlement residues at auction, a participant fixes the price difference between the regions for the period to which the right relates (while the interconnector is operating). This significantly reduces the risks associated with trading across regions so that fixed contracts can be negotiated between retailers and customers. The South Australian Government conducted the initial auctions immediately following the NEM commencement on 13 December 1998 for the period to 1 July 1999, with NEMMCO auctions commencing on 1 July 1999.

Demand Growth in South Australia

Average electricity sales growth in South Australia for the five years to 30 June 1999 was 3.7 per cent per annum, reflecting the expansion of the industrial base in South Australia as well as strong growth in the residential segment of the market. This is significantly higher than the average for the ten years to 30 June 1999 of 2.9 per cent per annum. NEMMCO's 2000 Statement of Opportunities forecasts that energy sales will grow at a rate of 2.2 per cent per annum for the next ten years.

In addition, average peak demand growth for the five summers to the summer of 1999-2000 was 4.4 per cent per annum, largely as a result of the widespread use of air-conditioning. South Australia recorded its highest ever peak demand of 2646 MW on 2 February 2000. NEMMCO's 2000 Statement of Opportunities forecasts that maximum summer demand will grow at a rate of 2.5 per cent per annum over the next ten years.

New Sources of Supply

The tight supply and demand balance in South Australia is expected to be relieved to some extent over the next few years by the introduction of new capacity in response to the market signals established in the NEM.

In February 1999 the Government announced that National Power would build a $400 million, gas-fired power plant at Pelican Point in Adelaide, helping to meet the State's escalating power demands. The combined cycle gas turbine plant is scheduled to be commissioned in stages, with a 160 MW open-cycle gas turbine scheduled to commence operation by 1 November 2000 and a second gas turbine with a steam component to begin in late December 2000 (raising output to 410 MW). The stand-alone gas turbine will be connected to the steam turbine, completing the combined cycle plant by March 2001, to provide a total capacity of 487 MW. National Power has announced that it is linvestigating the feasibility of increasing the Pelican Point Plant capacity to 800 MW.

In late January 2000, the first 40 MW unit of Origin Energy's (formally Boral Energy) new Ladbroke Grove Power Station was commissioned, with a second 40 MW unit to be commissioned in mid-2000.

In addition, there are a number of proposals to provide increased interconnection with the eastern States. A subsidiary of TransEnergie Australia has been issued a Transmission Licence by the SAIIR to operate a non-regulated interconnector between Redcliffs in Victoria and Berri in South Australia, called the Murraylink Interconnect. It is proposed that Murraylink will be a 200 MW high voltage, direct current transmission line, due to commence in the second quarter of 2001. In addition, TransGrid has applied for a transmission licence with the SAIIR to construct a regulated interconnector (SANI) to operate between Buronga (NSW) and Robertstown or Berri at a capacity of 250 MW.

These projects indicate that the current high prices in the South Australian region are acting to encourage new sources of supply, as would be expected of a properly functioning market.

Development of the NEM

Considerable work has been and will continue to be undertaken in the refinement and development of the Code. A number of important reviews have been undertaken which will have a significant impact on the South Australian market. These include extensive reviews of network pricing, the capacity payments mechanism, VOLL, governance and liability in the NEM.

The VOLL review recommended that VOLL (effective cap on market prices) increase from $5000/MWh, in two steps, to $20 000/MWh by April 2002, providing increased signals for demand management and investment in new generation while also significantly increasing trading risk in the market.

An outcome of the governance and liability review is that NEMMCO and the network service providers (eg ElectraNet SA and ETSA Utilities) have become liable for negligence in the provision of market and system operation functions (albeit that this liability is capped), thereby increasing the risks associated with providing these functions.

The jurisdictions are currently undertaking a review of the allocation of market and system operation functions in the NEM, which could see some significant changes in the operation of system control. In addition, NECA is undertaking a review of the scope for integrating the energy market and network services which could see a fundamental change in the pricing of network services and risk management in the NEM.

Contestability

In late 1999, the Government resolved the metering arrangements to apply to customers with consumption of more than 160 MWh per annum. Customers with a load higher than 750 MWh per annum (approximately 760 customers were contestable by 1 July 1999) are required to be fitted with a National Electricity Code compliant "smart meter". Approximately 2600 customers in the 160-750 MWh per annum tranche became contestable on 1 January 2000. Due to the high cost of smart meters, these customers will continue to be fitted with a standard metering installation until they elect to transfer to a new retailer when they will be required to be fitted with a compliant smart meter.

A key challenge facing South Australia from 1 January 2003 (other jurisdictions sooner) is how to implement full retail competition, in which consumers down to the individual household will be able to purchase electricity from the retailer of their choice. Currently all households, because they consume less than 160 MWh per annum, are franchised to AGL.

After 1 January 2003, the SAIIR will regulate prices for small country customers pursuant to Clause 8.2 of the EPO. Clause 8.2 establishes the Country Equalisation Scheme which requires that retailers not charge a small country customer more than 101.7 per cent of the amount charged to an equivalent small city customer. The Government has committed itself to providing approximately $10 million from the proceeds of the privatisation program to the Country Equalisation Fund established under Section 21(1) of the *Electricity Corporations (Restructuring and Disposal) Act 1999* for the purpose of funding this Scheme.

Restructuring of the State's Electricity Businesses

The State's electricity businesses were restructured on 12 October 1998 in accordance with the recommendations set out in a report provided to the National Competition Council pursuant to Clause 4 of the CPA.

ETSA Corporation (and its related entities) and SA Generation Corporation (SAGC) were disaggregated into:

- ETSA Utilities and ETSA Power, which are respectively the distribution and retail businesses
- Flinders Power, Optima Energy and Synergen, which are the generation businesses
- Terra Gas trader, which is a gas trading business established to manage the State's gas contracts and gas bank
- ETSA Transmission Corporation (ElectraNet SA), which continued to operate the transmission business.

The ETSA Corporation disaggregation addressed the CPA's requirement that the regulated monopoly transmission and distribution businesses be separate from the competitive generation and retail elements of the industry. The SAGC disaggregation was designed to maximise the practical level of competition in the generation sector and to minimise the potential for the exercise of market power. Market power was also addressed through vesting contracts, as well as through the introduction of private sector competitors, both generators and interconnectors.

Privatisation of Electricity Businesses

The Government announced in March 1999 that a tariff increase on all residential users would be introduced from July 1999 to produce additional revenue each year to address the budgetary position associated with Parliament stopping the passage of the privatisation legislation and therefore the privatisation of the State's businesses. At the time of the announcement, the Government stated that it would not proceed with the tariff increase if the privatisation legislation was successfully passed by Parliament.

On 11 June 1999, the Electricity Corporations (Restructuring and Disposal) Act was passed by the South Australian Parliament. Accordingly, the Government did not proceed with the imposition of the proposed electricity tariff.

The Electricity Corporations (Restructuring and Disposal) Act:

- facilitates the restructuring of the State's electricity businesses as a prelude to their privatisation
- permits a lease of certain core electricity assets (prescribed electricity assets) and a sale of all other State-owned electricity assets
- prevents the sale by the State of either prescribed electricity assets or the State's shares in a company which owns prescribed electricity assets.

Prescribed electricity assets under the Electricity Corporations (Restructuring and Disposal) Act are defined as any of the following situated in South Australia:

- electricity generating plant (other than plant with a generating capacity of less than 10 MW)
- powerlines (within the meaning of the Electricity Act)
- substations for converting, transforming or controlling electricity
- land on which infrastructure of a kind referred to above, excluding powerlines, is situated.

Restructuring to enable Privatisation

The Government established Distribution Lessor Corporation (DLC) and Generation Lessor Corporation (GLC) on 29 July 1999 as subsidiaries of the Treasurer under Regulations made pursuant to the *Public Corporations Act 1993.* They were both established as bodies corporate subject to control and direction by the Treasurer.

The principal role of DLC is to act as the owner and lessor of the State's electricity distribution network and accordingly it is not available for sale.

The principal role of GLC is to act as the owner and lessor of the State's power stations, the Leigh Creek railway line and the Leigh Creek township. It will also become a party to the Japanese Cross Border Leases in place for Flinders Power. Accordingly, the GLC is not available for sale.

As part of the restructuring of the State's electricity businesses, the shares in ETSA Utilities, ETSA Power, Flinders Power, Optima Energy, Synergen and Terra Gas trader were transferred from ETSA Corporation (now called RESI Corporation) and SA Generation Corporation (SAGC, now called Flinders Coal Pty Ltd) to the Treasurer.

The current structure for the electricity entities associated with the former ETSA Corporation and SAGC is presented in Diagram 8.1.

ETSA Corporation (now RESI Corporation) was established in 1994 as a statutory corporation to which the provisions of the Public Corporations Act applied. In 1995-96, the transmission, distribution/retail and generation functions were transferred to separate subsidiaries of ETSA Corporation. SAGC was subsequently established in 1996-97 as a separate statutory corporation that conducted most of the State's electricity generating business.

On 12 October 1998, ETSA Corporation and its subsidiaries were further disaggregated by way of a Ministerial transfer order to create ETSA Utilities Pty Ltd (now called RESI Utilities Pty Ltd) and ETSA Power Pty Ltd (now called RESI Power Pty Ltd), which conducted the State's distribution and retail businesses respectively. These companies were owned by a common holding company named ETSA Capital Pty Ltd (now called RESI Capital Pty Ltd).

On 30 July 1999, ETSA Capital (No 2) Pty Ltd (now called RESI Capital (No.2) Pty Ltd) was established as a subsidiary of the Treasurer and the shares in ETSA Utilities Pty Ltd and ETSA Power Pty Ltd were transferred to ETSA Capital (No 2) Pty Ltd.

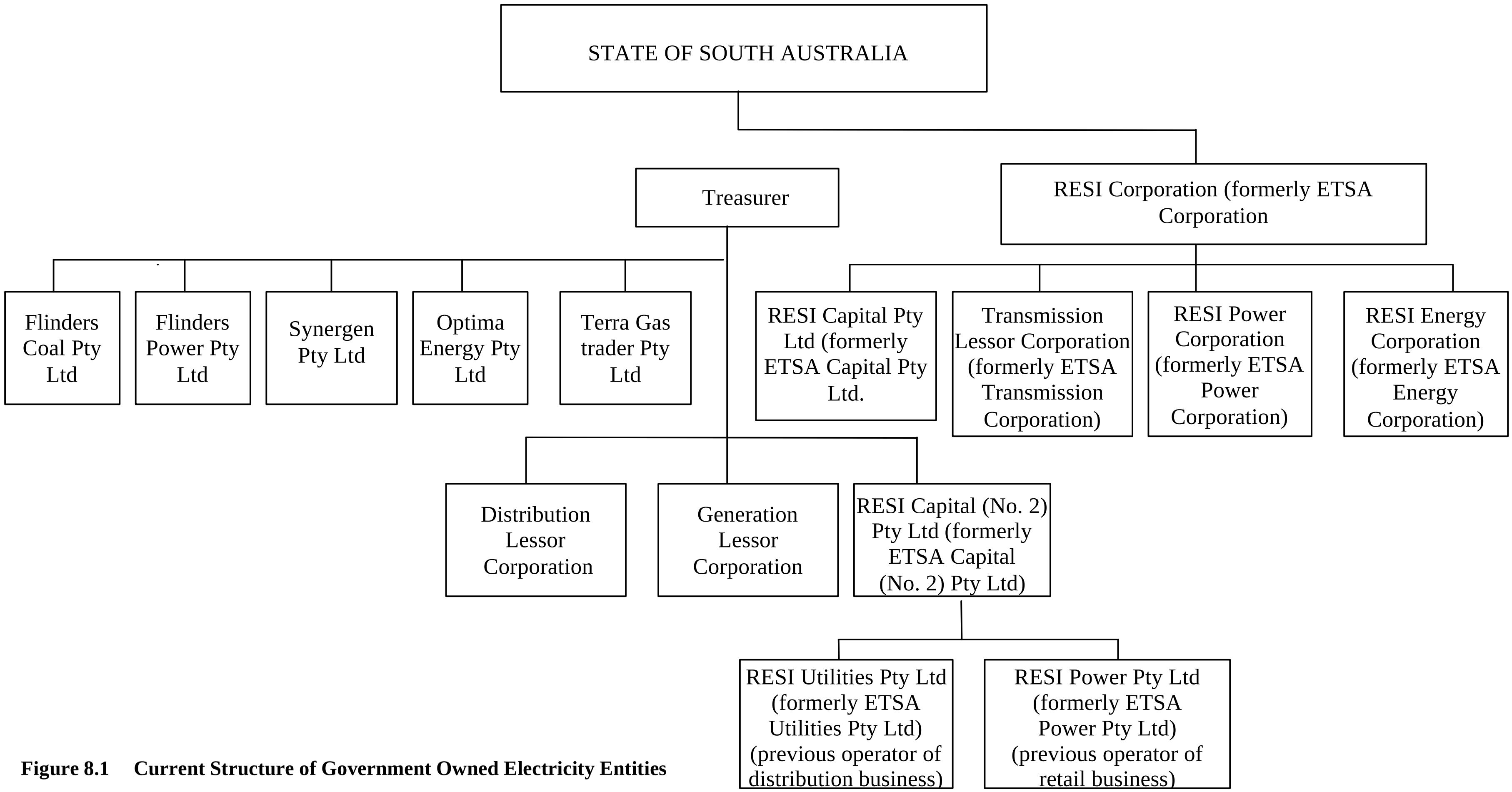


Figure 8.1 Current Structure of Government Owned Electricity Entities

RESI Corporation manages certain residual assets and liabilities which have remained with it, or have been transferred to it, as part of the restructuring of the State's electricity businesses (eg Kirton Point and the residual assets and liabilities of SAGC). It is also the parent corporation of Transmission Lessor Corporation (the renamed ETSA Transmission Corporation), RESI Power Corporation, RESI Energy Corporation and RESI Capital Pty Ltd.

Transmission Lessor Corporation (which trades as ElectraNet SA) will continue to act as the owner and following the privatisation of the State's electricity transmission business will act as the lessor of the State's transmission network. Accordingly, it is not available for sale. Transmission Lessor Corporation will remain a party to the US Cross Border Leases.

SAGC was established on 1 December 1996 by the *Electricity Corporations Act 1994* as a statutory corporation to which the provisions of the Public Corporations Act apply. On 12 October 1998, SAGC was disaggregated by way of Ministerial transfer orders to create Optima Energy, Synergen, Flinders Power (each being a generation business) and Terra Gas trader (a gas trading business).

The shares held by SAGC in each of these companies were subsequently transferred to the Treasurer and, on 23 March 2000, all of its remaining assets and liabilities (other than its mining rights at Leigh Creek) were transferred from SAGC to RESI Corporation.

On 30 March 2000 the Governor made a proclamation under Section 12 and Schedule 2 of the Electricity Corporations (Restructuring and Disposal) Act. As a result, SAGC was incorporated as Flinders Coal Pty Ltd. The sole shareholder in Flinders Coal Pty Ltd is the Treasurer. The purchaser of the Flinders Power business will also be required to purchase Flinders Coal.

Privatisation Timetable

On 29 June 1999 the Government announced a timetable for the privatisation of all of the State's electricity businesses by the end of the third quarter of 2000. The Government is on track to meet this timetable.

On 12 December 1999 the Government announced that a consortium comprising Cheung Kong Infrastructure Holdings and Hongkong Electric Holdings was the successful bidder for the State's retail and distribution businesses. The privatisation of the retail and distribution businesses was completed on 28 January 2000, with the retail business being on-sold on that date to AGL.

On 4 May 2000, the Government announced that TXU (South Australia) Pty Ltd was the successful bidder for the generation business conducted by Optima Energy and the lease of the Torrens Island Power Station**.** On 11 May 2000, the Government announced that National Power Synergen Pty Ltd was the successful bidder for the generation business conducted by Synergen and the lease of the Dry Creek, Port Lincoln, Mintaro and Snuggery Power Stations. Completion of the privatisation of these businesses is scheduled for early to mid-June.

It is expected that the privatisation of the State's remaining generation business (Flinders Power) and the State's gas trading business (Terra Gas trader) will be completed by August/September 2000 while the privatisation of the State's transmission business (ElectraNet SA) is expected to be completed by the end of September 2000.

With the finalisation of the privatisation of Optima Energy and Synergen, the Government will have received gross proceeds of $3.879 billion so far from the privatisation process, including the benefit of the purchases assuming $117 million superannuation liability. Privatisation proceeds will be almost entirely used for the retirement of State debt.

The reform of the State's electricity supply industry and the privatisation of the State's electricity businesses will ensure that South Australia has a more competitive electricity industry, with taxpayers free of risk and starting to gain the benefits of reduced state debt. In addition, the electricity reform process is assisting the Government's long term strategy for the development of extra capacity and greater competition in the South Australian energy market as was demonstrated by the announcement by TXU Australia that it would immediately commence a feasibility study for a new gas pipeline to South Australia from the Victorian gasfields. A new gas pipeline would bring significant economic benefits to South Australia. It has the potential to allow major new projects to proceed; it would reduce the State's reliance on the Cooper Basin; and it would make a real contribution to national greenhouse targets.

8.4 PROFILES OF KEY GOVERNMENT BUSINESSES

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

The monitoring of commercial performance for major government businesses is performed by Treasury and Finance and the Office for Government Enterprises (OGE). Periodic performance monitoring reports are provided to the portfolio Minister and the Treasurer. This process currently covers the major businesses with an expansion of monitoring to the smaller businesses planned in the coming year.

A list of government businesses, their employment levels and distributions to government is provided in Table 8.1 and the section following provides information on and analysis of key government businesses.

RESI Corporation

A description of the role of RESI Corporation is provided in Section 8.3.

The 1999-2000 Budget included an expected total distribution (dividend and income tax equivalents, excluding wholesales sales tax equivalents) of $236.2 million in 1999-2000 from the combined operations of RESI Corporation, which at the time included the commercial operations of RESI Utilities, RESI Power and ElectraNet SA. Due to the corporate restructuring described previously, RESI Utilities and RESI Power are no longer subsidiaries of RESI Corporation.

Dividends from RESI Corporation for 1999-2000 are estimated to total $54.0 million, which includes ElectraNet SA's dividend of $40 million and a dividend of $14 million associated with the repayment of a loan by Synergen to RESI Corporation.

