

A Strong Basis for South Australia's Future

2000 2001

Budget
at a Glance





Government
of South Australia

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2000-01 Budget Highlights

The 2000-01 Budget continues to deliver sound financial management while maintaining the delivery of services to the South Australian community.

The 2000-01 Budget highlights:

- Current outlays excluding interest and past service superannuation payments are maintained in real terms across the forward estimates.
 - The capital investment program is budgeted to grow by 8 per cent in real terms in 2000-01, consistent with the Government's aim of ensuring an adequate economic and social infrastructure.
 - Total public sector net debt will also have almost halved in real terms by the end of 2001 from 30 June 1999.
- Compared with 1998-99, net interest payments will have reduced by more than a third by 2000-01, largely attributable to proceeds from the sale/lease of electricity assets.
 - Taxes have been reduced by \$658 million including:
 - abolition of franchise fee replacement grants (\$566 million)
 - reduction in gambling taxes (\$68 million)
 - reduction in Emergency Services Levy (\$24 million).
 - New service delivery initiatives totalling \$263 million will be introduced 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.

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Medium-term Budget Objectives

The Government's medium-term budget objectives reflect the need to maintain and strengthen the financial basis for South Australia's future, while simultaneously improving the level of community services and facilitating business competitiveness:

- **Balanced Budget** — maintain the non commercial sector in underlying balance over the medium term.
- **Maintenance of Services** — continue to meet the service delivery needs of the South Australian community to a standard and level of efficiency at least comparable with other States.
- **Adequate Infrastructure** — ensure the State has an adequate economic and social infrastructure to promote business investment and contribute to social well-being.
- **Reduced Debt Levels** — maintain or improve the State's AA+ credit rating.
- **Funding Superannuation Liability** — eliminate the State's unfunded superannuation liability by 2034.
- **Realistic Wages Outcomes** — ensure public sector wage outcomes that are fair and sustainable and in keeping with budget provisions.
- **Tax Regime** — ensure the tax system reflects an appropriate balance between the need to fund essential government services and the need to be competitive on taxation with other States.

Expenditure on Outputs by Portfolio

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Portfolio expenditure in 2000-01 is expected to increase by \$23 million representing a nominal growth in expenditure of 0.3 per cent over the 1999-2000 estimated outcome.

PORTFOLIO GROUP	TOTAL EXPENDITURE (\$m) ^(a)	
	1999-2000 ESTIMATED RESULT	2000-01 BUDGET
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	2633	2678
Transport, Urban Planning and the Arts	761	697
Administrative and Information Services	554	542
Education, Training and Employment	1685	1708
Environment and Heritage	172	149
Water Resources	46	45
TOTAL EXPENDITURE ON OUTPUTS	7182	7205

(a) Expenditure on outputs includes portfolio controlled expenses plus any administration expenses directly attributable to outputs, and non cash items such as depreciation and employee entitlements.

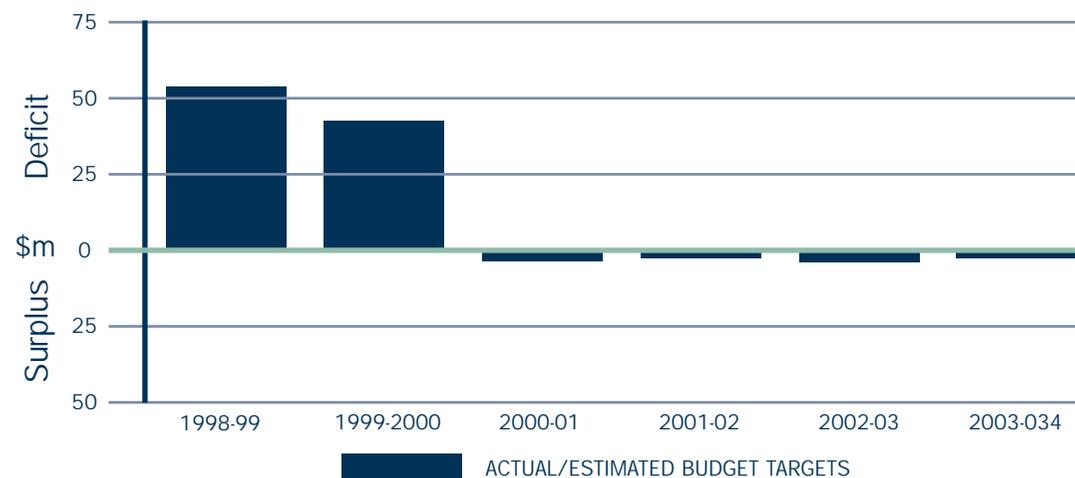
Source: Department of Treasury and Finance

A Sound Basis for the Future

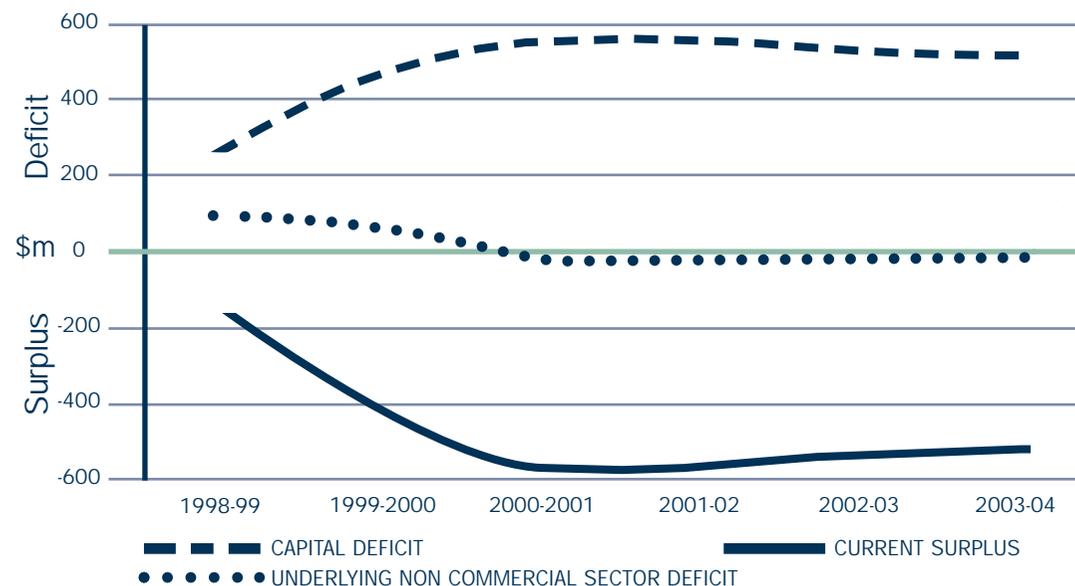
The Government's key fiscal target is to maintain a current surplus sufficient to finance non commercial sector capital investment.

The non commercial sector deficit has been eliminated, while capital expenditure has increased.

Underlying Deficit Eliminated



Current Surplus Growth Funds Capital Investment



Declining Debt Burden

Net debt as a proportion of GSP is declining from 26 per cent as of 30 June 1994 to 7.6 per cent by 30 June 2004.

The significant fall in net debt in 1999-2000 is predominantly due to the net proceeds from the sale/lease of electricity assets.