The following sections report on aspects of the expected performance of those companies which were RESI Corporation subsidiaries during at least part of the 1999-2000 financial year.

RESI Power Pty Ltd

Prior to privatisation of its business, the main focus of the commercial operations of RESI Power Pty Ltd (formerly known as ETSA Power Pty Ltd) was the retailing of electricity to customers in the NEM. The future role of RESI Power is to manage the pass-through agreements for contracts that could not be transferred to the purchaser of the State's electricity retail business.

In the 1999-2000 Budget, RESI Power was forecast to receive a gross $112 million of additional revenues from 1999-2000 due to the proposed residential tariff increase to commence on 1 July 1999 and budgeted for distributions (dividends and income tax equivalents) of $62.1 million in 1999-2000.

However, the proposed residential tariff did not proceed due to the passage of the privatisation legislation and RESI Power's distribution to Government prior to its effective privatisation as at 12 December 1999 was equal to $5.5 million in income tax equivalent payments.

Table 8.1 South Australian Government Businesses (Preliminary Estimates) [(a)]

	Estimated Employment	Estimated Dividend/(Subsidy)		Estimated Income Tax Equivalent [(a)]	
	30 June 2000	1999-2000	2000-01	1999-2000	2000-01
	FTEs	$m	$m	$m	$m
Commercial Sector Government Businesses					
ElectraNet SA[(b)(c)]	160	-	-	13.7	18.7
Optima Energy[(b)(c)(d)]	177	-	-	-	-
Flinders Power[(b)(c)(d)]	386	-	-	1.0	-
Synergen[(b)(c)]	25	-	-	5.9	-
Terra Gas trader[(b)(c)(d)]	11	18.0	-	1.7	3.2
RESI Utilities[(b)(c)]	-	8.6	-	33.6	-
RESI Corporation[(b)(c)(e)]	-	54.0	27.8	-	-
RESI Power[(b)(c)]	-	-	-	5.5	-
SA Ports Corporation	154	4.8	5.6	5.8	4.1
SA Water Corporation	1 089	175.5	161.7	34.3	56.6
Industrial and Commercial Premises Corporation	5	-	-	0.3	0.2
	2 007	260.9	195.1	101.8	82.8
Other Government Businesses					
Adelaide Convention Centre	170	(5.0)	(6.0)	-	-
Adelaide Entertainment Centre	62	0.5	0.6	-	-
Adelaide Festival Centre Trust	170	(5.0)	(4.9)	-	-
Enfield General Cemetery Trust	38	-	-	-	-
ForestrySA[(f)]	258	14.4	13.4	10.6	11.6
HomeStart Finance[(g)]	55	5.0	5.0	2.4	2.1
Land Management Corporation	56	4.6	1.8	2.9	2.8
Local Government Finance Authority of South Australia[(h)(i)]	-	-	-	1.2	1.1
Lotteries Commission of South Australia[(j)(k)]	91	54.5	53.5	30.7	26.0
Motor Accident Commission	7	-	10.0	-	-
Playford Centre	10.5	-	-	-	-
Public Trustee	139	1.5	1.2	1.3	1.5
SA Community Housing Authority	28	(8.4)	(9.8)	-	-
SA Government Employee Residential Properties[(h)]	-	1.0	0.5	1.0	0.5
SA Housing Trust	630	(128.9)	(135.5)	0.3	0.3
SA Totalizator Agency Board[(k)]	127	15.0	11.4	6.6	4.0
SAGRIC International Pty Ltd	-	0.9	-	0.7	-
TransAdelaide[(l)]	956	(11.5)	(7.1)	-	-
West Beach Trust	52	(0.8)	(1.0)	0.7	1.1
WorkCover Corporation[(m)]	386	-	-	-	-
Total	5 242.5	198.7	128.2	160.2	133.8

(a) Estimates do not include Local Government Rate Equivalent (LGRE) payments or Wholesale Sales Tax Equivalent (WSTE) payments. Accordingly, figures differ from those presented in tables 5.6 and 5.7 in Chapter 5 which are inclusive of LGRE and WSTE payments.

(b) These estimates only include payments expected to be made by the corporations to Consolidated Account. The electricity entities are now operating in a volatile market and the financial estimates provided for the entities therefore contain a large element of uncertainty.

(c) Dividend and income tax equivalent payments for 2000-01 are zero or have reduced substantially because of the completion of the lease process. The ElectraNet SA dividend for 1999-2000 of $40 million is paid through RESI Corporation ie it is included in RESI Corporation dividend of $54 million.

(d) Additional distributions to Government of $33.8 million will be made by the generation entities and Terra Gas trader prior to privatisation. Flinders Power ($20 million), Optima Energy ($13 million) and Terra Gas trader ($0.8 million) will repay outstanding loan balances. These payments have not been treated as dividends.

(e) Excludes a special dividend of $4.7 million in 1999-2000 relating to EDS contract charges.

(f) Dividends are net of subsidy for forest roads and log rebate.

(g) Distributions are reallocated to other housing expenditures.

(h) FTE estimates not provided as these entities are either part of a host agency (SA Government Employee Residential Properties) or part of the Local Government sector (Local Government Finance Authority of South Australia).

(i) Tax equivalent payments are paid to a special deposit account for reimbursement to Local Government.

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

(k) Distributions for 2000-01 are impacted by GST and includes unclaimed prizes, unclaimed dividends and fractions.

(l) Input cost disabilities net of dividend payments. Contract payments from Passenger Transport Board are not included.

(m) WorkCover Corporation does not pay dividends or income tax equivalents.

RESI Power undertook $0.5 million in capital expenditure during 1999-2000 while it was in public ownership.

The electricity retail business of RESI Power was sold to a consortium comprising Cheung Kong Infrastructure Holdings and Hongkong Electric Holdings for $150 million, which included approximately $12 million of unfunded superannuation liabilities. The business was immediately on-sold to AGL for $175 million and the additional $25 million, less transaction costs, was paid to the Government under the terms of the sale agreement with the consortium.

RESI Utilities Pty Ltd

Prior to privatisation of its business, the main focus of the commercial operations of RESI Utilities Pty Ltd (formerly known as ETSA Utilities Pty Ltd) was the distribution and supply of electricity to customers. The future role of RESI Utilities is to manage the pass-through agreements for contracts that could not be transferred to the purchasers of the State’s distribution business.

RESI Utilities was expected to pay a distribution (dividends and income tax equivalents) of $135.5 million in 1999-2000 (dividend set at 100 per cent of operating profit after tax). However, due to the effective privatisation of the business as from 12 December 1999, a total distribution of $42.2 million was paid to the Government, being a dividend of $8.6 million and income tax equivalent payments of $33.6 million.

RESI Utilities undertook $32.9 million in capital expenditure during 1999-2000 while it was in public ownership.

The State’s electricity distribution network was leased for a period of 200 years and its distribution business was sold to the consortium comprising Cheung Kong Infrastructure Holdings and Hongkong Electric Holdings for $3.35 billion, including approximately $82 million of unfunded superannuation liabilities.

Transmission Lessor Corporation (trading as ElectraNet SA)

The main focus of the commercial operations of Transmission Lessor Corporation (which trades as ElectraNet SA and was formerly known as ETSA Transmission Corporation) is the transmission of electricity to customers. Following the privatisation of its business, Transmission Lessor Corporation will remain as owner and lessor of the State’s transmission network and as a party to the US Cross-Border Leases.

ElectraNet SA was expected to pay a distribution (dividends and income tax equivalents) of $38.6 million in 1999-2000 (dividend set at 100 per cent of operating profit after tax). Actual distributions to government in 1999-2000 are expected to be $53.7 million, being a dividend of $40 million paid through RESI Corporation and $13.7 million in income tax equivalent payments.

ElectraNet SA is expecting to undertake $49.9 million in capital expenditure during 1999-2000.

ElectraNet SA is budgeted to make $18.7 million in income tax equivalent payments to Government in 2000-01 prior to privatisation.

RESI Capital Pty Ltd and RESI Capital (No. 2) Pty Ltd

RESI Capital Pty Ltd (previously known as ETSA Capital Pty Ltd) was established in October 1998 as a subsidiary of RESI Corporation. It held all the shares of RESI Utilities and RESI Power.

RESI Capital (No. 2) Pty Ltd (previously known as ETSA Capital No. 2 Pty Ltd) was established in July 1999 as a subsidiary of the Treasurer. On 30 July 1999 it became the holding company of RESI Utilities and RESI Power.

RESI Capital and RESI Capital (No. 2) have no future role and are expected to be wound up prior to 30 June 2000.

RESI Power Corporation

RESI Power Corporation (formerly known as ETSA Power Corporation) was established by the Public Corporations (ETSA Power Corporation) Regulations 1995.

It is expected that (at least for the short term) RESI Power Corporation will be the counterparty to a power purchase agreement and a gas supply agreement with Osborne Cogeneration Pty Ltd, the rights and obligations under which will be effectively exercised and performed by Flinders Power pursuant to certain pass-through arrangements.

RESI Energy Corporation

RESI Energy Corporation (formally known as ETSA Energy Corporation) was established by the *Public Corporations (ETSA Energy Corporation) Regulations 1995.*

RESI Energy Corporation is the counterparty to certain gas purchase agreements with the South Australian Cooper Basin Producers and certain gas haulage agreements with Epic Energy South Australia Pty Ltd, the rights and obligations under which are effectively exercised and performed by Terra Gas trader pursuant to certain pass-through arrangements. It is expected that (at least in the short term) RESI Energy Corporation (or possibly RESI Corporation) will continue to act as such a counterparty.

Electricity Generation Entities (formerly SAGC Entities)

Trading in the NEM presents risks that require close management. A key risk faced by generators is to have an unplanned outage occurring on a day of high demand, particularly when highly contracted. Specific examples of the potential impact of unplanned outages on individual entities are provided below.

Given the level of risk faced by the generation entities it was proposed in the 1999-2000 Budget that no dividend would be paid by SAGC to the Government but that all entities would be liable to make income tax equivalent payments. The 1999-2000 Budget indicated that Synergen and Terra Gas trader would be in a position to fund a dividend, but it was proposed that such funds would be retained within the generation sector to help address potential operating losses and other necessary expenditures required by those businesses operating in a competitive market.

On this basis, the total expected distribution (dividend and income tax equivalents only, excluding wholesale sales tax equivalents) was $5.2 million for 1999-2000 from the combined operations of SAGC. However, due to the privatisation process that is currently underway, the distributions from the generation entities and Terra Gas trader are expected to be $74.5 million for 1999-2000. Of this, $8.6 million relates to income tax equivalent payments while the balance comprises a dividend from Terra Gas trader of $18 million and loan repayments from the former SAGC entities of $47.8 million.

This increased distribution is made possible because as a result of the privatisation of the generation and gas trading businesses, it is the new private sector operators that will have to take the risk of the businesses going forward (including any funding of necessary working capital) and consequently, the cash held by the businesses (and any associated retained profits) will no longer be required to be retained to help address the risks of operating in the NEM. The majority of this cash will be distributed from the businesses to Government immediately before the disposal of the relevant business via a repayment of receivables.

A significant component of the cash which will be returned to Government is associated with the events of early February 2000. Flinders Power and Optima Energy between them received significant additional revenue compared to budget from the wholesale electricity pool in February 2000 due to the extreme demand and restricted supply associated with the Yallourn industrial dispute. This additional revenue was paid by the South Australian retailers as they met the demand of their customers. The extent to which the retailers could pass on these costs to their customers would be determined by the conditions included in the sale contracts with customers. While the generators were able to earn a significant level of revenue on these two days, the generators faced significant risk associated with plant outages. Synergen actually lost a small amount of money compared with its budget for the month over these two days as it had one unit out of service and was unable to meet contracted volumes.

Flinders Power, Optima Energy and Synergen undertook a total of $14 million in capital expenditure during 1999-2000 while in public ownership.

During the year, the long running dispute between SAGC and Australian National over the cartage of coal on the Leigh Creek line was resolved, which allowed resolution of other outstanding funding commitments from the Commonwealth (such as the $20 million in funding relating to the runway extension at the Adelaide Airport).

The following sections report on aspects of the expected performance of the electricity generation businesses and Terra Gas trader.

Flinders Power Pty Ltd

The main focus of the commercial operations of Flinders Power Pty Ltd is to operate the coal-fired base load generation plant at Port Augusta, as well as the Leigh Creek coal fields and related rail freight operations.

In the 1999-2000 Budget, Flinders Power was not expected to pay any dividends to SAGC, nor make a contribution to the Government by way of dividend or income tax equivalent payment during 1999-2000 and the forward estimate period. However, the actual return to Government is expected to be $21 million in 1999-2000, being $20 million in distributions to the Government of cash surpluses prior to privatisation (as discussed above) and $1 million in income tax equivalents payments. As stated above, the expectation of no distribution from Flinders Power was based on the risks the entity faced in the NEM and the requirement to manage and fund these risks. Given the fact that the Government will no longer need to manage and fund these risks in future years (due to the disposal of the entity's business), distributions are able to be made to the Government in the current financial year.

Optima Energy Pty Ltd

The main focus of the commercial operations of Optima Energy Pty Ltd is to operate the gas-fired mid-range to peak load generation plant at Torrens Island.

In the 1999-2000 Budget, Optima Energy was not expected to pay any dividends to SAGC, nor make a contribution to the Government by way of dividend or income tax equivalent payment during 1999-2000 or over the forward estimate period. However, the actual return to Government is expected to be $13 million in 1999-2000, representing distributions to the Government of cash surpluses prior to privatisation (as discussed above).

On 4 May 2000, the Government announced that TXU (South Australia) Pty Ltd was the successful bidder for the 100 year lease of the Torrens Island Power Station. TXU (South Australia) Pty Ltd will pay a total of $315 million for this lease (as well as to acquire the business of Optima Energy), which includes unfunded superannuation liabilities of $20 million.

Synergen Pty Ltd

The main focus of the commercial operations of Synergen Pty Ltd is to provide peak day capacity, insurance and respond to sudden increases in demand for electricity.

In the 1999-2000 Budget, profitability projections for Synergen were stable, with a cash balance building up by the end of the forward estimate period. Synergen's profitability is underpinned by fixed payments during the term of the current vesting contracts, which are gradually eliminated by 31 December 2002.

Distributions to Government in 1999-2000 were expected to be confined to income tax equivalent payments of $3.3 million. However, actual returns to Government are estimated to be $19.9 million in 1999-2000, representing distributions to the Government of cash surpluses prior to privatisation of $14 million (as discussed above) and $5.9 million in income tax equivalent payments. As discussed earlier, the $14.0 million of cash surpluses was paid by Synergen to RESI Corporation in repayment of a loan and this has been distributed to the Government as a dividend by RESI Corporation.

On 11 May 2000, the Government announced that National Power Synergen Pty Ltd was the successful bidder for the 100 year lease of the Dry Creek, Mintaro, Port Lincoln and Snuggery Power Stations. National Power Synergen Pty Ltd will pay a total of $39 million for the right to this lease (as well as to acquire the business of Synergen), which includes unfunded superannuation liabilities of $3.4 million.

Terra Gas trader Pty Ltd

The main focus of the commercial operations of Terra Gas trader Pty Ltd is to arrange the supply of gas to the South Australian generators.

The 1999-2000 Budget highlighted that Terra Gas trader had stable profit projections, underpinned by contracts with its customers (ie essentially the State owned generation companies) the pricing of which deliver a predictable level of earnings. In addition, Terra Gas trader will also generate returns arising from the sale of gas from the gas bank (under its arrangements with gas suppliers). A cash balance was estimated as building up by the end of the forward estimate period.

Distributions to the Government were expected to be confined to income tax equivalent payments of $1.9 million in 1999-2000. However, actual returns to Government are estimated to be $20.5 million in 1999-2000, representing distributions to the Government of cash surpluses prior to privatisation (as discussed above) of $18.8 million ($18 million in dividends and $0.8 million in loan repayments) and $1.7 million in income tax equivalent payments.

SA Ports Corporation

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

The scope of the corporation's operation includes:

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

The total dividend payable for the 1999-2000 year is estimated to be $4.8 million. Total tax equivalent payments are estimated to be $5.8 million. The estimated operating profit (before tax and abnormal items) result for 1999-2000 is estimated to be $12.4 million.

The budgeted dividend to the Government for 2000-01 is $5.6 million with tax equivalent payments budgeted to be $4.1 million. New initiatives scheduled to be implemented during the 2000-01 financial year include the further introduction of e-commerce facilities, certification to the Environmental Management Standard to International Standards (ISO 14001) and implementation of GST.

Capital investment for the 2000-01 financial year is budgeted at $5.7 million and includes redevelopment of Port Adelaide inner harbour berths and the upgrade of facilities at Port Giles and Port Pirie.

The Government has announced its decision to sell the corporation. Consultants have been engaged to assist in the detailed sale preparation process.

SA Water Corporation

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

- ensure South Australia's water and wastewater services provide continuous, high quality supply, protect the health of the public, and minimise environmental impacts

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

The estimated operating result for 1999-2000 is $197.9 million, an increase of $5.9 million on budget. Contributions to the Government (income tax equivalent and dividend payments) are estimated to be $209.8 million in 1999-2000.

The budgeted operating result for 2000-01 is $201.9 million. The budgeted contribution to the Government for 2000-01 is $218.3 million.

Budgeted capital investment of $108.2 million in 2000-01 will be directed towards improving the State's water supply and wastewater systems. SA Water is giving priority to the following areas:

- The Environment Improvement Program to reduce odour emissions, the volume of treated wastewater discharged to the marine environment and the nutrient levels in that discharge water, is continuing.
- Major works at the Bolivar, Christies Beach and Glenelg wastewater treatment plants are budgeted to cost $48 million in 2000-01. A further $19 million will be spent in 2000-01 on work associated with the relocation of the Port Adelaide Wastewater Treatment Plant and other works.
- Work will continue on the augmentation of water supply headworks to maintain an adequate supply to support growth in areas south of the Onkaparinga River, including the Fleurieu Peninsula and the Victor Harbor–Goolwa area. These works are estimated to cost $18.5 million with $9 million to be spent in 2000-01.
- A further $1.1 million is budgeted to be spent on upgrading water filtration plants to optimise existing strategies for providing increased protection against *Cryptosporidium* and *Giardia* organisms.