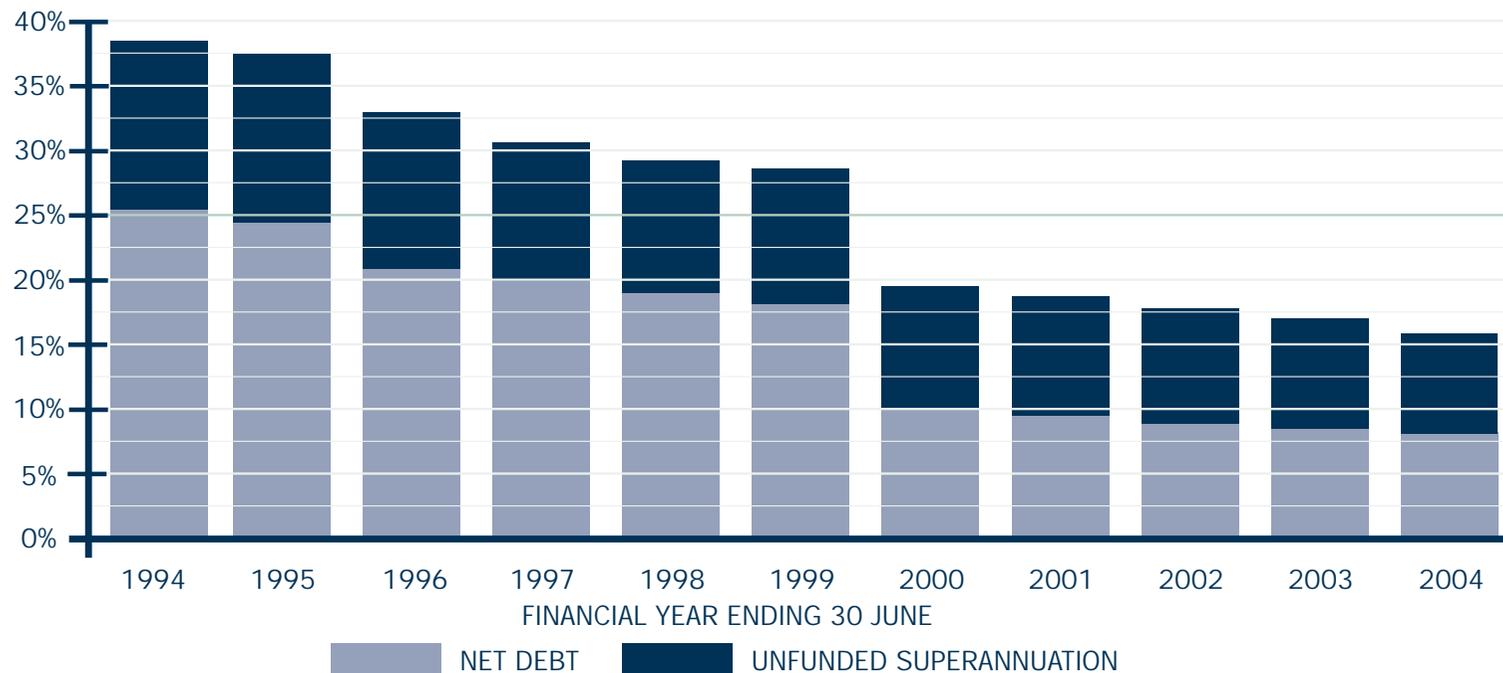
In December 1999, ratings agency Standard & Poor's raised the State's credit rating to AA+.

The continuing fall in net debt and unfunded superannuation liability over the forward years is the result of budgetary policy — no asset sales assumed.

If net debt was at the same ratio of GSP as of 30 June 1994 there would be an extra \$7 billion of debt compared to estimated 30 June 2000 levels and interest payments would be \$490 million higher per annum.

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Source: Department of Treasury and Finance

Managing our Superannuation Obligations

In the 1994-95 Budget, the Government began a strategy to reduce the State's superannuation liabilities. The strategy, as 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.

The table below 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 casino complex, which yielded a material profit for FundsSA. This has provided the Government with the ability to reduce the forward estimates for the past service superannuation contributions, while still meeting the 2034 target date for full funding.

This will ensure that superannuation benefits for public sector employees are fully funded.

	PAST SERVICE SUPERANNUATION LIABILITY PAYMENTS ^(a) (\$m)						TOTAL
	1994-95 to 1997-98 ^(a)	1998-99	1999-2000	2000-01	2001-02	2002-03	
1999-2000 Budget ^(b)	943	26	113	140	193	238	1653
2000-01 Budget ^(c)	943	139	127	42	148	182	1581

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

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

(c) Actual result from 1998-99.

Source: Department of Treasury and Finance

Sale/Lease of Electricity Assets

Parliament approved the sale/lease of the State's electricity assets in June 1999.

Following Parliament's approval the Government was able to reverse a previous decision to apply a tariff increase on all residential users.

In October 1999 an independent electricity regulator office was established, with authority to regulate prices and service standards for consumers.