Lotteries Commission of South Australia

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

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

The estimated distribution to the Government from the operating result for 1999-2000 is $85.2 million.

The budgeted distribution to the Government from the operating result for 2000-01 is $79.5 million.

In February 2000, the Government announced its in principle decision to sell the LCSA through a trade sale.

SA Totalizator Agency Board

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

- conduct off-course totalizator betting on races held within or outside Australia

- act as the agent for an authorised racing club in the conduct by that club of on-course totalizator betting on races held within or outside Australia
- conduct totalizator betting on football results of matches held within or outside Australia
- conduct, with approval of the Minister, totalizator betting on results of any major sporting event held within or outside Australia (other than a race or football match).

The estimated total distribution for 1999-2000 is $52.8 million. The estimated amount available for distribution to the Hospitals Fund in 1999-2000 is $21.6 million (including income tax equivalent payments).

The budgeted distribution for 2000-01 is $41.1 million. The budgeted amount available for distribution to the Hospital Fund for 2000-01 is $15.4 million.

In February 2000, the Government announced its in principle decision to sell SA TAB through a trade sale.

WorkCover Corporation

WorkCover Corporation is a statutory authority established under the *WorkCover Corporation Act* to administer the *Workers Compensation and Rehabilitation Act 1986*.

The corporation's vision is "All South Australians working together for the safest workplaces". The corporation's mission is "To help employers and employees get the best results from the health, safety, rehabilitation and compensation system".

WorkCover collected $340 million of levy income in 1998-99 from approximately 60 000 employers who are required to contribute towards the provision of occupational health and safety, claims management and rehabilitation services for their employees. WorkCover monitors the processing of approximately 34 000 claims each year. The Corporation manages an investment fund, which returned 9.5 per cent on funds invested for the year ending 30 June 1999.

Due to an operating result of $50 million in 1998-99, an amount of $25 million will be rebated to employers on 2000-01 levy fees.

Industrial and Commercial Premises Corporation

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

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

Currently the ICPC is working on a number of potential projects with a total value of $42 million under the auspices of the Scheme through the 2000-01 financial year. Final approvals and start dates are yet to be established.

For 1999-2000 the Corporation has estimated an operating result of $904 000 before income tax equivalent payments.

The budgeted operating result before income tax equivalent payments for 2000-01 is $272 000.

Land Management Corporation

Land Management Corporation was established under Regulations to the Public Corporations Act in 1997. These regulations provide for the Corporation to:

- acquire, hold, manage and dispose of surplus land and other property previously held by the MFP Development Corporation or other agencies or instrumentalities of the Crown
- manage land and property with a view to the release of large areas of undeveloped or underdeveloped land; make land available for commercial, industrial or residential purposes; and ensure the orderly development of land
- manage the Crown's interest in identified joint ventures and land development projects
- manage and develop Technology Park and Science Park and, where appropriate, dispose of assets at these locations
- manage the sale of surplus government land on behalf of other agencies or instrumentalities of the Crown
- manage urban projects (on its own behalf or on behalf of other agencies or instrumentalities of the Crown) to achieve urban regeneration or other Government policy outcomes.

The Corporation's estimated operating result for 1999-2000 is $9.7 million. Distributions to Government in 1999-2000 are estimated to consist of an income tax equivalent payment of $2.9 million and a dividend payment of $4.6 million.

The Corporation's contribution to the State Budget for 2000-01 provides for a $2.8 million income tax equivalent payment and a dividend payment of $1.8 million. The Corporation's budgeted capital expenditure for the 2000-01 financial year is $12.6 million. Work will continue on the Port Waterfront and East End Redevelopment programs, as well as the provision of government infrastructure associated with the Mawson Lakes Economic Development.

Playford Centre

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

The centre's role is to contribute to the achievement of the Government's IT2000 vision by enhancing the capability of companies within the South Australian information technology industry. The centre helps companies develop world class products and services with product development advice, market intelligence, business support services, working capital and infrastructure. The centre assists local information technology and telecommunications companies with the greatest prospects for growth, and in return receives a share in the financial returns to successful companies.

A key objective of the centre is to invest $10 million of Commonwealth BITS (Building on Information Technology Strengths) funding received on behalf of the State into potential high growth information technology and telecommunication companies. This funding will enable the centre to expand its industry development program and to achieve self-sufficiency by June 2002.

Budgeted expenditure for 2000-01 is $5.2 million (estimate of $4.3 million for 1999-2000).

No dividend is payable in 2000-01.

Local Government Finance Authority of South Australia

The Local Government Finance Authority of South Australia (LGFA) was created under the *Local Government Finance Authority Act 1983* and began operations in 1984. Its role is to develop and implement borrowing and investment programs for the benefit of councils and prescribed local government bodies. The LGFA may also engage in other financial activities as are determined by the Minister for Local Government, after consultation with the Local Government Association, to be in the interests of Local Government.

All local councils in South Australia are members of the LGFA and the enabling legislation provides for an annual general meeting of members in addition to meetings of the LGFA Board of Trustees.

No dividend is paid by the LGFA to the Government. Due to the Local Government status of the LGFA the income taxation equivalent payments made by the LGFA are paid into a Special Deposit Account for application to Local Government development purposes as agreed between the Minister for Local Government and the Local Government Association.

The LGFA's liabilities are guaranteed by the Treasurer.

ForestrySA

ForestrySA is a business unit within the Department for Administrative and Information Services with the key responsibilities of:

- managing State-owned plantation forests including harvesting and delivery of forest products to customers
- supporting and facilitating industry development
- facilitating farm forestry investment, activities and initiatives
- providing recreational access to forest reserves
- managing native forests for conservation purposes
- providing policy support and advice to Government, the industry and the community.

Log volumes supplied by ForestrySA are expected to be 1.6 million m^3 for 1999-2000. Market demand in 2000-01 is expected to be lower than that for 1999-2000 and as a result log volumes supplied by ForestrySA should approach 1.5 million m^3 for 2000-01. The budget allows for the establishment of 2073 hectares of softwood plantations and the purchase of up to 1500 hectares of new land. This is consistent with the strategy to increase forest production capacity.

Community interest in farm forestry remains high. ForestrySA is facilitating private sector investment in hardwood plantations. Private growers are expected to plant in 2000-01 a target of 200 hectares of *Eucalyptus globulus* (blue gum) for the Green Triangle Tree Farm Project. A number of organisations are now actively competing in the market to attract investment into blue gum plantations.

The Government has approved a proposal to establish ForestrySA as a full public corporation under the Public Corporations Act with oversight by an independent board. This corporatisation model and the full range of private sector equivalence measures was considered the preferred competitive neutrality model for ForestrySA. Corporatisation will provide the business with clear commercial and non-commercial objectives, improved incentive arrangements and a commercial board that will improve the efficiency of operations. It is the intention of Government that ForestrySA operate as a corporatised entity from July 2000.

Adelaide Festival Centre Trust

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

The 1998-99 operating result was a deficit of $567 000. However during that year initiatives were progressively put in place which, in a full year of operations, would generate savings of $1 million per year.

In 2000-01 the AFCT intends consolidating its financial position as the impact of the savings made in the past two years is felt. Available funds will be directed towards additional programming to allow the AFCT to increase arts activity in the centre.

SAGRIC International Pty Ltd

Cabinet approved the sale of SAGRIC International Pty Ltd (SAGRIC) to Coffey International Limited (Coffey) in December 1999. Proceeds from the sale of SAGRIC assets to Coffey were received in February 2000. After accounting for a final dividend from SAGRIC ($900 000) and the liquidation of residual assets not sold to Coffey, it is anticipated that the Government will receive a total amount of approximately $5 million in 1999-2000 from the ownership/sale of SAGRIC.

The Government Services Export Unit (GSEU), previously administered within SAGRIC, has been transferred to the Department of Industry and Trade (DIT). DIT is leading an inter-agency review group to determine the continued role for the GSEU in Government. Pending the outcome of that review the GSEU will continue to coordinate a whole of government approach to the development of international business opportunities for public sector technology and services.

TransAdelaide

TransAdelaide is the Government's commercial passenger transport operator. Its primary business is to deliver tram and train commuter services in the Adelaide metropolitan area.

Until 22 April 2000, TransAdelaide was the largest metropolitan bus service provider, however all its bus service contracts were lost in the competitive tender of metropolitan bus services completed in January 2000 by the Passenger Transport Board.

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

The entire metropolitan bus service was outsourced to private service providers from 23 April 2000. Significant cost savings and service improvements are expected over the contract period to 2010.

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

HomeStart Finance

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

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

HomeStart's lending is funded by borrowing at market related interest rates through SAFA and by HomeStart's own capital and reserves. Total assets at 30 June 1999 were $935 million with capital and reserves of $135.7 million.

Adelaide Convention Centre

The Adelaide Convention Centre (ACC) is committed to being the most professionally operated convention and exhibition venue in Australia by achieving total client satisfaction through the provision of outstanding catering and technical services, convention, exhibition and event management. The ACC aims to:

- further increase the centre's market share of national and international conventions held in Australia during the coming five years and beyond
- maintain the centre's advanced technological capability to compete effectively with other venues in Australia
- continue to provide a level of service excellence and flexibility which results in the best catering operation standards
- operate the centre at maximum efficiency and profitability
- continue to pursue entrepreneurial and business opportunities for the centre to ensure full use of facilities and staff expertise
- further develop strategies for human resources, occupational health and safety and risk management practices
- continue to maintain and upgrade facilities to the highest possible standard.

The dividend policy agreed by the Department of Treasury and Finance (DTF) and the ACC states that the 75 per cent of the net operating result generated by the ACC will be distributed to the Government as a dividend less any tax equivalent expenses incurred.

The ACC has commenced extensions to its facilities at an estimated total cost of $85 million and due for completion in late 2001.

The 1998-99 financial year provided the best operating result on record of $17.3 million (including contribution from the Government). The operating result before abnormals was $1.9 million. The accumulated deficit was adjusted to $36.5 million as a result of significant abnormal income item.

For 1999-2000, the ACC is currently forecasting an operating result of $15.9 million (including the SA Government contribution). The operating result before abnormals is currently estimated at around $0.5 million.

Motor Accident Commission

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

MAC was established to:

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

A Charter is prepared pursuant to Section 18 of the Motor Accident Commission Act and reviewed annually by the Minister.

Under the Charter, the objectives of MAC with regard to CTP insurance are to:

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

During the three years from July 1995 to June 1998, the solvency of the CTP Fund increased from approximately 8.2 per cent to 11.8 per cent, but fell to 5.6 per cent in 1999 compared with the APRA minimum of 15 per cent. The reduction is principally a result of a 1999 actuarial adjustment incorporating the impact of the New Tax System on outstanding claims costs and a prior period claim cost adjustment.

The rate of return on investments has remained relatively stable at 8.4 per cent in 1995 and 7.9 per cent in 1999 despite long-term interest rates falling from approximately 9 per cent to 5 per cent over the same period.

8.5 PRICING ISSUES IN GOVERNMENT BUSINESSES AFTER JULY 2000

The Federal Government's tax reform initiatives have required that all South Australian Government businesses review their pricing after July 2000, the commencement date for the Goods and Services Tax (GST) and other New Tax System changes. At the time of preparation of the Budget Statement each government business was at a different stage of this review process. For some of the larger government businesses, however, the Government has already made announcements of how the legislated tax reforms will impact on pricing.

While the GST will apply to a range of charges imposed by government businesses, the price impact will be partly offset by cost savings from other aspects of the New Tax System, such as the flow-on effects of the abolition of wholesale sales tax and reduction in effective tax rates on diesel. The abolition of wholesale sales tax equivalent payments liabilities imposed on government businesses as a competitive neutrality mechanism will also result in savings which will act to reduce prices. The price impacts will vary between business activities.

Water and sewerage charges are GST-free, however some minor miscellaneous and ancillary charges will include GST. The Minister for Government Enterprises announced in December 1999 that water supply charges will decrease on average by 0.9 per cent from the start of the 2000-01 billing year. This reduction reflects cost savings from the New Tax System changes and efficiency gains through water supply reforms undertaken over the past few years, in particular, the outsourcing contract with United Water. The reductions will take the form of a $2 reduction in the annual access charge, combined with a reduction in the top water price for residential consumers from 92 cents per kL to 91 cents per kL.

Electricity prices for franchise and grace period customers are subject to an EPO that was issued by the Treasurer in October 1999. The EPO protects non-contestable franchise customers (those unable to choose their retailer) from price volatility in the NEM. The EPO ensures that annual increases for retail tariffs will not exceed the increases in the CPI. The initial retail tariffs that apply to franchise customers under the EPO from 1 July 2000 are able to be adjusted by the annual increase in the March quarter CPI recently announced by the Australian Bureau of Statistics (ABS) and are inclusive of the GST and the GST associated cost savings. Grace period customers (contestable customers which have not elected to enter a contestable contract with either AGL or another retailer) are able to remain on the same retail tariff until 1 July 2001, although the grace period tariffs are increased by CPI plus 2 per cent (adjusted for the effects of the GST) from 1 July 2000.

The EPO provides for an initial increase of approximately 9.2 per cent in electricity prices to franchise customers as a result of the New Tax System changes. However, if the indirect tax reform cost savings are greater than estimated in constructing the EPO, electricity businesses will be required, under price exploitation powers granted to the Australian Competition and Consumer Commission, to pass on such additional savings into lower tariffs. An adjusted CPI will be used in the year following the introduction of the GST to exclude the impact of the tax changes on the CPI. The SAIIR has responsibility for approving the final franchise tariffs to apply to non-contestable customers in 2000-01.

Metropolitan public transport fares are subject to GST. The average increase in public transport fares will, however, be only 2 per cent effective from 1 July 2000. This increase reflects an annual cost indexation and a 10 per cent GST offset by expected savings from indirect tax reform particularly from the abolition of wholesale sales tax and reductions in diesel fuel excise. Within the average increase of 2 per cent across all fares, individual ticket price increases will vary from zero to 6.7 per cent.

In October 1999 the Treasurer announced a 5 per cent increase in Compulsory Third Party (CTP) premiums effective from 28 November 1999. The increase predominantly reflects the impact of the New Tax System changes in relation to reductions in personal income tax rates—these income tax reductions will increase claim costs in relation to damages for economic loss which are based on after tax earning capacity of injured persons. The increase also covers the effect of the GST on CTP premiums.

9. THE SOUTH AUSTRALIAN ECONOMY

HIGHLIGHTS

- Economic growth strengthened in South Australia during 1999-2000 to 3¾ per cent in real terms but is expected to moderate in 2000-01 to 2¾ per cent.
- Employment growth in South Australia has been robust during 1999-2000 but is expected to ease in 2000-01.
- The overseas export of goods from South Australia has grown strongly over 1999-2000, driven particularly by substantial growth in the export of fish and crustaceans; road vehicles, parts and accessories; metals and metal manufactures; and wine.
- South Australia’s rate of annual population growth has stabilised, but remains well below the national trend.

9.1 ECONOMIC CONDITIONS

Introduction

The South Australian economy is continuing to show solid trends, with real growth estimated to increase to 3¾ per cent during 1999-2000 from 2.1 per cent in 1998-99. Household consumption expenditure continues to underpin growth in South Australia, with moderate growth expected in 1999-2000. In addition, overseas merchandise exports and private dwelling expenditure have grown strongly during 1999-2000 to further strengthen South Australia’s economic performance.

There were two areas of the South Australian economy that detracted from overall growth over 1999-2000, business investment and agricultural production. Business investment, while at a relatively high level, is estimated to have fallen during 1999-2000. The winter crops in South Australia (primarily wheat, barley and canola) were hit by drought conditions in the northern Eyre Peninsula and 1999-2000 production is estimated, by the Australian Bureau of Agricultural and Resource Economics (ABARE), to be down by 24 per cent from the record high harvest in 1998-99.

Employment growth is estimated to have increased sharply to 2½ per cent in South Australia during 1999-2000. This strong employment growth has resulted in a significant fall in the South Australian unemployment rate during the last year, to 8.2 per cent in April 2000 in trend terms (latest available data). Forward indicators of labour demand suggest that employment growth will moderate towards longer term trend levels through the remainder of 2000.

Economic Outlook

In 2000-01, the Department of Treasury and Finance expects South Australia’s Gross State Product (GSP) to grow by around 2¾ per cent, while national Gross Domestic Product (GDP) is expected to rise by 3¾ per cent. South Australia has for many years experienced lower economic growth than the national average primarily reflecting lower population growth and industry composition.

Economic growth in South Australia is expected to ease in 2000-01, compared with solid growth in 1999-2000, primarily because of a slowdown in private demand. Both private dwelling investment and household spending are expected to moderate in mid to late 2000. The biggest influence on the South Australian economy remains national economic conditions. Most forecasters, including Commonwealth Treasury, are expecting lower rates of economic growth nationally in 2000-01 compared to the stronger growth experienced in 1999-2000, as domestic demand moderates.

Table 9.1 shows key economic variables for South Australia and Australia. Forecasts for 2000-01 take into account current economic conditions and also anticipate a moderate slowing in domestic conditions. Projections for 2001-02 and beyond are based on the expected performance of the South Australian economy over the medium term and relative population growth rates, indicating around a 3 per cent per annum output growth rate for South Australia. Forecasts and projections are consistent with some reduction in the unemployment rate over the forward estimates period.

Table 9.1 Key Economic Indicators—Australia and South Australia Real Growth Rates (per cent per annum)

	1999-2000 Estimate	2000-01 Forecast	2001-02 Projection	2002-03 Projection	2003-04 Projection
Australia[(a)]					
GDP	4¼	3¾	3½	3½	3½
Employment	2¾	2¼	2	2	2
CPI	2½	5¾	2½	2½	2½
South Australia					
GSP[(b)]	3¾	2¾	3	3	3
State Final Demand	3¼	2¾	3	3	3
Employment[(c)]	2½	1½	1½	1½	1½
CPI	2½	5¾ [(d)]	2½	2½	2½

Source: South Australian Department of Treasury and Finance, and Commonwealth Budget.

(a) Commonwealth Treasury 2000-01 Budget estimates and projections.