A staged program of divestment is being undertaken by the Electricity Reform and Sales Unit (ERSU) of Treasury and Finance.

In December 1999 the Premier announced the long term lease of ETSA Utilities and the sale of ETSA Power to Hong Kong Electric/CKI for \$3.5 billion. In January 2000 the on-sale of ETSA Power to AGL for \$175 million was also announced, adding a further \$25 million to the gross proceeds received by the State.

In May 2000, Optima Energy (Torrens Island Power Station) was sold to TXU for \$315 million and Synergen (peaking plants) was sold to National Power for \$39 million.

The proceeds from the sale and lease of the electricity assets have been applied to debt reduction — significantly improving the State's balance sheet and reducing the risk to the budget of operating in the National Electricity Market.

The sale/lease of Flinders Power, Terra Gas trader and ElectraNet, planned to be completed by September 2000, will make available significant proceeds to further reduce debt and risk.

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Directions for South Australia 2000-01

Directions for South Australia 2000-01 builds on the *Directions 1999-2000* document released in July 1999. The *Directions* document is a planning and priority-setting tool for the Government. It outlines the Government's directions for 2000-01 and beyond, under the seven key themes of:

- Education and lifelong learning:
 - investing in the future of South Australia through quality education, training and lifelong learning
- Employment and economic development:
 - fostering economic prosperity through renewable, sustainable growth
- Regional communities:
 - improving the economic, social, cultural and environmental well-being of South Australia's regions by assisting regional communities and their people to develop their potential fully
- Culture, lifestyle and the environment:
 - defining South Australia as a creative, dynamic and productive place to live, work and visit
 - maintaining a clean environment that creates a sense of pride in where we live and encourages growth and development in an ecologically responsible manner
- Health and communities:
 - enhancing the quality of life of South Australians through government and community partnerships
 - promoting health and well-being and developing sustainable communities and quality living standards
 - ensuring individuals and families receive care and support for their health and well-being at a cost the community is willing to bear
 - promoting and supporting community diversity
- Justice and safety:
 - equitable access to justice, prevention of crime, an equitable, competitive, informed and socially responsible marketplace that provides fair trading for consumers and business
- Government reform:
 - creating a system responsive to the needs of the 21st century

For 2000-01, the *Directions* statement has been developed alongside the budget to achieve an even greater level of coordination between planning and budgeting.

Major Expenditure Initiatives

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The 2000-01 Budget provides for new service delivery initiatives totalling \$263 million over the next three years. The major initiatives reflect the Government's strategic service delivery priorities and include:

- an additional \$52.7 million for education initiatives with emphasis being placed on increasing the skill levels of the workforce
- a range of employment and economic development initiatives, including:
 - additional funds for the public sector trainee employment program (\$14 million)
 - increased industry development funding (\$15 million)
 - revitalisation of minerals exploration and mining (\$8 million)
 - additional film industry assistance (\$3.6 million)
 - increased promotion of the State to stimulate tourism and investment (\$5.1 million)
- investment in a range of new regional development initiatives including:
 - recreation and sport grants (\$2 million per annum)
 - farmed seafood initiative (\$2 million)
 - Regional Infrastructure Development Fund (\$1 million per annum)
- enhancing South Australia's culture, lifestyle and environment:
 - Le Mans Race (\$4.7 million)
 - maintenance of national parks (\$1 million per annum)
 - Adelaide Symphony Orchestra (\$0.6 million per annum) from 2001-02
- a range of health and community initiatives including:
 - mental health (\$7.5 million)
 - disability services (\$12 million over two years)
 - services for the ageing (\$5.9 million)
 - illicit drugs strategy (\$2 million per annum)
 - essential services in remote and Aboriginal communities (\$1.6 million)
- continuing support for community justice and safety including:
 - 113 additional police officers (\$16.9 million)
 - increased funding for ambulance services (\$12 million)
 - metropolitan rail system security (\$3.5 million per annum)
 - Legal Services Commission (\$2.7 million)
- continuing Government reform:
 - information technology industry development initiatives (\$11 million)
 - Playford Centre (\$3 million).



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Reducing Tax Burden

Emergency Services Levy

Additional relief of \$24 million per annum is to be provided bringing the total level of remissions and concessions to \$52 million per annum.

Payroll Tax Trainee Rebates

From 25 May 2000, relief is to be targeted at young trainees who commence their traineeship before their 25th birthday. The rate of rebate will be 80%.

Liquor Subsidies

Subsidies for cellar door wine sales will continue after 1 July 2000.

Contribution to Tax Reform

State Taxes to be Abolished

The following State taxes are to be abolished:

- financial institutions duty (FID) (from 1 July 2001)
- stamp duty on the transfer of quoted marketable securities (from 1 July 2001)

- debits tax (by 1 July 2005, subject to review by Ministerial Council).

State Taxes to be Reduced

Gambling taxes are to be reduced on:

- gaming machines in clubs and hotels
- casino
- Lotteries Commission
- TAB
- small lotteries.

GST will be reimbursed for:

- bookmakers
- on-course totalisator.

Fuel Subsidies

State subsidies for off-road diesel are to cease from 1 July 2000 when a full Commonwealth excise rebate becomes available.

State zonal subsidies for leaded and unleaded petrol and for on-road diesel use are to continue.

Relative Tax Severity

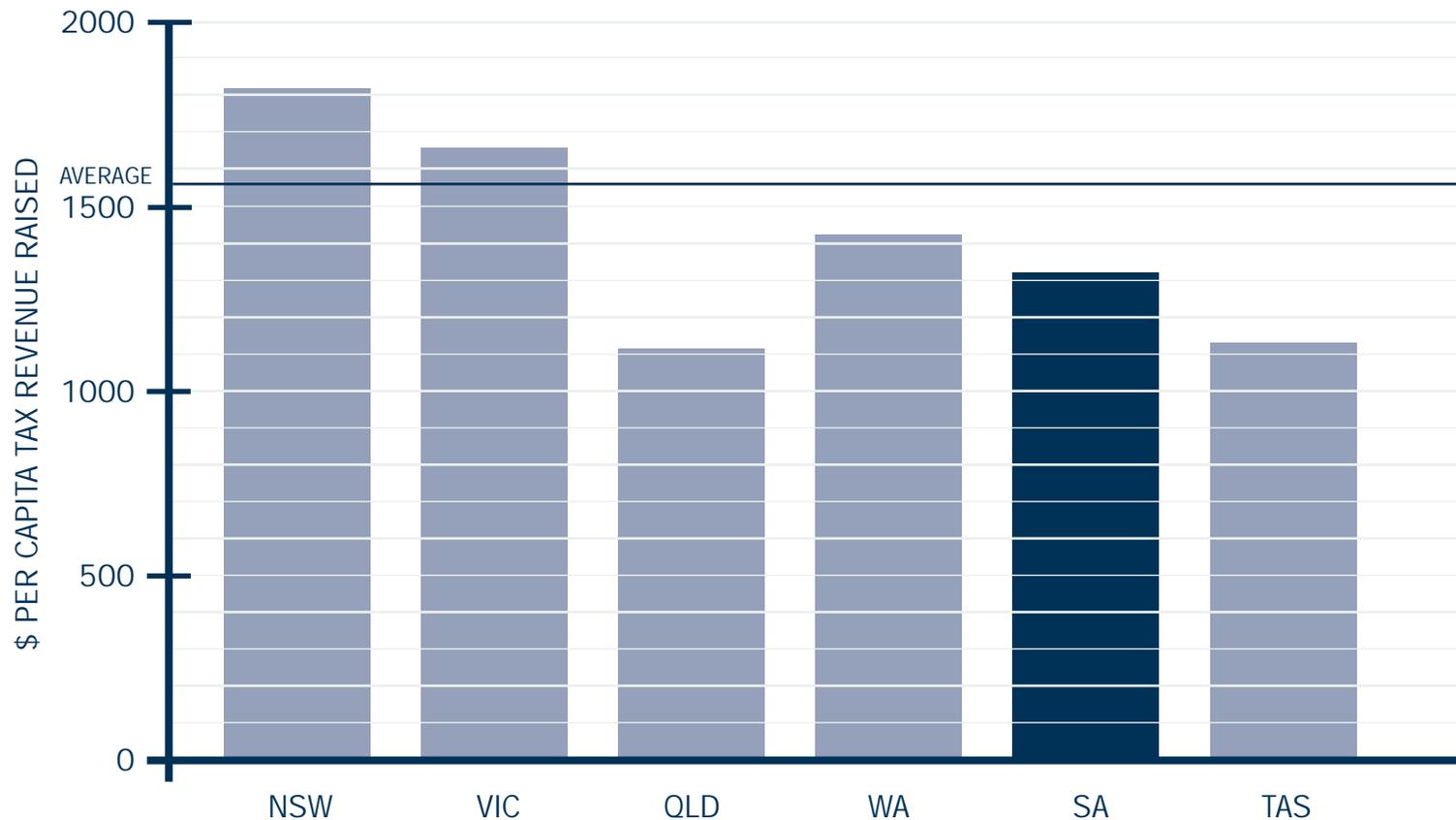
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The per capita level of taxes in South Australia in 2000-01 is estimated to be \$1326.