(b) Forecasts and projections are based largely on underlying national economic and State population trends.

(c) Estimate for 1999-2000 is based on wage and salary earner employment as the growth rate in total employment between 1998-99 and 1999-2000 was affected by statistical factors. Forecast/projections from 2000-01 onwards are based on total employment.

(d) Includes around 2¾ percentage points due to 'on-going' CPI and around 3 percentage points due to the introduction of Commonwealth tax reform.

The Commonwealth Treasury forecast of national GDP growth of around 3¾ per cent in 2000-01 is lower than the 4¼ per cent economic growth estimated for 1999-2000. Growth in 1999-2000 has remained stronger than initially expected, due to the resilience of domestic spending and a pick-up in overseas exports. Although most analysts are expecting a slowdown in the rate of growth in household spending in 2000-01, there is a wide divergence of opinions about the extent and duration of this slowdown.

Increases in efficiency and productivity as a result of microeconomic reforms, increased competition and new technologies, including developments in the information economy, have helped underpin recent economic growth in Australia. These factors may have contributed to lifting the potential longer-term growth rate that can be sustained without the emergence of inflationary pressures. In South Australia, the Government has had an increased focus on identifying opportunities in the information economy as a source of economic and jobs growth.

External Conditions

Global economic conditions have improved markedly since the 1999-2000 Budget. The US economy continues to grow strongly, however there are growing concerns that the high rate of economic growth could be unsustainable. Economic growth in the European Union continues to strengthen.

Most Asian economies (with the exception of Indonesia and Japan) have rapidly recovered from the Asian financial crisis. Korea, Malaysia, Singapore and Thailand all showed strong rates of growth in 1999, following sharp contractions in 1998. The Japanese economy, however, remains fragile although there are some positive signs, such as improving business and consumer confidence. Growth in China is expected to continue at a steady pace in 2000, according to the International Monetary Fund (IMF), supported by strong growth in exports and a fiscal stimulus package.

The IMF is projecting global economic growth of 4.2 per cent in 2000, an improvement on the estimated 3.3 per cent achieved in 1999. The IMF also notes that the risks for the current year now appear to be mainly on the upside, given the continued strong forward momentum in the US and the possibility that recovery in Europe might be more robust.

South Australia's overseas exports of goods remained remarkably strong throughout the Asian crisis and continue to show robust trends. Exporters found alternative markets for their goods, such as the USA, UK and the Middle East. The fastest growing commodity exports from South Australia are fish and crustaceans; road vehicles, parts and accessories; metals and metal manufactures; and wine (Table 9.2). Agricultural exports have not fared as well recently due to a number of factors, including weather conditions and historically low world prices for many of South Australia's traditionally exported commodities.

Table 9.2 Value of South Australian Overseas Merchandise Exports by Selected Commodity

Selected Commodity	8 mths to Feb 1999 $000	8 mths to Feb 2000 $000	% change
Meat and Meat Preparations	139 184	94 454	–32.1
Cereals and Cereal Preparations[a]	415 812	363 836	–12.5
Wine	423 572	521 604	23.1
Wool and Sheepskins	151 294	108 189	–28.5
Machinery	250 143	228 687	–8.6
Metals and Metal Manufactures	336 805	509 899	51.4
Fish and Crustaceans	175 655	288 078	64.0
Road Vehicles, Parts and Accessories	404 480	653 697	61.6
Petroleum and Petroleum Products	104 796	132 605	26.5
Other/Confidential[a]	1 054 176	1 193 613	13.2
Total Exports	3 455 917	4 094 662	18.5

Source: Australian Bureau of Statistics: South Australian Economic Indicators, Catalogue No. 1307.4.

(a) Barley is not included in Cereals and Cereal Preparations as it is a confidential item. It is included in Other/Confidential.

Economic Activity in South Australia

Table 9.3 compares growth in expenditure aggregates in South Australia in the calendar years 1998 and 1999. State Final Demand (SFD)—the sum of all consumption and investment components—grew in real terms by 3.1 per cent in 1999, after growth of 3.4 per cent in 1998.

Table 9.3 Key Expenditure Aggregates—South Australia Real Growth Rates—Calendar Year (per cent per annum, original data)

	1998	**1999**
Household Consumption	4.6	2.1
Private Dwelling Investment	5.7	6.9
Private Business Investment	–1.0	–7.4
Public Demand	2.3	9.7
State Final Demand	3.4	3.1

Source: Australian Bureau of Statistics, Australian National Accounts: State Accounts, Catalogue No. 5206.0.40.001

Note: Gross State Product data is not available on a calendar year basis.

The strongest component of growth in SFD in 1999 was increased public demand, which is the combination of changes at all levels—local, State and Commonwealth—in government consumption and investment spending in South Australia. In particular, Commonwealth government consumption nationally has shown strong growth and is expected to ease. Strong growth was also evident in private dwelling investment during 1999 in South Australia, following on from robust growth in 1998. Growth has been supported by historically high levels of housing affordability, notwithstanding recent increased interest rates, and a "pull forward" of activity to avoid price increases associated with the introduction of the Goods and Services Tax (GST). However, a slowdown in demand for housing is expected during the second half of 2000, subsequent to this pull forward of demand and reflecting the impact of higher house prices and interest rates.

Household consumption spending, which is by far the largest component of SFD (around 60 per cent), grew modestly in 1999, after growing strongly in 1998. Business investment fell in South Australia during 1999 but it is a relatively small component of State Final Demand (around 10 per cent) and is subject to short term volatility. Notwithstanding the fall during 1998 and 1999, business investment is still at a relatively high level.

Overseas exports are not included in SFD. The particularly strong growth in the export of goods overseas from South Australia boosted GSP growth during 1998-99, and is estimated to have contributed to strong growth in GSP during 1999-2000.

Recent movements in partial indicators, suggest a slower rate of growth in household spending in the first half of 2000 compared to the last half of 1999. For example, retail trade in real seasonally adjusted terms has shown a decline in the March quarter, both nationally and in South Australia. Table 9.4 shows rates of growth for a range of partial indicators.

The impending introduction of the GST has distorted spending patterns, with the price of some goods expected to fall, and the price of other goods and all services expected to rise after 1 July 2000. Distorted spending patterns are particularly noticeable in relation to 'big ticket' items, such as motor vehicles. For example, consumers expecting the price of motor vehicles to fall after 1 July, have delayed purchases to some extent.

Growth in SFD on a financial year basis is expected to ease from the 3¼ per cent rate of growth estimated in 1999-2000 to 2¾ per cent in 2000-01, in line with the expected slowing in the national economy.

Table 9.4 Partial Indicators of Economic Activity in South Australia (percentage growth)

	1999(a)	**2000**(b)
ANZ Bank Job Advertisements (trend)	12.3	10.3
Retail Trade (chain volume terms) (seasonally adjusted)	3.8	0.5
New Motor Vehicle Registrations (trend)	–4.9	–7.9
Building Approvals (trend)	55.2	53.0

Source: ANZ Bank, Australian Bureau of Statistics, Catalogue No. 8501.0, 9301.0, 8731.0.

(a) Through the year to December 1999.

(b) Through the year to latest data (ANZ through the year to April 2000, others through the year to March 2000).

Labour Market Trends

The labour market in South Australia showed improvement through 1999-2000 (Table 9.5), although there has been some month-to-month volatility. The number of people in employment has reached a record level in recent months and the number of people unemployed has fallen since mid-1998. In addition, the percentage of the population participating in the labour force has risen compared with one year earlier.

The improvement in labour market conditions had, however, been somewhat exaggerated due to significant statistical fluctuations in the data relating to the number of people employed from mid-1997 to mid-1999, which manifested as a large drop, followed by a large bounce back, in the number of people employed. The statistical problems with the Australian Bureau of Statistics (ABS) labour force survey are discussed at length in the 1999-2000 and 1998-99 South Australian Budget

Papers. Accordingly, current and previous forecasts for 1999-2000 have been based on wage and salary earner employment which is more indicative of employment growth trends for that period. Subsequent forecasts and projections are based on total employment.

Figure 9.1 compares long term growth in total employment (ie wage and salary earner employment, self employed, employers and unpaid family helpers) with growth in wage and salary earner employment in South Australia—the latter was not affected by the statistical problems and shows a steadier growth pattern.

Growth in employment is estimated as 2½ per cent in 1999-2000. As Table 9.5 illustrates, growth through the year to April 2000 in trend total employment was 2.8 per cent, with 677 100 people employed in April 2000 (Figure 9.1).

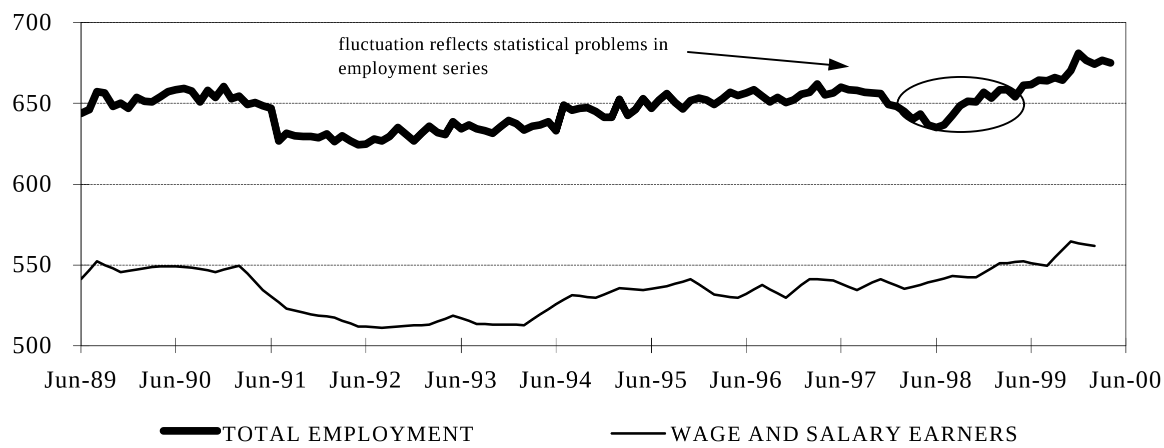
Table 9.5 South Australian Labour Force—Trend Data

		April 1999	April 2000	% change through the year
Full-time employment	No. (000s)	471.3	481.5	+2.2
Wage and salary earner employment[(a)]	No. (000s)	547.7	560.9	+2.4
Total employment	No. (000s)	658.7	677.1	+2.8
Unemployed	No. (000s)	62.4	60.6	–2.9
Unemployment rate	%	8.7	8.2	
Participation rate	%	60.3	61.3	

Source: Australian Bureau of Statistics: Labour Force Australia, Catalogue no. 6202.0.

(a) Trend estimate of wage and salary earner employment calculated by the Department of Treasury and Finance from ABS original data. Data relates to February quarter 1999 and February quarter 2000.

Employment growth in South Australia is forecast to ease to 1½ per cent in 2000-01, in line with projected average medium-term growth. Employment in South Australia typically grows around ½ a percentage point slower annually than national employment growth. In part this reflects the overall slower rate of economic and population growth evident in South Australia. A pattern of head office relocation and centralisation of financial activity in eastern State capitals has further detracted from South Australia's employment performance in recent years.

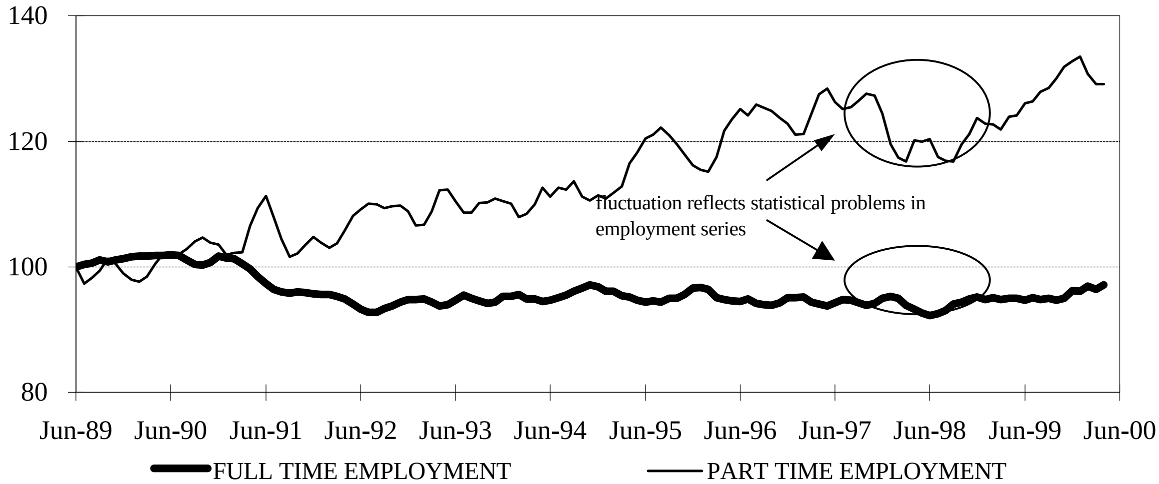


Source: Australian Bureau of Statistics: Labour Force Australia, Catalogue no. 6202.0.

(a) Seasonally adjusted estimates of wage and salary employment produced by Treasury—quarterly data converted to monthly data.

Figure 9.1 South Australian Employment—Monthly Seasonally Adjusted Estimates (000s) [(a)]

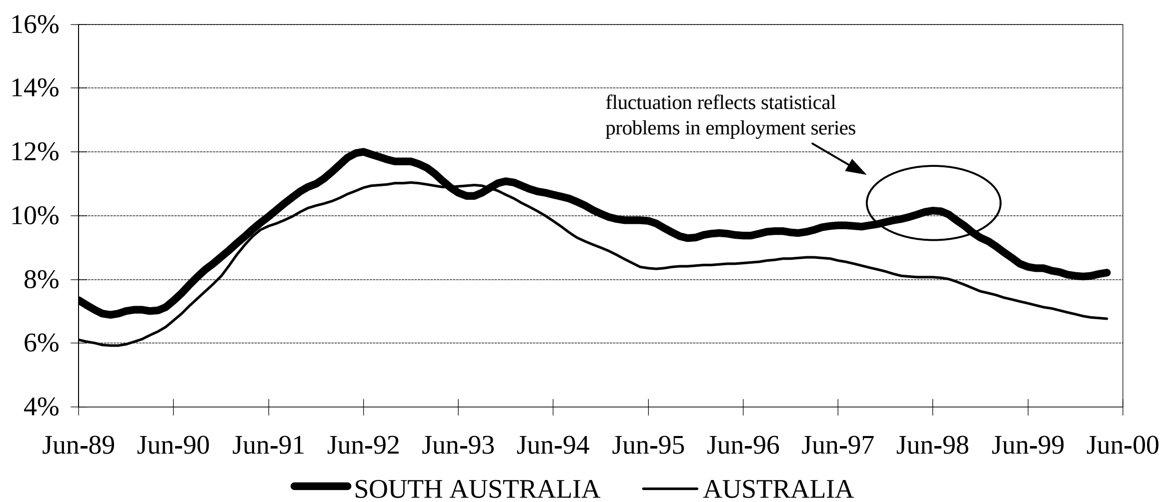
Over the last decade, growth in employment in South Australia has been concentrated in part-time employment. The level of full-time employment still remains below the pre-recession peak (Figure 9.2).



Source: Australian Bureau of Statistics: Labour Force Australia, Catalogue no. 6202.0.

Figure 9.2 South Australian Employment by Full-time and Part-time Status—Moving Quarterly Average (MQA) Original Estimates (index numbers—June 1989=100)

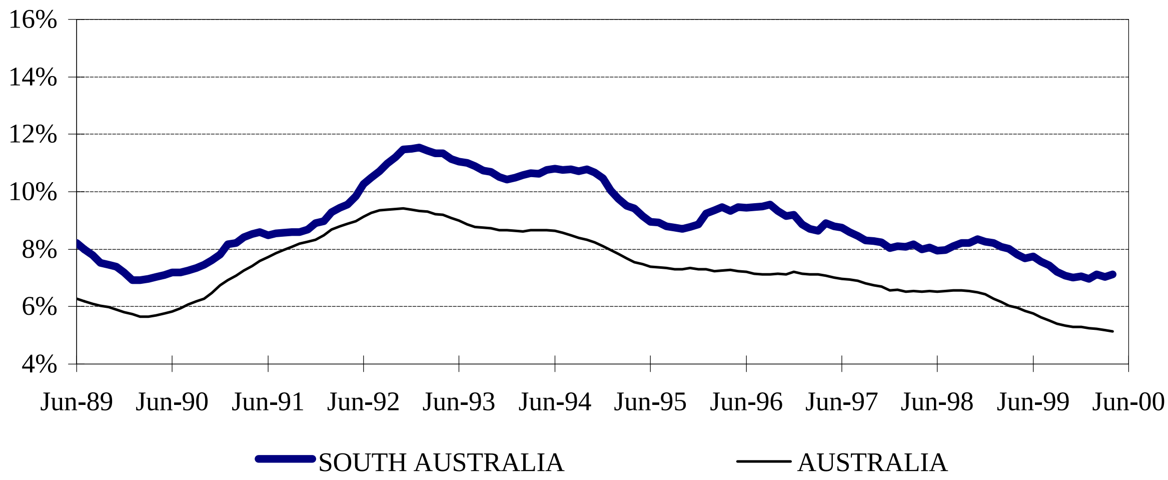
As Figure 9.3 illustrates, there has been a downward trend in the unemployment rate for both South Australia and Australia. Since mid-1998 the trend unemployment rate in South Australia has fallen, to be 8.2 per cent in April 2000. While it is encouraging that the unemployment rate has fallen, in South Australia it is still 1.4 percentage points above the Australian average of 6.8 per cent (in April 2000).



Source: Australian Bureau of Statistics: Labour Force Australia, Catalogue no. 6202.0.