South Australia is the third lowest of all States, being \$257 less than the average of \$1583.

2000-01 Estimated Taxes per Capita



Sources: Victoria, Western Australia — respective 2000-01 budget papers. New South Wales, Queensland, Tasmania — SA Department of Treasury and Finance estimates.



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Capital Investment by Portfolio

The 2000-01 capital investment program emphasises infrastructure that supports the Government's key strategic priority areas outlined in *Directions for South Australia 2000-01*.

Forecast gross investment expenditure during 2000-01 will increase slightly in nominal terms

because of the reduced expenditure following the sale/lease of the electricity assets.

If the remaining expenditure on electricity is excluded from 1999-2000 and 2000-01, expenditure would increase in real terms by 8 per cent based on total expenditure in 1999-2000 of \$898 million and a budget in 2000-01 of \$987 million.

PORTFOLIO GROUP	TOTAL INVESTMENT (\$m)	
	1999-2000 ESTIMATED RESULT	2000-01 BUDGET
Premier and Cabinet	31	64
Primary Industries and Resources	14	8
Treasury and Finance	3	2
Industry and Trade	1	9
Justice	56	87
Human Services	198	192
Transport, Urban Planning and the Arts	192	177
Administrative and Information Services	140	157
Education, Training and Employment	80	84
Environment and Heritage	20	15
Water Resources	1	1
Other — Commercial, grant funded and private sector provision of infrastructure	249	202
TOTAL	986	997

Source: Department of Treasury and Finance

Major Capital Projects

Major projects and initiatives included in the 2000-01 program include:

- continuing work on the \$85 million extensions to the Adelaide Convention Centre
- an initial allocation of \$8 million to commence the Industrial Park on DSTO land at Salisbury North
- relocation of all functions occupying the Adelaide Police Station Building to enable demolition by October 2001
- provision for work to proceed on the redevelopment of three major metropolitan hospitals: Royal Adelaide Hospital (\$74 million), the Lyell McEwin Health Service (\$87.4 million) and The Queen Elizabeth Hospital (\$37.4 million)
- renovation of 990 Housing Trust houses at a cost of \$23.1 million — providing \$18 million for the construction of 165 new dwellings, \$3.9 million crisis accommodation and \$7.8 million for Aboriginal housing
- a further \$44.3 million to continue Stage 2 of the Southern Expressway from Reynella to Old Noarlunga
- support for regional development through continued sealing of unsealed rural arterial roads (\$4.8 million), road upgrades on the Yorke Peninsula, Fleurieu Peninsula and Flinders Ranges (\$6.2 million) and widening of the Eyre and Lincoln highways on the Eyre Peninsula (\$3.8 million)
- an investment of \$38.8 million to establish an integrated, Government owned, radio network, together with an associated industry development program — total project cost estimated at \$247.7 million
- \$18.5 million in 2000-01 to progress the establishment of a world class national wine centre and the development of a rose garden of international standards
- total funding of \$34 million for Regency Institute Stages 2 and 3 redevelopment and \$6.5 million for the completion of the Adelaide Centre for Performing and Visual Arts.

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Serving the South Australian Community

The following information presents highlights from 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.

Health

- 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.

Education

- 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.
- Employer satisfaction with South Australian vocational education and training providers was the highest of all States and Territories.

Serving the South Australian Community

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Housing

- Average administration costs for public housing in South Australia were less than the all-jurisdictional average.
- The rate of return on equity for the South Australian housing stock was higher than the average for all States and Territories.
- The proportion of tenants in arrears in South Australia was the lowest of any jurisdiction reported.
- Tenant satisfaction surveys show that the proportion of public housing tenants in South Australia who were “very satisfied” was the highest of any jurisdiction.

Police

- Community surveys indicate that the South Australian community has a higher than average level of overall satisfaction with police compared to other jurisdictions.

Justice

- 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 as measured by, for example, the proportion of criminal cases finalised within six months for appeal cases in the Supreme Court and for non-appeal cases in district and supreme courts.



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Improved Employment Opportunities

The 2000-01 Employment Statement continues to build on the successful programs outlined in previous statements with additional emphasis being placed on increasing the skill levels of the workforce.

The following are highlights of the employment and training targets for 2000-01:

- Vocational Education and Training: An additional \$15 million for 2000-01 has been made available to meet the continued growth in traineeships and apprenticeships. This continues support for the estimated 29 230 apprentices and trainees presently in training in South Australia.
- Development Activities: \$4.68 million has been allocated to assist development activities, particularly through targeting assistance to key growth areas. The target is to achieve a minimum of 700 employment and training outcomes.
- Assistance to Regions: Over \$3.86 million has been allocated to assist regions, with a particular emphasis on continuing to devolve funds to regions. The target is to assist at least 1800 people.
- Business Assistance: \$18.2 million has been allocated to assist business development activities through the provision of incentives, rebates and subsidised business advice.
- Investment Attraction and Enterprise Improvement: The 2000-01 program aims to create or retain 3500 jobs through the support of reinvestment and attraction of new investment to South Australia. Enterprise improvement activities seek to increase business capability and thus create opportunities for increased employment.
- Assistance to Individuals: Nearly \$2 million has been allocated to assist people, with a particular emphasis being placed on Aboriginal apprenticeship placements across South Australia. In addition the Government will continue to target mature-aged unemployed. Nearly 1000 people will be assisted.

A Focus on Regions

To reinforce its desire to focus resources on regional development, the Government has prepared its first Regional Budget Statement.

Through this statement, the State Government renews its commitment to working in partnership with rural and regional people, business and other spheres of government to help ensure all our regions have every opportunity to share a better future.

This Regional Budget Statement presents a comprehensive package of new, expanded and continuing programs and services designed to meet regional challenges and help make our regions a better place to live and work — a commitment which exceeds \$1 billion per annum.

The highlights of the package include the following new or expanded initiatives:

- \$9.6 million for the upgrade and improvement of education facilities
- \$11.95 million to upgrade and improve regional health facilities over two years
- \$6.23 million to provide housing for people in need

- \$13.52 million to upgrade fire appliances and station facilities for Country and Metropolitan Fire Services
- \$5.5 million for the Regional Development Infrastructure Fund targeting areas where infrastructure requirements are impeding development
- \$16 million to reduce the cost of petroleum fuel for all users in regional South Australia
- \$3.77 million in support of the Regional Development Board Framework providing an increase of \$750 000
- \$23 million for new water supplies and wastewater treatment to reduce the level of nutrients discharged
- \$83.4 million for the provision of strategic road infrastructure in regional areas.

The value of these initiatives is not measured in their cost alone, but also in the contribution they make to the economic prosperity of regions and the quality of life of their communities.

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Reform of Commonwealth–State Financial Relations

The 2000-01 financial year marks the commencement of fundamental changes to Commonwealth–State Financial Relations which are associated with the Commonwealth Government's New Tax System reforms.