Figure 9.3 Unemployment rates for South Australia and Australia—Trend Estimates

In April 2000, South Australia had the second highest youth full-time unemployment rate of all the States (28.3 per cent). There were 7300 15–19 year olds in April 2000 who were unemployed and looking for full-time work. However, this youth unemployment rate is somewhat misleading. It is the ratio of the number of 15–19 year olds who are unemployed and looking for full-time work compared with the 15–19 year old full-time labour force. The youth unemployment to youth population ratio gives a more accurate picture of the labour force status of young people, most of whom are engaged in study and not active in the labour force. In April 2000, the youth unemployment to population ratio was 7.2 per cent. The youth unemployment to population ratio has fallen since the recessionary peak in 1992 (Figure 9.4). However, South Australia continues to have a persistently higher youth unemployment to population ratio than the national average.



Source: Australian Bureau of Statistics: Labour Force Australia, Catalogue no. 6202.0.

Figure 9.4 Ratio of Full-time Unemployed Youth to Youth Population—Moving Annual Average Original Estimates

Prices and Incomes

Inflationary pressures have recently begun to re-emerge. While in 1998-99 the Adelaide Consumer Price Index (CPI) increased by just 1.3 per cent, it is expected that in 1999-2000 its growth will be 2½ per cent (Table 9.1). In Adelaide through the year to March 2000, increases in the price of petrol (by 24.2 per cent) and house purchase (by 8.1 per cent) have been the principal factors in the worsening inflation performance. The prospect of a further acceleration in the inflation rate has been the major reason for the Reserve Bank of Australia's actions to increase interest rates by 125 basis points since November 1999 (one of the main factors behind the last two 25 basis points increases was given as the recent fall in the Australian dollar, which places upward pressure on inflation through import price impacts).

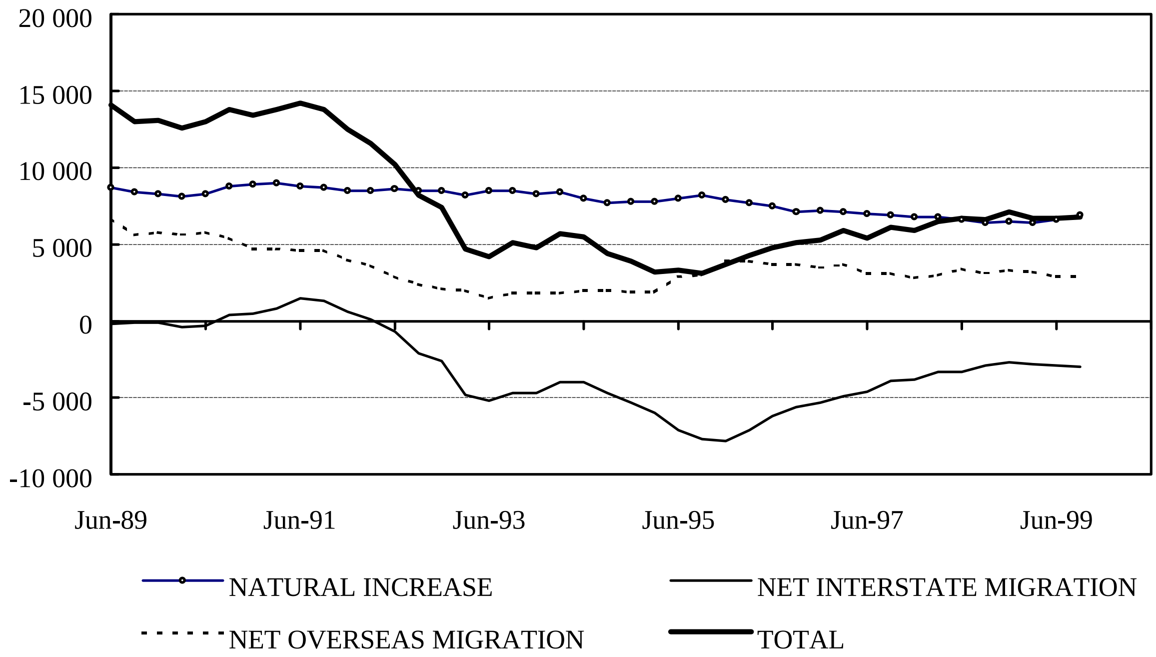
Consumers are expecting the rate of inflation to increase significantly over the next year, according to the Westpac–Melbourne Institute survey of consumer inflation expectations.

In 2000-01, the Adelaide CPI is forecast to rise by 5¾ per cent—the same as the national increase. On-going inflation, that is minus the direct impact of the Commonwealth Government's new tax system, is forecast to increase by around 2¾ per cent. The introduction of the new system on 1 July 2000 is expected to increase prices by around 3 per cent on a year average basis. Inflation is expected to fall back to 2½ per cent in 2001-02.

Wages growth in South Australia has remained subdued over 1999-2000. The Wage Cost Index (produced by the ABS) shows that annual wages growth is around 3 per cent in South Australia, and slightly higher nationally. In the 2000-01 Commonwealth Budget, average earnings growth (on a national account basis) is forecast to be 4¼ per cent in 2000-01 (including a superannuation guarantee charge increase). The Commonwealth has noted that there is some uncertainty regarding potential wage pressures if there are increased skills shortages but suggest that there is little current evidence of this. The Commonwealth also suggests there is not much pressure for wage increases to provide additional "compensation" for price rises resulting from changes to indirect taxes.

Population

Through the year to September 1999 South Australia's population growth rate was 0.5 per cent, compared with the national annual population growth rate of 1.2 per cent. South Australia's annual population growth rate, which has been between 0.4 and 0.5 per cent for the last three years, is low by national standards but has improved since the mid-1990s.



Source: Australian Bureau of Statistics: Australian Demographic Statistics, Catalogue no. 3101.0.

Figure 9.5 Sources of South Australian Population Growth—Persons, Moving Annual Total

The main reason for South Australia's lower than average population growth rate is persistent net interstate migration loss (Figure 9.5). Interstate migration losses have abated somewhat in recent years. In 1995, the net interstate migration loss was nearly 8000, compared with a loss of 3000 people in the year to September 1999. As Table 9.6 shows, in the year to September 1999 (latest data), interstate migration detracted 0.2 percentage points from South Australia's population growth. New South Wales and Tasmania also experience net migration to other States, while Victoria has recently started to gain population from interstate. Queensland and Western Australia also continue to gain population from interstate.

South Australia has the highest median age of all States, which contributes to the lowest rate of natural increase (births minus deaths) of all States.

In addition, South Australia generally receives a lower share of overseas migrants. The number of overseas migrants to South Australia was slightly below the net number of people who migrated interstate from South Australia in the year to September 1999 (Figure 9.5), resulting in a slight overall detraction from population growth from total migration.

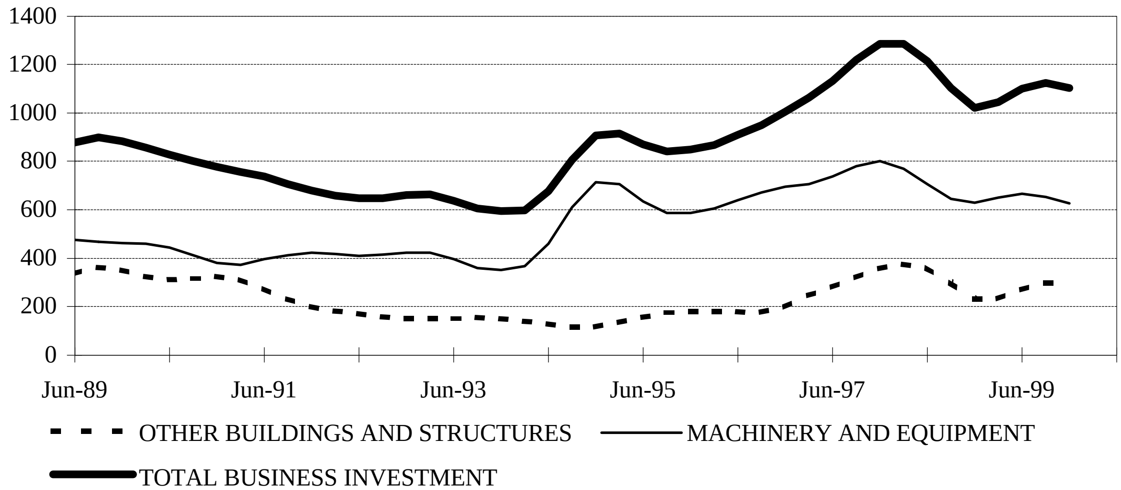
Table 9.6 Percentage Points Contribution to Population Growth—year to September 1999

	NSW	VIC	QLD	SA	WA	TAS	AUS
Natural increase	0.61	0.56	0.68	0.47	0.77	0.52	0.63
Overseas migration	*0.78*	*0.57*	*0.46*	*0.20*	*0.83*	*–0.04*	*0.59*
Interstate migration	*–0.23*	*0.11*	*0.51*	*–0.20*	*0.03*	*–0.75*	-
Total migration	0.55	0.68	0.97	–0.01	0.86	–0.79	0.59
Total increase	1.16	1.23	1.64	0.46	1.63	–0.26	1.22

Source: Australian Bureau of Statistics, Australian Demographic Statistics, Catalogue no. 3101.0.

Business Investment

Private business investment in South Australia in estimated to have fallen moderately in 1999-2000, after falling significantly in 1998-99. Part of the reason for this fall is the completion of WMC's Olympic Dam expansion in the second half of 1998, which contributed significantly to investment (an estimated $1940 million) at that time. However, private sector business investment remains quite high by the standards of the last ten years (Figure 9.6).



Source: Australian Bureau of Statistics: Australian National Accounts, State Estimates, Catalogue no. 5206.0.40.001.

Figure 9.6 Real Business Investment in South Australia—Trend ($m)

Business investment in South Australia during 2000-01 is expected to remain at around the same level as in 1999-2000. Notwithstanding this, during 2000-01 there are a number of major investment projects that are in progress or in prospect in South Australia, including:

- Adelaide to Darwin rail link, an estimated total cost of $1230 million—while all of the extension to the railway is in the Northern Territory the construction is expected to have a major impact on South Australia
- Pelican Point Power Station, an estimated total cost of around $400 million
- Adelaide Central Plaza in Rundle Mall, department store and speciality shops, estimated total cost of $85 million
- redevelopment of Riverbank Precinct, including Adelaide Convention Centre extension, an estimated total cost of over $100 million
- continuing work on the $200 million Holdfast Shores development at Glenelg–Patawalonga
- "Lakeside" retail/business development at Mawson Lakes, an estimated total cost of $100 million
- Port Adelaide Water Front redevelopment, commenced in 1994 and expected to continue until 2004, an estimated total cost of $450 million
- Proposed magnesium smelter at Port Pirie, an estimated total cost of $650 million.

Housing Sector

The housing sector exhibited very positive trends in South Australia throughout 1999, with the trend number of new dwelling approvals in December 1999 being 55 per cent above the level in December 1998. Dwelling approvals in South Australia are currently (March 2000) at around the highest level since the early 1990s (Figure 9.7).

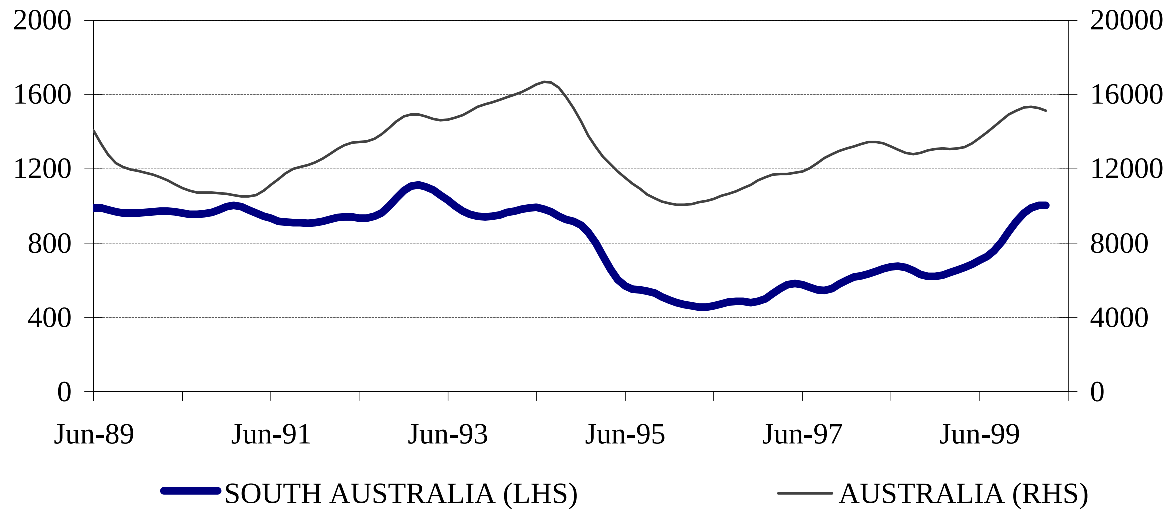
The strong demand for housing in South Australia during 1999 was related to a number of factors:

- the continuation of high housing affordability, due to historically low interest rates notwithstanding the 125 basis points increase since November 1999
- positive economic conditions
- a “catch up” from historically low levels of activity in the mid-1990s
- the “bringing forward” of dwelling construction to avoid expected house price increases associated with the introduction of the GST.

The strength in South Australia’s housing sector is not just confined to new dwellings—both the number sold and the median value of established dwellings have also increased at a solid rate.

Growth in dwelling approvals at the national level in 1999 was not as strong as in South Australia, but in December 1999 was still 17 per cent above the level of a year ago in trend terms. The rate of growth in dwelling approvals nationally has been dragged down by sluggish growth in New South Wales, although dwelling approvals there have been at high levels for a prolonged period.

In 1999, the value of dwelling commencements in South Australia increased by a strong 11 per cent, compared with 1998. Commencements of both new houses and “other” dwellings were strong during 1999. The strength in commencements of “other” dwellings has been driven by a spate of new apartment conversions and buildings in the city.



Source: Australian Bureau of Statistics: Building Approvals, Catalogue no. 8731.0 and 8731.4.

Figure 9.7 Number of Building Approvals in South Australia and Australia—Trend Data

In the first three months of 2000 however, the growth in the number of dwelling approvals has slowed markedly. With much of the strong growth in dwelling approvals in mid to late 1999 being GST-related, it is likely that the current high level of dwelling approvals will not be maintained. However, given the increasing time lag between the approval and commencement of a dwelling, the level of housing construction activity in South Australia is likely to remain strong in 2000. In addition, the Commonwealth Government’s First Home Owners Scheme subsidy—which will apply to all dwellings purchased by first home buyers after 1 July 2000—is expected to contribute to dwelling activity in 2000-01. However, in late 2000 and in 2001, dwelling activity is expected to slow markedly from the current high level. Notwithstanding this, during 2000-01 there are a number of major housing projects that are in progress or in prospect in South Australia, including:

- a $340 million, over 15 years, residential estate in Adelaide called “The Parks”
- a $144 million residential estate in Northfield
- the $60 million Victoria Park apartments on the site of the former ETSA building
- the $50 million Embassy apartments on North Terrace in Adelaide.

Regional Economic Conditions

Table 9.7 shows regional labour force data for South Australia. The Adelaide metropolitan area accounts for 74 per cent of total South Australian employment and for around 73 per cent of the total population. It should be noted that employment and unemployment rate estimates for non-metropolitan areas of South Australia are prone to high sampling variability and large sampling errors because of their small population. They could also hide significant levels of underemployment or hidden unemployment related to people no longer looking for work (or moving elsewhere) due to perceived limited employment opportunities in that region. In addition, there are people in regional areas who work for a small number of hours in a family business (eg on a farm) but may prefer to work more paid hours elsewhere.

Table 9.7 South Australian Regional Labour Force Data

	Adelaide	Outer Adelaide	Yorke & Lower North	Murray-lands	South East	Eyre	Northern	South Australia
Estimated residential population (no.)[(a)]	1 087 700	107 700	44 100	68 400	62 700	32 900	82 900	1 486 400
Unemployment rate (%)[(b)]	7.9	7.1	9.0	8.0	5.8	9.8	11.3	8.0
Total employment (no.)[(b)]	501 900	44 500	17 600	31 200	30 900	14 900	35 900	676 900

Source: Small Area Labour Markets, Department of Employment, Workplace Relations, and Small Business; Australian Bureau of Statistics unpublished data

(a) As at June quarter 1998

(b) As at December quarter 1999

According to the latest Department of Employment, Workplace Relations and Small Business estimates (Table 9.7) the lowest unemployment rate within South Australia's regions in the December quarter 1999 (latest data) was in the South East statistical division, while the highest unemployment rate was found in the Northern statistical division.

Over the ten-year period to February 2000, the latest ABS data show that employment growth in metropolitan South Australia was considerably stronger than in non-metropolitan South Australia. In that period, of the 17 600 jobs created in South Australia, 14 900 (85 per cent) were in the metropolitan region. The increase of 14 900 jobs represented a 3.1 per cent increase over this ten-year period. The remaining employment growth (2700 jobs) in non-metropolitan South Australia represented an increase of 1.6 per cent over the ten-year period.

Typically, the Adelaide metropolitan area had a higher unemployment rate than the rest of the State. Recently, however, the gap between the two unemployment rates has reduced with both trending downwards. In the December quarter 1999, according to the Department of Employment, Workplace Relations and Small Business, the Adelaide metropolitan area had a slightly lower unemployment rate than the South Australian average.

Table 9.8 shows other economic indicators for regional areas within the State. The Murraylands region (which includes the Riverland) accounted for around $796.6 million or 27 per cent of the total value of South Australia's agricultural production in 1997 (latest available data). Eyre statistical division had the highest value of agricultural product on a per capita basis—$11.9 million per 1000 persons. Manufacturing turnover—on a per capita basis—was highest in the Northern and South East statistical divisions.

The Adelaide statistical division accounted for around 66 per cent of the number of new dwellings approved in the year to June 1998, although the Outer Adelaide statistical division had the highest number of dwelling approvals per capita over this period.