The States and Territories will receive the entire proceeds from the GST. GST revenues will be distributed amongst the States and Territories in accordance with fiscal equalisation principles, as is currently the case with Financial Assistance Grants (FAGs).

In return for receiving the GST revenues, the States and Territories will:

- forego receiving FAGs and the Business Franchise Fee Revenue Replacement Grants from the Commonwealth
- abolish certain taxes: accommodation taxes (NSW and NT only) from 1 July 2000, FID and stamp duty on listed marketable securities from 1 July 2001, and debits tax from 1 July 2005
- reduce taxes on gambling to offset the impact of the GST on gambling

- assume responsibility for funding a new First Home Owners Scheme and meet the costs of administering the GST incurred by the Australian Taxation Office.

In the initial years of the new arrangements there would have been some budgetary shortfalls for the States and Territories. The Commonwealth has guaranteed that no State will be worse off under the new arrangements and will provide top-up grants to offset these shortfalls.

In providing such transitional top-up funding, the Commonwealth will reduce the grants by amounts which reflect estimates of cost savings achievable by State Governments as a result of indirect tax reform — for South Australia the 2000-01 reduction in transitional grants will be \$36 million.

In South Australia, the new arrangements will be fiscally neutral (based on current forecasts) up to and including 2005-06. From 2006-07 onwards current estimates suggest that South Australia will achieve net budgetary benefits, which will increase over time.

Accrual Outlook

Accrual financial statements reflect the cost of service provision — including depreciation — and disclose all financial obligations accrued each year — such as superannuation and long service leave liabilities — even if the cash costs come in future years.

Accrual-output costs underpin financial planning as the basis of budget development.

Outputs represent the services provided to achieve government outcomes.

The budget shows service delivery information for each portfolio at the output level, including indicators of quantity, quality, timeliness and cost.

Key financial aggregates are summarised in the following table.

- The forward estimates show improving operating outcomes.
- The value of net assets slightly declines to \$5.4 billion in 2003-04.

Non Commercial Sector Aggregates

	AGGREGATES (\$m)			
	2000-01 BUDGET	2001-02 ESTIMATE	2002-03 ESTIMATE	2003-04 ESTIMATE
Consolidated Statement of Financial Position — Net Assets	5490	5469	5425	5398
Consolidated Operating Statement — Operating Surplus/(Deficit) before Abnormals	(89)	(26)	(49)	2

Source: Department of Treasury and Finance

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Economic Highlights

- Economic growth strengthened in South Australia during 1999-2000 to $3\frac{3}{4}$ per cent but is expected to moderate in 2000-01.
- Household consumption expenditure continues to underpin economic growth in South Australia, with moderate growth estimated for 1999-2000.
- Employment growth in South Australia was estimated to have been a robust $2\frac{1}{2}$ per cent during 1999-2000.
- The trend unemployment rate in South Australia declined to 8.2 per cent in April 2000 — down from 8.7 per cent a year earlier.
- The overseas export of goods from South Australia has had a strong rate of growth 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.
- Private dwelling expenditure is estimated to have grown substantially during 1999-2000, partly due to the “pull forward” of dwelling construction prior to the introduction of the GST.

Economic Forecasts

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Key Assumptions Underlying the Budget and Forward Estimates

		1999-2000 ESTIMATED RESULT	2000-01 FORECAST	2001-02 PROJECTION	2002-03 PROJECTION	2003-04 PROJECTION
Gross State Product — Real Growth ^(a)	%	3 ³ / ₄	2 ³ / ₄	3	3	3
Employment — Real Growth ^(b)	%	2 ¹ / ₂	1 ¹ / ₂	1 ¹ / ₂	1 ¹ / ₂	1 ¹ / ₂
CPI — Growth ^(c)	%	2 ¹ / ₂	5 ³ / ₄	2 ¹ / ₂	2 ¹ / ₂	2 ¹ / ₂

(a) Forecasts and projections are based largely on underlying national economic and State population trends.

(b) 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. Forecasts/projections from 2000-01 onwards are based on total employment.

(c) Includes around 2³/₄ percentage points “on-going” CPI and around 3 percentage points due to the introduction of Commonwealth tax reform.

Source: Department of Treasury and Finance