Table 9.8 Other Regional Data—year ended 30 June 1998

	Adelaide	Outer Adelaide	Yorke & Lower North	Murray-lands	South East	Eyre	Northern	South Australia
No. of residential building approvals	4 713	961	285	391	262	172	335	7 119
per 1000 persons	4.3	8.9	6.5	5.7	4.2	5.2	4.0	4.8
Value of residential building approvals ($m)	433.2	79.7	21.5	28.0	25.4	14.8	27.6	630.2
Manufacturing turnover ($m)[(a)]	14 187.1	1 054.5	119.6	670.2	958.2	84.3	1 412.3	18 486.2
per 1000 persons	13.0	9.8	2.7	9.8	15.3	2.6	17.0	12.4
Value of agricultural product ($m)[(b)]	132.2	461.7	500.8	796.6	434.6	393.1	237.5	2 956.5
per 1000 persons	0.1	4.3	11.4	11.6	6.9	11.9	2.9	2.0

Source: Australian Bureau of Statistics unpublished data

(a) Year ended 30 June 1997

(b) Year ended 31 March 1997

The Productivity Commission released the final report of its inquiry into the Impact of Competition Policy on Rural and Regional Australia in September 1999. The report was largely unchanged from the draft report released in May 1999 and reported on in last year's Budget Statement.

The adverse impact of National Competition Policy (NCP) on rural communities is often raised as an issue. The Productivity Commission argues that NCP is but one of many influences on rural and regional Australia and that there are "net benefits" from NCP but "the early effects have favoured metropolitan areas more than rural and regional areas". The Commission's modelling assumed no employment gains from NCP and that all GDP growth will be through productivity gains. On that basis, South Australia has an estimated overall employment decline of 0.2 per cent, with only the Adelaide region estimated to have a small increase in employment. Outer Adelaide, Murraylands and the South East were estimated to have a decrease in employment from the NCP reforms, although these regions had experienced employment growth from the underlying structural changes in the Australian economy. Yorke and Lower North, Eyre and Northern regions were identified as suffering employment declines as a result of underlying structural changes, together with NCP reforms.

These outcomes reflect the particular modelling assumptions used by the Commission and are not forecasts of actual outcomes. In practice, all the benefits may not occur as productivity gains and employment could then be higher than suggested by these modelling results. However, it is safe to conclude that the impact on the metropolitan areas is more favourable than for rural areas in relative terms.

The Commission argues that NCP is wrongly blamed for the adverse effects of other long-term trends. Major influences on country Australia cited include:

- downward trend in agricultural and mineral prices
- technological advances
- changes in consumer tastes, eg decline in demand for wool
- changes in lifestyle, eg increased migration to coastal areas
- government policies, eg lower trade barriers, financial deregulation and environment protection.

Assisting regional communities is one of the key priorities of the Government and initiatives in this area are discussed in Chapter 4 of the Budget Statement.

9.2 NATIONAL COMPETITION POLICY REVIEW

National Competition Policy comprises a comprehensive range of policies aimed at improving competitiveness in the Australian economy, subject to an assessment of the costs and benefits of reform (the “public interest test”).

The Productivity Commission’s inquiry report, referred to in the previous section, contained a number of recommendations relating to providing information and publishing guidelines on the Competition Principles Agreement (CPA), the conduct of legislation reviews, independent reviews of regulatory agencies, publication of cost–benefit studies for major new water infrastructure assessments and types of assistance measures.

In its submission to the Commission’s Inquiry, the South Australian Government identified a number of fundamental concerns in relation to the National Competition Council’s (NCC) role and also highlighted the need for a more flexible approach to implementing reform.

As an example, one of the requirements of the CPA is that States review legislation that restricts competition, including gambling legislation.

It is the South Australian Government’s view that gambling is a matter for social policy that is best considered by the Parliament from time to time. Parliament then typically considers these matters as conscience votes of Members reflecting the broader community views.

This view is fundamental to the current regime governing gambling in South Australia.

This view is not necessarily inconsistent with the CPA since that Agreement specifically provides for social factors being relevant to its provisions. The issue of competition has not been the focus of consideration in the slow and careful liberalisation of gambling in South Australia. Gambling by its very nature may have adverse effects on consumers and warrants focus on the need for harm minimisation in an effort to protect consumers.

Notwithstanding that it is the right of the South Australian community to restrict gambling services as it sees fit, it nevertheless was demonstrated in a South Australian Government submission to the Productivity Commission Inquiry into Australia’s Gambling Industries that the current exclusivity arrangements for various gambling operators in this State provide benefits that outweigh any costs associated with the restriction. These benefits include social benefits, harm minimisation measures, efficient probity checks, regional development and revenue generation.

The Senate Select Committee’s final report on the Socioeconomic Consequences of NCP was released in February 2000. The Committee expressed concerns with the lack of oversight by the Council of Australian Governments of the NCC and NCP agenda. The Committee also identified problems with the public interest test which underpins NCP, in particular the “domination” of economic factors over intangible social and environmental issues. Lack of understanding and communication of the nature and benefits of NCP was also criticised. The Committee also called for a more transparent legislative review process.

A review of the NCP and the NCC by a working group of Commonwealth, State and Local government officials has recently begun and will address a number of issues such as the public interest test and the role of the NCC. In addition, the Productivity Commission is conducting an inquiry into regulation of access to significant infrastructure facilities (Clause 6 of the CPA and Part IIIA of the *Trade Practices Act 1974*).

Chapter 6 of this Budget Statement deals with the financial aspects of NCP. Further details on the implementation of NCP in government businesses are contained in Chapter 8.

IMPACT OF THE BUDGET ON FAMILIES

The Government of South Australia recognises that many factors impact on the well-being of families. Social and community expenditure, particularly on health and education, taxation, economic performance, employment levels and business and consumer confidence all play a part.

The State Government will continue to support and encourage South Australian families by implementing and pursuing a number of key initiatives in 2000-01 which will help maintain an environment that upholds the importance of the family.

It is long-standing government policy that proposals considered by Cabinet outline any impacts on South Australian families by way of a Family Impact Statement. In recognising that proposals have a varying impact on different sections of the community, the State Government has expanded this requirement to ensure that particular attention is paid to any decisions which may have a substantial impact on families, regional development or the small business sector.

Some of the Government's key priorities for 2000-01 relating to families include:

- positively influencing the balance and flexibility between employee work commitments and family and carer responsibilities in both the public and the private sectors
- supporting and assisting families of diverse cultural and linguistic backgrounds, including indigenous families
- increasing the sense of security and harmony in the community and improving outcomes for families and children through crime prevention and crime reduction strategies
- continuing community-based programs to support families and individuals in vulnerable circumstances
- developing strategies to empower families, enhance community-based care options and improve community support for families and carers, with particular focus on foster carers, people with a disability and those with a mental illness
- increasing parental involvement in local education site management through Partnerships 21.

In preparing this year's budget, all Ministers have been required to provide information about initiatives which will impact on families. These initiatives are outlined in detail, by portfolio, below.

A.1 PREMIER AND CABINET

In the implementation of Managing Diversity initiatives across the portfolio, the Department of the Premier and Cabinet will aim to positively influence the balance and flexibility between employee work commitments and family and carer responsibilities with:

- a working from home policy
- leave flexibility including a 48/52 weeks policy
- a registration of interest policy for short term vacancies
- a health and lifestyle program as part of the department's occupational health and safety program.

The department will pursue the following specific strategies in 2000-01.

- The Reconciliation Working Group, initiated by the Office of the Commissioner for Public Employment and open to all staff, will deliver a program of seminars, cultural awareness and anti-racism workshops, and a reconciliation study circle.

- Positive influences for families of diverse cultural and linguistic backgrounds will be addressed through the Office of Multicultural and International Affairs (OMIA) and the secretariat it provides to the South Australian Multicultural and Ethnic Affairs Commission (SAMEAC). OMIA will expand the *Multicultural Access to Justice* program across the State in partnership with the State Ombudsman, with an emphasis on regional South Australia. It will provide more access and equity support to public sector agencies and extend its Volunteer Migrant Information Officer Network to regional SA. The SAMEAC Secretariat will assist the Commission with the organisation of multicultural forums on topical issues, community consultations and the fortnightly radio program *Cultural Connections*. Families will be a principal target group of these activities.
- In addition to its economic value, holiday travel plays an important role in contributing to social, psychological and family well-being. The South Australian Tourism Commission (SATC) recognises that this aspect of holidays is important in encouraging and generating travel in South Australia. Through initiatives funded by this budget SATC aims to ensure that holidays continue to enhance the quality of life of South Australians.

  Research consistently identifies the very strong influence that children have upon the holiday decisions of parents. A primary holiday decision factor for families is that the destination offers things that will interest and appeal to children. In the *Best Kept Secrets* Campaign SATC has addressed this need by specifically identifying appealing features "for kids". During 2000-01, SATC will extend its efforts to identify, promote and further develop those holiday features of South Australia of particular appeal to families.

A.2 PRIMARY INDUSTRIES AND RESOURCES

As a key economic development agency, PIRSA works directly with the community and industry to deliver prosperity and employment for the benefit of all South Australians. PIRSA has developed strategies to accelerate industry growth, build a globally competitive industry environment and deliver integrated, customer-focused services which will lead to strong, self-reliant and viable rural and remote communities. Family-based partnerships are a feature of many agricultural properties and other businesses with which PIRSA works, and while benefits from the agency's activities flow to the whole community, these families benefit most directly from PIRSA programs.

In 2000-01, key initiatives include the extension of the Farmed Seafood Initiative, funding for priorities identified by the Resources Task Force, and assistance for farmers in the central north-east of the State. These initiatives, together with on-going PIRSA programs across primary industries and resources sectors will deliver significant opportunities and benefits to families.

A.3 TREASURY AND FINANCE

The Department of Treasury and Finance, through the implementation of sound budgetary policy for State government finances, is working to ensure that services delivered to families are efficient and financially viable.

This is complemented by a reduction in the debt burden on future generations of South Australians through the divestment of the electricity assets and the effective management of the remaining state debt.

The financial and economic policies in place are designed to lift the State's economic performance and provide an environment favourable for investment, which will boost employment prospects and the welfare of our families.

A.4 JUSTICE PORTFOLIO

Specific strategies to address the interests of families include:

- providing an effective and efficient consumer and business framework to ensure business and consumer confidence, thereby providing for positive economic performance leading to outcomes for families such as increased business investment and employment
- implementing initiatives aimed at improving outcomes for families and children, including, where possible, the further development and evaluation of diversion schemes within the criminal justice system for offenders dealing with issues such as mental impairment, drug use and domestic violence
- employment of 113 additional police officers and 27 extra support staff to support crime prevention and reduction strategies, and better target crime such as family and domestic violence, motor vehicle associated offences and drug related offences, thus increasing the sense of security and harmony in the community
- building better communities and enhancing community involvement through partnership programs such as Neighbourhood Watch, School Watch and other crime prevention strategies
- working in partnership with other portfolios and communities to develop the capacity for the community to reduce crime and improve safety
- continued development of the fines enforcement system to ensure it provides a more efficient and effective means for the payment of fines, particularly for low income families
- improving access to information and legal support for low income families through accessible community legal centres
- reviewing the provision of justice services taking into account the special needs of Aboriginal women and families
- evaluating the Bushlink Video-conferencing pilot program, particularly relating to its success in improving access to justice services by families living in rural and remote locations
- introducing the "Ask the Judge" program which will provide an Internet-based mechanism for students to learn more about the Courts system
- expanding the Aboriginal Justice Officer program which assists Aboriginal people and their families to better understand the Courts system and to access services.

A.5 HUMAN SERVICES

In 2000-01 it will remain necessary for public hospitals to continue to manage the demand for services within tight budgets. The strategies applied in 1999-2000 have met with some success.

With the strategies in place to manage demand in the acute sector, it is possible to implement some limited but specially targeted community-based programs to support families and individuals in vulnerable circumstances.

- Funding of $1.6 million has been allocated to support foster carers of vulnerable young people and children.
- The Gamblers Rehabilitation Fund has received a $0.5 million boost that will enable improved services to families affected by gambling.
- In addition $2.5 million is being provided to expand community-based programs to support South Australians with a mental illness. This will help to reduce pressures on hospitals.

- An extra $2.5 million for the Home and Community Care Program will enable improved services to people with disabilities and enhanced aged care services.
- In order to better support individuals and families to cope with the challenges of caring for ageing family members and children, and those with disabilities or mental illness, the department is developing strategies to empower families, enhance community-based care options and improve community support for families and carers.
- The annual budget for disability services has been increased by $10 million with $8.5 million targeted to new initiatives in 2000-01. This new funding will be targeted to help people caring for a disabled family member. It will enable more supported accommodation for people with disabilities who urgently require community accommodation, especially those living at home with aging carers.
- Additional resources will be allocated to help those living in institutions who would prefer to live in the community, to move into community-based accommodation. The funding will also enable a range of respite options, including in-home support, centre-based respite, art, recreation and day activities.

The SA Housing Trust plans to build or redevelop 141 houses and renovate a further 990. The Trust is also working with local councils, local communities and the building industry on urban renewal projects at Westwood, Windsor Gardens, Mitchell Park and Salisbury North. The South Australian Community Housing Authority expects to construct about 70 houses and renovate over 150. The Aboriginal Housing Authority is planning to build 22 new houses, of which 15 are in rural and remote areas, and to upgrade 154 houses.

The 2000-01 Budget will see the phasing out of the Housing Trust's Rental Relief program estimated to save $3.1 million in 2000-01. Existing recipients will continue to receive benefits until they leave the program or cease to be entitled to benefits. This is additional to Commonwealth rental assistance provided through the social security system. Assistance with bond payments and rent in advance and arrears will continue as this contributes to improved access to private rental accommodation for low income households.

A.6 DEPARTMENT FOR TRANSPORT, URBAN PLANNING AND THE ARTS

The policies and programs of the Department for Transport, Urban Planning and the Arts will address the interests and needs of families by:

- providing greater consideration to families and older people in all urban regeneration projects
- pursuing "Family and Work" initiatives
- promoting travel blending in terms of people's choice of travel
- increasing educational and entertainment opportunities associated with the upgrade of the cultural institutions along North Terrace
- improving the frequency, reliability and safety of public transport and information about services
- increasing accessible transport services for people with disabilities
- improving all-weather road access in rural and remote communities
- reducing road related trauma
- improving safety for pedestrians
- providing opportunities to emerging artists, generally younger people
- providing a stable, democratic and accountable system of Local Government whose councils are able to maintain and improve local services and amenity for all residents.

- promoting safe and healthy living environments in rural and remote Aboriginal communities by maintaining a high level of reliability of the essential services (water, power and sewerage) infrastructure
- promoting economic development to increase Aboriginal employment opportunities and create prosperity for Aboriginal families
- preserving and protecting Aboriginal cultural heritage for the spiritual well-being of current and future generations of Aboriginal family groups
- continuing to pursue strategies aimed at providing alternatives to custody that benefit Aboriginal people under threat
- monitoring the implementation of the *Bringing Them Home* report recommendations including initiatives aimed at Aboriginal family tracing and reunions
- convening the Council of Aboriginal Elders in South Australia to discuss a range of issues affecting Aboriginal people across the State and to provide advice to Government.

A.7 ADMINISTRATIVE AND INFORMATION SERVICES

DAIS is providing assistance in developing family-friendly practices to promote family well-being.

- An on-going initiative of Workplace Services—the "Balancing Work and Family" theme that incorporates a brochure, poster and booklet—is being updated in 2000-01 with the assistance of the Office of Families and Children of the Department for Human Services. The strategies outlined in the publications are aimed at assisting with the adoption of flexible working conditions to support employees who have family and carer responsibilities. The strategies provide a range of supportive options which, when applied in a flexible way by employers, can generate higher productivity, reduced absenteeism, higher levels of morale, less stress and enhanced loyalty to the workplace.
- Innovations within enterprise agreements, particularly within the small to medium private business sector, are designed to benefit families. A guide of sample clauses will be introduced based on generating family-friendly workplaces and will set guidelines for employers so that the workplace accommodates employees with families.
- ForestrySA manages access to forest recreation camping sites which provide a leisure resource for families.
- State Records has continued to enable individuals and families to trace their origins. *Ancestors in Archives* is a guide to family history sources held by State Records, and was developed in view of the growing interest in this aspect of South Australian history.

DAIS will continue to support and encourage South Australian families and assist in creating an environment where the importance of family is upheld.

A.8 EDUCATION, TRAINING AND EMPLOYMENT

Families will benefit from:

- increasing parental involvement in local education site management through Partnerships 21, which provides for a strong local voice in local policy, strategic planning and budget issues, and gives greater accountability to parents, through partnerships with parents, business and community groups
- continuing to implement *The Plan for Aboriginal Education in Early Childhood and Schooling 1999–2003* which is increasing the involvement of Aboriginal families and communities in decision-making forums in centres and schools

- supporting the families of children and students with learning difficulties and disabilities through various initiatives such as training and development courses for parents, and advisory services
- continuing to respond to the education and training demands created by the Commonwealth's Youth Allowance and Enhanced Mutual Obligations arrangements
- adjusting service provision according to demographic forecasts and school reviews by opening new schools, restructuring, and/or upgrading existing schools to better suit local needs
- maximising young people's employment skills through the Enterprise and Vocational Education in School Strategy which includes Vocational Education and Training, Vocational Learning and Student Support Services
- strengthening the first years of a child's development and learning through working with parents in initiatives such as the Early Years Strategy
- continuing to support the provision of flexible, accessible child-care for metropolitan, regional and rural consumers to facilitate parent choice in taking up training and employment options
- establishing 40 child care places at Anangu Pitjantjatjara lands
- reporting to parents on their children's learning, in particular literacy and numeracy learning outcomes
- increasing the number of young people employed under contracts of training through the implementation of the New Apprenticeship Scheme
- increasing the numbers of Aboriginal people enrolled in Aboriginal education programs by promoting numeracy and literacy through Entry Level Training Programs
- further assisting Aboriginal people to achieve personal well-being and self-determination by promoting and delivering the Family Well-Being Training Course in major Aboriginal communities across the State
- trialling in 2000, and then implementing in 2001, the South Australian Curriculum, Standards and Accountability (SACSA) Framework, that will provide a seamless curriculum for children and students from birth to year 12, and assist with transition from one level of care and schooling to the next
- reporting to students, parents and the community as a whole in 2001, on the quality of children's and students' learning and actions planned to improve this learning through the SACSA Curriculum Accountability requirements.

A.9 DEPARTMENT FOR ENVIRONMENT AND HERITAGE

The Department for Environment and Heritage (DEH) is continually aiming to provide a better quality of life for all South Australians.

- The work of DEH supports a healthy lifestyle, environment and quality recreational experience for families in South Australia. In the year to come DEH will, with community participation, further enhance the value of the State's natural environment by supporting biodiversity conservation programs such as those under the Natural Heritage Trust and through organisations such as Friends of Parks. Sporting and recreation clubs and associations will be supported through a variety of development grants and families will be able to take advantage of a number of participation programs and development projects
- Families will benefit from improved visitor facilities and services in key national parks and botanic gardens such as the creation of the Greater Mount Lofty Park and the focus on Cleland as the gateway to South Australia's parks. With the establishment of a visitor statistics and survey

program this year, families have had the opportunity to provide feedback to the department on their needs and provide input to services provided

- Walking trails upgrading will continue with the implementation of the Greenways Bill and sporting facilities will continue to be maintained and managed on behalf of all South Australians, supported by a share in additional grants funding of $2 million in 2000-01
- South Australian families can also continue to be assured of environmental protection in the State through programs planned to further improve waste management and air quality, protect our key marine, coastal, catchment and water resource assets and to promote pollution prevention
- South Australia's hosting of World Environment Day in June 2000 will be used as a springboard for improving environment education. Access to our services will continue to improve through the further development of The Environment Shop and the Department's Internet site
- Within the agency, DEH acknowledges families in policy and programs such as the Diversity in the Workplace Policy. As part of employee education and support in this area, fact sheets have been developed for staff on topics important for staff with family responsibilities, namely, flexible working arrangements, and balancing work and family responsibilities. These fact sheets provide employees with important information about options available to them in managing work and family life
- The Department's Aboriginal and Youth Employment Task Force will continue to work towards increasing numbers of youth and Aboriginal employees in DEH.

A.10 WATER RESOURCES

In February 2000, the Government created the new portfolio, the Department for Water Resources, to have responsibility for water resource management in South Australia. The key objective is to achieve a strong, consistent and collaborative focus on water issues for the benefit of all South Australians.

In its formulation of policy advice for the Minister for Water Resources and the Government and in its delivery of services, the portfolio will support families in urban, regional and remote communities across the State.

- During 2000-01 a principal focus will be the continual supply of good quality water for all South Australians from the Murray–Darling Basin and the State's surface water and groundwater systems, an approach that will provide both short-term and long-term benefits for families.
- Access to the portfolio's services by families in regional and remote communities will continue to be enhanced through the network of regional service centres located in its Riverland, South East, Northern and Eyre Peninsula offices. These regional offices will also be key communication channels for increasing community awareness of the importance of managing the State's water resources, and for regional and remote communities to provide direct feedback to the portfolio on its services.

In its policies, planning and management practices, the Department for Water Resources will continue to positively influence and support employees to achieve and maintain a balance between their work commitments, and family and carer responsibilities. A consistent policy on flexible working arrangements, a strong focus on prevention in managing work practices and potential occupational health and safety issues, and training in time management will be an integral part of the agency's Human Resources Plan and the implementation of its Managing Diversity responsibilities. During the year the agency will also consider a working from home policy and a health and lifestyle program for integration into its Occupational Health and Safety Plan.

IMPACT OF THE BUDGET ON WOMEN

The Government is committed to ensuring that its policies and programs improve the status and well-being of women in South Australia and that women’s needs are taken into account in the development and implementation of Government policies and programs.

The Government’s goals to advance the status of women are to:

- provide women with the opportunity to participate fully and equally in all spheres of our society
- encourage women to contribute their skills to the growth of the State’s economy and ensure women enjoy the benefits of economic recovery and a safe environment
- value the contribution of work undertaken by women in the home, in child rearing, in caring for older family members and in voluntary community activities
- eliminate discrimination against women
- ensure a fair allocation of resources to women’s specific needs.

Funds of $1 531 000 will be provided for the Status of Women program in 2000-01 to assist in the achievement of these goals.

Specific activities that will be undertaken in 2000-01 include the following:

- a young women’s financial independence project—a result of Women's Advisory Council consultations revealing that lack of information is a substantial barrier to women achieving financial independence—will involve consulting with young women from school age to 25 years to produce financial information in a format that is accessible and meaningful for them
- the Women’s Information Service will consolidate and expand the delivery of information services to women in rural, remote and regional South Australia. Funding is allocated to expand service delivery to rural areas to ensure women have regular face-to-face contact with female information officer
- rural Internet access will continue to be maintained in four rural sites, the Mallee, Eyre Peninsula, the Riverland and the South East, in partnership with local women’s groups and services
- a major research project (in conjunction with The University of Adelaide) into women’s financial independence, in particular the changing patterns of employment for women in South Australia, will look at the pay gap between women and men, compare rural and urban employment, and examine the effect of family responsibilities on the work experiences of women and men.
- a South Australian Business Women’s Summit will bring together key business organisations to strengthen women’s participation in business and decision making
- women from South Australia’s diverse cultural groups, who could make a significant contribution to government boards and committees will be identified
- women’s financial independence will be promoted by the Women’s Advisory Council through the distribution of the final series of financial checklists for women:
    - choosing your superannuation fund
    - building financial independence and choosing your financial adviser
    - considerations when buying property.
- the *Women in Adelaide—Women’s Perceptions of the City* report will be promoted and the incorporation of women’s views in urban planning and development will be encouraged

- the Government will continue to promote options for family-friendly work practices, including vacation care for government employees
- the contribution made by volunteers to the Women's Information Service will be recognised as part of the celebration of the International Year of Volunteers
- contributions will be made to policy development on issues impacting on women, including domestic violence and prostitution.

B.1 PREMIER AND CABINET

In the implementation of Managing Diversity initiatives across the portfolio, the Department of the Premier and Cabinet will respond to the particular needs of women with:

- a working from home policy
- leave flexibility including a 48/52 weeks policy
- a registration of interest policy for short term vacancies
- a health and lifestyle program as part of the department's occupational health and safety prevention program.

While the adoption of more flexible working arrangements will potentially benefit all staff, they are likely to significantly benefit women with parenting and carer responsibilities.

The department, through the Office of the Commissioner for Public Employment, will further develop Leadership SA, a management development program aimed at increasing leadership and management skills and capabilities across the public sector. This program will assist in improving the management and leadership skills of public sector women who are well represented at the first line management level, but are significantly under-represented at the middle, senior and executive management and leadership levels. It will also complement the department's in-house career development programs for women.

The department will continue to advise and collaborate with the Office for the Status of Women and other agencies to achieve improved gender balance and outcomes for women on government boards and committees.

In the area of multiculturalism and ethnic affairs, the department will contribute to positive influences for women of diverse cultural and linguistic backgrounds through its Office of Multicultural and International Affairs (OMIA) and the secretariat provided to the South Australian Multicultural and Ethnic Affairs Commission (SAMEAC).

OMIA will expand the *Multicultural Access to Justice* program across the State in partnership with the State Ombudsman, with an emphasis on regional South Australia. OMIA will also enhance its provision of access and equity support to public sector agencies and extend its Volunteer Migrant Information Officer Network to regional SA. The SAMEAC Secretariat will assist the Commission in organising multicultural forums on topical issues, community consultations and the fortnightly radio program *Cultural Connections*. Women will be a principal target group.

In addition to its economic value, holiday travel plays an important role in contributing to the social well-being of families. Through initiatives funded by this budget, the South Australian Tourism Commission (SATC) aims to ensure that holidays continue to enhance the quality of life of South Australians.

Women play a significant role in holiday travel both in terms of the total number of women holiday travellers and in their influence in initiating and planning holidays. SATC therefore seeks to understand the holiday needs of women and provide for these needs through research, product development and promotion. During 2000-01 SATC will extend its efforts to identify, promote and develop those holiday features of South Australia that meet the needs of women.

B.2 PRIMARY INDUSTRIES AND RESOURCES

Women and families are an important consideration in PIRSA's outcomes and strategies. The majority of agricultural properties are operated by family partnerships involving women, and women comprise one third of the population classifying itself as farmers.

PIRSA has developed strategies to accelerate industry growth, build a globally competitive industry environment and deliver integrated customer-focused services which will lead to strong self-reliant and viable rural and remote communities, all of which impact positively on women as farm partners.

Strategies relating particularly to women include:

- monitoring, reviewing and updating the State and National Action Plan for Women in Agriculture and Resource Management
- developing a database for women in primary production
- supporting women in agriculture and business organisations
- supporting the SA Rural Network
- coordinating the SA Rural Women's Gatherings
- supporting the Rural Industry Research and Development Corp — Rural Women's Award
- coordinating research into women on agricultural industry boards in South Australia
- coordinating Rural Women in Trade; a Centenary of Federation project.

Arising from reports delivered by the Women's Development Group (WDG) in 1998-99, a number of programs are being implemented within the agency to benefit both men and women, with particular attention to areas that are expected to benefit women. This is the beginning of a long-term project to create a more supportive environment for women in PIRSA. Overall, the work of the WDG and the subsequent programs has already served to increase awareness and openness on problems facing women in the workplace.

Specific programs that will continue in 2000-01 include:

- support for women accessing the "Springboard" training for ASO-1 to ASO-4 classification levels
- a purpose built internal program, Women in Leadership for women at the ASO-5 level and above
- Careers in the 21st Century—career planning for people at different stages in their career with one course specifically for women
- managers' forums—investigating and resolving issues for managers (women in management roles are well represented)
- leadership training—purpose built course for improving the skills of senior managers
- capabilities profiling of executives and managers—will allow women's capabilities in management to be acknowledged.

In addition, the Executive monitors quarterly reports on workforce trends including statistics on gender and age. This will enable the performance of the organisation in relation to the percentage of women in management to be mapped.

B.3 TREASURY AND FINANCE

As a result of the work of Treasury and Finance to ensure state government finances are well managed, and that economic policies are in place to boost economic growth, women are expected to be beneficiaries through improved employment prospects.

Within the department, the causes of under-representation of women at senior management levels were reviewed in 1999. As a result, the department has adopted the following strategy for 2000-01: "Implement programs which encourage and support full participation by women at all levels and in all areas of the organisation and which aim to increase their representation at senior levels".

To support this strategy, a Women's Development Group (WDG) was formed that reports directly to the Executive Management Group (EMG). The WDG have developed, in close consultation with the EMG, a work program to be implemented over the next 12 months, which covers three main areas: culture change, career progression and support mechanisms for women.

In addition to this specific initiative, a number of policies have been introduced to provide more flexible working arrangements for all staff, which are likely to have significant benefits for women with carer's responsibilities. These policies cover working from home, part-time work and flexible working hours.

B.4 INDUSTRY AND TRADE

The outcomes expected from the Department of Industry and Trade's budget will favourably impact on women. The improved levels of employment, investment and exports will directly and indirectly benefit all women across the State.

B.5 JUSTICE

Specific strategies to address the interests of women include:

- continuing the development of community-based partnership crime prevention strategies
- providing dispute resolution services to foster fairness and value diversity by advocating equal opportunity to all South Australians (these services, provided through the Office of the Commissioner of Equal Opportunity, include the elimination of discrimination against women)
- continuing to work with other government agencies to ensure improved outcomes for women and a gender balance on government boards and committees
- continuing work on the prevention of domestic violence which has serious impacts on women and children in our community, including an assessment of the violence intervention program being trialed in the Courts
- continuing to improve community access to information and advice on legal matters through community legal centres
- reviewing the provision of justice services taking into account the special needs of Aboriginal women and families

- maintaining the work of the Ministerial Forum for the Prevention of Domestic Violence.

B.6 HUMAN SERVICES

The Department is currently developing an overall policy and planning framework for women's health and well-being which will address a range of issues important to women. This plan will inform future service provision across health, housing and community services.

Funding has been increased in several areas which are dominated by female carers:

- Funding of $1.6 million will increase payments to foster carers, who have been supporting our young people and children for many years.
- In addition $2.5 million is being provided to expand community based programs to support South Australians with a mental illness. This will help to reduce pressures on hospitals.
- Extra funding of $2.5 million to the Home and Community Care Program will enable services to people with disabilities and enhanced aged care services to be improved.
- The budget for disability services has been increased by $10 million with $8.5 million targeted to new initiatives in 2000-01 following an extra $1.5 million of State funding approved in 1999-2000 to help people caring for a disabled family member. It will enable more supported accommodation for people with disabilities who urgently require community accommodation, especially those living at home with aging carers. The funding will also enable a range of respite options, including in-home support, centre-based respite, art, recreation and day activities. These programs will better support carers, who are often women.
- The Gamblers Rehabilitation Fund has received a $0.5 million boost that will enable improved services to families affected by gambling.

These programs are in addition to the services provided directly to women, such as breast and cervical cancer screening. BreastScreen SA provides services through seven fixed screening clinics—six in metropolitan Adelaide and one in the Riverland—and two mobile units which visit all country areas every two years, the recommended screening interval.

In order to better support individuals and families to cope with the challenges of caring for ageing family members and children, and those with disabilities or mental illness, the department is developing strategies to empower families, enhance community-based care options and improve community support for families and carers. These efforts will contribute to improved independence and more sustainable communities.

B.7 TRANSPORT, URBAN PLANNING AND THE ARTS

The policies and programs of the Department for Transport, Urban Planning and the Arts will address the interests and needs of women by:

- encouraging women's involvement in decisions about the built environment
- pursuing "Family and Work" initiatives
- increasing women's representation on government boards and committees
- improving the frequency, reliability and safety of public transport and information about services
- improving all weather road access in rural and remote communities

- reducing road related trauma
- providing safety for unprotected road users, including cyclists and pedestrians
- increasing educational and entertainment opportunities associated with the upgrade of the cultural institutions along North Terrace
- convening the Aboriginal Women's Advocacy Group—of Aboriginal women who work in Government, and the Aboriginal Women's State Advisory Council—Aboriginal women representatives from communities across South Australia. The Advocacy Group provides an advocacy role in areas of Government policy, where consultation is required. The Council meets to canvas ideas and discuss areas of concern to women and families, within their particular regions of the State.

B.8 ADMINISTRATIVE AND INFORMATION SERVICES

Through its activities, DAIS deals with issues such as the increase of women in the workforce, equality of opportunity in the workplace and the significance of women in history.

- State Records has created a guide to records relating to women that is of particular interest to those studying women's issues. It incorporates records in the areas of education, health, immigration, law, recreation and work.
- Workplace Services administers the Augusta Zadow Award which recognises individuals, workgroups and small business for excellence in occupational health and safety. One award category is made for demonstrated improvement in health and safety with particular outcomes for women.
- As a part of managing diversity within DAIS a number of programs and policies are being implemented.
- Initiatives such as flexible working hours, working from home, reduced hours and the establishment of a child vacation care program enable women to balance their work and carer duties.
- A Freedom from Harassment policy and family referral service provide support for women.
- DAIS supports a career advice and assistance program for women called Springboard. This program encourages networking and mentoring, develops untapped skills and motivates women to give more and get more from their work.

As well as these specific initiatives, representatives from DAIS participate in events, both national and State, regarding women in the workplace. DAIS remains dedicated to improving the profile of women and will continue to undertake activities and programs in support of this aim.

B.9 EDUCATION, TRAINING AND EMPLOYMENT

Women will benefit from:

- initiatives such as the Enterprise and Vocational Education Strategy which supports regional groups to improve school-to-work transition outcomes for young women
- the School to Work program aimed at increasing the participation of students at risk, with a focus on Aboriginal young women and young women with disabilities

- initiatives which increase the number of school-based traineeships and apprenticeships, and support young women to enter jobs traditionally dominated by males, such as viticulture, information technology, electronics and engineering
- the *South Australian Women in VET Strategy: 2000 and Beyond* which aims to increase women's participation in vocational education and training; increase their participation across the broad range of industry areas; and, increase the level of courses undertaken to improve employment outcomes
- equity grants focusing on areas in which women have traditionally been under-represented and in which there are considered to be good employment opportunities
- career advisory initiatives which support young women in their entry into a range of job areas and increase their pathway options
- opportunities for accredited training to support women to commence their own business as family day care providers through the implementation of the Community Services Training Package
- professional development of staff who work with young women to ensure this targeted group is given opportunities to participate in a broad range of VET in Schools programs
- an increased number of young women participating at school in accredited certificate level courses and receiving dual accreditation within the Australian Qualifications Framework (AQF) and South Australian Certificate of Education
- the Managing for Equity and Diversity program which will result in gender inclusive teaching and management practices.

Women within the Department of Education, Training and Employment will benefit from:

- access to merit selection training, and application writing workshops, which assist women to increase their representation in a range of promotion positions
- an annual department report, focused on women's representation across all employment categories, which assists in identifying special measures to redress employment disadvantage
- equal employment opportunity programs which provide women with enhanced access to short term leadership experience in schools and institutes; and positions in non-traditional areas which are advertised, in the first instance, for women only
- continued access to a broad range of professional development opportunities, which support career development and provide status in postgraduate study, including programs offered through flexible delivery, the Pathways project, and the SA Centre for Leaders in Education
- opportunities for *Public Sector Management Act 1995*, and other administrative support staff, to gain recognition of current competency and credit towards vocational qualifications
- a confidential advisory and support service relating to issues such as pregnancy, family leave provisions, part-time employment and sexual harassment.

B.10 DEPARTMENT FOR ENVIRONMENT AND HERITAGE

The Department for Environment and Heritage (DEH) recognises and supports the valuable contribution to this State made by the women of South Australia.

Both Department for Environment and Heritage, and Office for Recreation and Sport benefit through the paid and unpaid work undertaken by a significant core of dedicated women. They are enthusiastic volunteers (such as Friends of Parks and sport officials and coaches), influential advisers in peak interest bodies and non-government organisations and committed participants in consultative committees, forums and boards.

As part of the department's services to South Australia's sporting women, the Office for Recreation and Sport provides a variety of support functions to sporting and recreation bodies. General assistance is provided to sporting clubs and associations, for example in the development of equal employment opportunities policies. Programs such as the South Australian Sports Institute (SASI) netball program, hockey program and mentoring program for women in sport and recreation focus on the development of women's sport specifically. A mentoring program has also been developed for further community application (in conjunction with a metropolitan council) to focus on women from diverse cultural and linguistic backgrounds.

Sport and Recreation Management Development Grants provide financial assistance to women's groups such as Guides Australia (SA) and the YWCA (joint projects under development), while the Wendy Ey Memorial Coaching Scholarship for Women will again offer recipients the opportunity to develop their coaching knowledge and accreditation in 2000-01.

The department will continue to consider departmental issues for women when developing policies and programs in 2000-01, including:

- discrimination and harassment awareness raising sessions for all staff and continuation of the Discrimination and Harassment Complaints Management System as an outcome of policy developed to protect merit and equity
- workforce profiling and drafting a Workforce Planning Policy
- Managing Diversity initiatives such as flexible working arrangements and balancing work and family responsibilities, into regular performance management and standard business processes.

B.11 WATER RESOURCES

The portfolio recognises and supports the valuable contributions to the State and this portfolio made by women. A broad range of benefits are provided by a significant core of dedicated women who are Department of Water Resources staff and managers; members on government boards and committees, water catchment management boards and planning committees; and participants in various forums and consultative committees. The portfolio will promote and foster their participation and influence in shaping the State's future, particularly through their roles in the portfolio and associated boards, consultative forums and networks.

As part of its administration of the Murray–Darling 2001 Program, the portfolio will provide information, advice and Natural Heritage Trust grants to community groups involved in water resource rehabilitation and management projects. While these services are open to the whole community, they are also likely to encourage and support an increased participation by women in the projects.

Within the agency, the Department for Water Resources will continue to consider issues and formulate management and training policies relevant to women, their roles within the organisation, and their personal development. In its implementation of Managing Diversity initiatives, the agency will respond to the particular needs of women by:

- positively influencing and supporting employees to achieve and maintain a balance between their work commitments and family and carer responsibilities
- implementing a consistent policy on flexible working arrangements

- considering a working from home policy and a health and lifestyle program for integration into its Occupational Health and Safety Plan.

While the adoption of these policies and initiatives will potentially benefit all staff, they are likely to have a beneficial impact on those women with parenting and carer responsibilities.

During the year the agency will also support and encourage its women employees by considering the introduction of a formal mentoring system and appointing Sexual Harassment Officers as contact officers for staff. The agency will also link its Human Resources Plan to the Leadership SA initiative managed by the Office of the Commissioner for Public Employment (OCPE) and support the participation of women employees in this management development program.

SOUTH AUSTRALIAN STATE PUBLIC SECTOR ORGANISATIONS AND FUNDS

	Non Commercial Sector	Commercial Sector	Financial Institutions Sector	General Govt Sector	PNFC [a] Sector
Adelaide Convention Centre	*				*
Adelaide Entertainment Centre......................................	*				*
Adelaide Festival Centre Trust	*				*
Administration and Information Services, Department for	*			*	
Agents Indemnity Fund...	*			*	
Arid Areas Catchment Water Management Board	*			*	
Art Gallery Board of South Australia.............................	*			*	
Attorney-General's Department	*			*	
Auditor-General's Department.......................................	*			*	
Australian Barley Board [b]..					*
Board of the Botanic Gardens	*			*	
Carrick Hill Trust..	*			*	
Charitable and Social Welfare Fund...............................	*			*	
Commissioner of Charitable Funds................................	*			*	
Community Development Fund.....................................	*			*	
Community Emergency Services Fund	*			*	
Correctional Services, Department for	*			*	
Country Fire Service...	*			*	
Courts Administration Authority	*			*	
Criminal Injuries Compensation Fund	*			*	
Dairy Authority of South Australia................................	*			*	
Education Adelaide...	*			*	
Education, Training and Employment, Department of	*			*	
Electricity Reform and Sales Unit	*			*	
Emergency Services Administrative Unit.......................	*			*	
Enfield General Cemetery Trust	*				*
Environment and Heritage, Department of......................	*			*	
ETSA Capital Pty Ltd		*			*
ETSA Power Pty Ltd		*			*
ETSA Transmission Corporation...................................		*			*
Flinders Power Pty Ltd		*			*
Forestry SA	*				*
Gamblers Rehabilitation Fund.......................................	*			*	
Gaming Supervisory Authority......................................	*			*	
Government Workers Rehabilitation and Compensation Fund...	*			*	
History Trust of South Australia....................................	*			*	
Home Builders Account No 2	*			*	
Home Purchase Assistance Account	*			*	
HomeStart Finance			*		
Hospitals Fund	*			*	
House of Assembly..	*			*	

	Non Commercial Sector	Commercial Sector	Financial Institutions Sector	General Govt Sector	PNFC [(a)] Sector
Housing Loans Redemption Fund..................................	*			*	
Human Services, Department of [(c)]	*			*	
Industrial and Commercial Premises Corporation...........		*			*
Industry and Trade, Department of	*			*	
Information Industries Development Corporation	*			*	
Jam Factory Craft and Design Centre Inc.......................	*			*	
Joint Parliamentary Services	*			*	
Justice, Department of...	*			*	
Justice Information System	*			*	
Legal Services Commission	*			*	
Legislative Council...	*			*	
Libraries Board of South Australia	*			*	
Local Government Disaster Fund	*			*	
Local Government Finance Authority............................			*		
Lotteries Commission of South Australia.......................	*				*
Medical Board of South Australia	*			*	
Motor Accident Commission...			*		
Northern Adelaide and Barossa Catchment Water Management Board..	*			*	
Nurses Board of South Australia	*			*	
Office of Financial Supervision....................................	*			*	
Onkaparinga Catchment Water Management Board	*			*	
Optima Energy Pty Ltd		*			*
Outback Areas Development Trust................................	*			*	
Passenger Transport Board..	*				*
Patawalonga Catchment Water Management Board.........	*			*	
Police Department	*			*	
Ports Corporation of South Australia		*			*
Premier and Cabinet, Department of the	*			*	
Primary Industries and Resources, Department of	*			*	
Public Trustee			*		
Racing Industry Development Authority.........................	*			*	
Recreation and Sport Fund..	*			*	
River Murray Catchment Water Management Board	*			*	
SA Water Corporation...		*			*
SAGRIC International Pty Ltd	*				*
School Loans Scheme Deposit Account.........................	*			*	
Senior Secondary Assessment Board of South Australia..	*			*	
South Australian Asset Management Corporation			*		
South Australian Community Housing Authority			*		
South Australian Co-ordinated Care	*			*	
South Australian Country Arts Trust..............................	*			*	
South Australian Film Corporation................................	*			*	
South Australian Finance Trust Limited (Group)............			*		
South Australian Generation Corporation		*			*
South Australian Government Captive Insurance					

	Non Commercial Sector	Commercial Sector	Financial Institutions Sector	General Govt Sector	PNFC [(a)] Sector
Corporation	*			*	
South Australian Government Employee Residential Properties	*				*
South Australian Government Financing Authority			*		
South Australian Greyhound Racing Authority	*			*	
South Australian Harness Racing Authority	*			*	
South Australian Housing Trust[(c)]	*				*
South Australian Local Government Grants Commission	*			*	
South Australian Metropolitan Fire Service	*			*	
South Australian Museum Board	*			*	
South Australian Totalizator Agency Board	*				*
South Australian Tourism Commission	*			*	
South East Catchment Water Management Board	*			*	
Sport and Recreation Fund	*			*	
State Disaster Relief Fund	*			*	
State Electoral Office	*			*	
State Emergency Service SA	*			*	
State Governor's Establishment	*			*	
State Opera of South Australia	*			*	
State Theatre Company of South Australia	*			*	
State–Local Government Reform Fund	*			*	
Superannuation Funds Management Corporation of South Australia			*		
Synergen Pty Ltd		*			*
Teachers Registration Board	*			*	
Terra Gas trader Pty Ltd		*			*
Torrens Catchment Water Management Board	*			*	
TransAdelaide	*				*
Transport, Urban Planning and the Arts, Department for	*			*	
Treasury and Finance, Department of	*			*	
Water Resources, Department for	*			*	
West Beach Trust	*				*
WorkCover			*		

(a) Public Non-Financial Corporations (PNFC) Sector formerly known as Public Trading Enterprise Sector.

(b) Under ABS rules the Australian Barley Board, a statutory marketing authority, is a public trading enterprise. Due to its financial position each year depending heavily on seasonal conditions, its inclusion can distort the underlying pattern of activity in the public sector. For this reason the Australian Barley Board has been excluded from certain tables in the Budget Statement.

(c) Human Services includes the South Australian Housing Trust which is a non commercial public trading enterprise. The rest of Human Services is classified as part of the general government sector.

GLOSSARY OF TERMS USED IN BUDGET PAPERS

Abnormal items: Items of revenue and expense included in the operating result for the period that are considered abnormal by reason of their size and effect on the operating result for the period.

Accountability: The obligation of one party to explain or justify to another what has been done, what is being done and what has been planned.

Accrual accounting: The accounting approach by which revenues, expenses, equity, assets and liabilities are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

Accrual budget: The preparation of a budget based on accrual accounting principles.

Accrual statements: The three main agency financial statements, including the Operating Statement, the Statement of Financial Position and the Statement of Cash Flows.

Administered items: Resources that an agency has legal custody of but does not control because it may not deploy them to meet its own objectives.

Assets: Assets represent future economic benefits or service potential controlled by an entity as a result of past transactions.

Australian Accounting Standards: Professional standards showing the acceptable method(s) of measuring and recording financial transactions, and the level of disclosure required in financial statements.

Cash accounting: The cash basis of accounting, which recognises the financial effects of transactions or other events only when cash has been received or paid.

Commonwealth General Purpose Capital Payments: Commonwealth payments to the States and the Territories for capital purposes. Not earmarked for specific purposes.

Commonwealth General Revenue Assistance: Untied grants provided by the Commonwealth to the States and the Territories to assist in meeting recurrent outlays. This is the major form of Commonwealth assistance to the States and the Territories.

Commonwealth Specific Purpose Payments: Commonwealth payments to the States and the Territories for a designated purpose.

Consolidated Account: The Treasurer's main operating account.

Contribution: Distribution plus wholesale sales tax of commercial sector government businesses.

Controlled items: Resources that an agency is able to control, and therefore deploy, to meet its objectives.

Cost allocation: Apportioning revenues and expenses (including overheads) to output classes to ensure the full cost of delivery is measured.

Deficit/Surplus: Comprises financing less increase in provisions. The deficit/surplus excludes increase in provisions because these financing transactions involve funds generated within the sector itself (eg depreciation charges). As such, deficit/surplus is the broadest measure of the financing requirement for each sector involving funds from outside that sector.

Deposit account: Account used by agencies for expenditure and receipts as part of their normal operations. A deposit account is authorised by the Treasurer under Section 8 (special deposit account) or Section 21 of the *Public Finance and Audit Act 1987*. In 1991-92 the accounting operations of most budget sector agencies were transferred from the Consolidated Account to deposit accounts.

Distribution: Dividends plus income tax equivalents of government businesses.

Earnings before interest and income tax (EBIT): Operating profit before income tax plus gross interest expense.

Equity: Equity represents the residual interest in the assets after deduction of its liabilities.

Equity contribution: The investment of additional cash in an agency to increase its asset base or reduce its debt.

Expense: Expenses represent future consumption or losses of future economic benefits in the form of reduction in assets or increases in the liabilities of the entity. Expenses result in a decrease in equity but do not include distributions to owners.

Extraordinary items: Items of revenue and expense which are attributable to transactions or other events of a type that are outside the ordinary operations of the entity and are not of a recurring nature.

Financing: A measure of the means by which governments finance net outlays or invest net surpluses. It is the difference between total outlays and revenue and grants received.

Funding Memorandum: Non-legal document outlining negotiations and Cabinet decisions between Treasury and Finance, and each portfolio Minister for funding and performance arrangements.

Funds Flow Interest Cover: A measure of the extent to which earnings before depreciation, interest and tax (EBDIT) cover gross interest expenses of a business.

Gross interest expense: An amount charged to the profit and loss account which includes finance charges on finance leases and all debt related expenses.

Horizontal Fiscal Equalisation: The principle underlying the Commonwealth Grants Commission's assessment of per capita relativities which are the basis for the interstate distribution of general revenue grants. Under this principle, grants are distributed so as to give each State and Territory the capacity to provide public services at an average standard and level of efficiency, for comparable revenue effort.

Income Tax: Income tax expense, or income tax equivalent expense on operating profit before tax (including abnormal items) calculated using tax effect accounting (AAS3).

Investment income: Income received and receivable on financial assets.

Inputs: Labour, material and other resources used to produce and deliver outputs.

Key performance indicators (KPIs): Key quantity, quality, timeliness and cost/price attributes of outputs for which performance targets are set and monitored.

Liabilities: Liabilities represent present obligations to make payments or render services as a result of past transactions.

Modified duration: A measure of the sensitivity of a portfolio of interest bearing securities to changing interest rates. It is derived from the discounted average term to maturity of all cash flows.

Net financing requirements: The net financing requirement (NFR) comprises deficit/surplus less net advanced received from other parts of the non-financial public sector in order to provide an unduplicated measure of the sector's demand for financing.

Non commercial sector: Excludes Financial Enterprises (eg Superannuation Funds Management Corporation, Motor Accident Commission) and Commercial Enterprises (ETSA, SA Water, Ports Corporation, SA Generation Corporation and the MFP Industrial Premises Corporation).

Non Commercial Sector Underlying Deficit/Surplus: The underlying deficit/surplus excludes major one-off items–for example, net proceeds from the sale of government businesses and targeted separation payments.

Operating margin: EBIT before investment income as a percentage of total revenue less investment income.

Operating Statement: The financial statement disclosing the revenues, expenses (and their sources) and the operating result for a period.

Outcome: The result the Government seeks to achieve in order to meet community needs and Government priorities or commitments.

Output: Goods or services provided by agencies for external customers. Outputs contribute to the achievement of outcomes.

Output budgeting: The budgeting process that links resource allocation to outputs to be purchased from an agency.

Output-based management: The inclusion of output-based information in management planning, reporting, budgeting and performance measurement, as opposed to the use of traditional input-based management.

Outputs operating statement: The financial statement disclosing the expenses, revenues, price paid and operating result on an outputs basis for a period.

Output class: A grouping of outputs with common characteristics or which are expected to be purchased as a 'package', aggregated for managing and reporting purposes.

Performance measures: See key performance indicators.

Prudential Management Group: Comprises the Chief Executive of Justice, and Premier and Cabinet, and the Under Treasurer. Its role is to be responsible to Cabinet for the provision of advice and assistance to agencies on the integrity of processes used in the delivery of projects and arrangements with the private sector.

Public sector: Government departments and statutory authorities. In accordance with the practice of the Australian Bureau of Statistics, public sector financial institutions are excluded from financial and workforce information provided on the non-financial public sector.

Real terms: Estimates of financial aggregates in real terms reflect adjustments made in order to take account of the impact of rising prices on the purchasing power of money. The Consumer Price Index has been used as the deflator throughout the budget papers, however the impact of the tax reform "shock" (estimated by the Commonwealth Treasury to be 3 per cent in 2000-01) has been excluded from the deflator in that year.

Return on assets: EBIT as a percentage of total assets.

Revenue: Revenue includes an inflow or saving in outflows of future economic benefits that result in an increase in equity. Revenues are in the form of increases in assets or reductions in liabilities that do not relate to contributions by owners.

Statement of Financial Position: A statement showing the financial position (at a specific time) of an agency in terms of its assets, liabilities and equity (otherwise known as a Balance Sheet).

Strategic resource allocation: The allocation of resources based on identified policy priorities of Government, usually over the medium term.

Vertical Fiscal Imbalance (VFI): Refers to the imbalance of spending and taxation powers between the Commonwealth and the States. The Commonwealth raises about 70 per cent of total taxation revenue but its own-purpose outlays account for only around half of total public sector outlays. The difference is distributed to the States, Territories and Local Government which account for the other half of public sector outlays but raise only around 30 per cent of taxation revenue.

ABBREVIATIONS USED IN BUDGET PAPERS

ABS	Australian Bureau of Statistics
AHCA	Australian Health Care Agreement
AMTF	Asset Management Task Force
ANTA	Australian National Training Authority
ATO	Australian Taxation Office
CGC	Commonwealth Grants Commission
COAG	Council of Australian Governments
CPA	Competition Agreement Principles
CPI	Consumer Price Index
CSHA	Commonwealth–State Housing Agreement
CSO	Community Service Obligation
EBDIT	earnings before depreciation, interest and tax
EBIT	earnings before interest and income tax
EPO	Electricity Pricing Order
FAGs	Financial Assistance Grants
FHOS	First Home Owners Scheme
FID	financial institutions duty
FTE	Full Time Equivalent
GDP	Gross Domestic Product
GFE	Government Finance Estimates
GFS	Government Finance Statistics
GMA	Guaranteed Minimum Amount
GPC	Government Purposes Classification
GPP	General Purpose Payment
GSP	Gross State Product
GST	goods and services tax
GTE	Government Trading Enterprises

HFE	horizontal fiscal equalisation
HFGs	Hospital Funding Grants
IGA	intergovernmental agreement
IOA	Interconnection Operating Agreement
KPI	key performance indicator
LCA	Loan Council Allocation
MAC	Motor Accident Commission
NCC	National Competition Council
NCP	National Competition Policy
NECA	National Electricity Code Administrator
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company
NFO	National Fiscal Outlook
NFR	net financing requirement
NPAT	net profit after tax
NPM	National Performance Monitoring
NTER	National Income Tax Equivalent Regime
NVP	net present value
NSP	network service providers
PSFE	Public Sector Financial Enterprises
PSFI	Public Sector Financial Institutions
PTE	Public Trading Enterprises
SAAMC	South Australian Asset Management Corporation
SAFA	South Australian Government Financing Authority
SAGC	SA Generation Corporation
SAICORP	South Australian Government Captive Insurance Corporation
SAIIR	SA Independent Industry Regulator
SAMIS	Strategic Asset Management Information System
SFMC	Superannuation Funds Management Corporation
SMA	statutory marketing authority
SOPI	Statement of Policy Intent
SPP	specific purpose payments
STB	State and Territory Bodies
STE	State Trading Enterprises
TER	Tax Equivalent Regime
TVSP	targeted voluntary separation package
TNTS	The New Tax System
UPF	Uniform Presentation Framework
VFI	vertical fiscal imbalance
VOLL	value of lost load