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Government
of South Australia

Report

of the

Auditor-General

Supplementary Report

for the

year ended 30 June 2016

Tabled in the House of Assembly and ordered to be published, 18 October 2016

Second Session, Fifty-Third Parliament

State finances and related matters: October 2016

By authority: P. McMahon, Government Printer, South Australia

2016

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ISSN 0815-9157

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17 October 2016

The Hon R P Wortley MLC
President
Legislative Council
Parliament House
ADELAIDE SA 5000

The Hon M J Atkinson MP
Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Dear President and Speaker

Report of the Auditor-General: Supplementary Report for the year ended 30 June 2016: State finances and related matters: October 2016

As required by the *Public Finance and Audit Act 1987*, I present to each of you my Supplementary Report for the year ended 30 June 2016 'State finances and related matters: October 2016'.

Content of the Report

Part A of the Auditor-General's Annual Report for the year ended 30 June 2016 referred to audit work that would be subject to Supplementary reporting to Parliament. This report provides detailed commentary and audit observations on aspects of the State's finances.

Acknowledgements

The audit team for this report was Salv Bianco, Ken Anderson, Grace Lum, Stefanie Chin and Clinton Phosavanh.

I also express my appreciation for the cooperation and assistance provided by Department of Treasury and Finance's staff during the course of the audit.

Yours sincerely

Andrew Richardson
Auditor-General

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1 Overview

The 2016-17 State Budget (2016-17 Budget) was tabled in Parliament in July 2016. This Report provides our observations on the State's finances, in particular:

- an overview of matters currently relevant to the State's public finances
- the frameworks that exist for reporting on the State's finances (see Appendix 1)
- a brief analysis of the financial performance of the State for the year. This primarily involves an examination of the results for the past year, and the Budget and forward projections included in the Budget Papers
- a review of the financial position of the State, including understanding some of the major assets and liabilities, and the impact that they have on the State's finances.

This Chapter provides some overall observations on the 2016-17 Budget. For sections 1.2 to 1.8, there are corresponding subsequent chapters that provide further details and analysis.

1.1 Budget context

1.1.1 Budget flags a transition to expected consistent operating surpluses and net lending surpluses

The 2016-17 Budget confirms the previous Budget's projection of a return to a net operating surplus in 2015-16 (the first since 2009-10) and the expectation of consistent net operating surpluses over all four budget years. This is underpinned by significant GST revenue grants and Comonwealth capital grants growth to 2017-18 and ongoing expenditure restraint.

The Budget is also estimating a net lending surplus in 2015-16 of $3 million, after seven previous years of net lending deficits. Net lending deficits are expected over the first two years of the 2016-17 Budget before returning to small surpluses in the last two years.

The Budget has also made some realistic adjustments to previous budget estimates, including the extent that Health and Ageing can achieve savings targets and the level of taxation revenue. Some other standout items are:

- dividends and return of equity of $770 million from the MAC privatisation over the period 2016-17 to 2019-20
- inter-sector transfer (sale) of properties from TAFE SA to Renewal SA
- recognition of the nRAH asset and finance lease in 2016-17.

The 2016-17 Budget indicates that there is continued emphasis on supporting jobs and developing future industries, while also investing in services and infrastructure that will build stronger communities. It also identifies the need for economic reform and modernising South Australia's workforce towards a high technology, globally connected and competitive economy.

Significant economic challenges remain with the ceasing of car manufacturing in the State in 2017 and the impact of lower commodity prices on resources and related industries.

1.1.2 GST grants growth and expenditure restraint are important elements to achieving Budget outcomes

The 2016-17 Budget faces a number of risks to its fiscal outlook and these are discussed fully in section 6 of Budget Paper 3 ‘Budget Statement’, including sensitivity analysis.

GST grants are a significant revenue source for the State and write-downs can significantly impact fiscal targets. The Budget expects strong GST grants growth in the 2016-17 and 2017-18 budget years.

Expenditure restraint has been demonstrated over recent years, with low levels of growth in expenditure for the years 2013-14 to 2015-16. After a higher increase in expenses in 2016-17, continued achievement of expenditure restraint is also an important element to realising budget outcomes. This is particularly so for wages restraint and the Health and Ageing portfolio achieving revised savings targets.

1.2 Fiscal strategy

1.2.1 Change to fiscal target – operating surplus now expected annually

The 2016-17 Budget projects a surplus in 2016-17 and for all years across the forward estimates. As a result, the net operating surplus fiscal target has been revised in the 2016-17 Budget to a net operating surplus in the general government sector in every year. Previously the fiscal target was a net operating surplus by the end of the forward estimates.

1.2.2 Fiscal targets expected to be met

Two key fiscal targets in the 2016-17 Budget are:

- a net operating surplus in the general government sector in every year
- a maximum ratio of general government net debt to revenue of 35%.

The 2016-17 Budget expects these fiscal targets to be met for 2015-16 and for all four years of the 2016-17 Budget.

1.3 Operating Statement

1.3.1 Consistent net operating surpluses expected

The 2016-17 Budget projects net operating surpluses over all four years of the 2016-17 Budget as follows:

	2015-16 Estimated result $’million	2016-17 Budget $’million	2017-18 Estimate $’million	2018-19 Estimate $’million	2019-20 Estimate $’million
Total revenue	17 295	18 263	18 917	18 974	19 389
Total expenses	17 036	18 009	18 502	18 509	18 923
Net operating balance	258	254	415	464	466
Purchases of non-financial assets	1 236	4 630	2 134	1 508	1 510
Sale of non-financial assets	91	976	389	34	39
Net lending	3	(2 436)	(310)	44	52

The surpluses are underpinned by significant GST revenue grants growth to 2017-18 and expenditure restraint. There is also significant growth in Commonwealth capital grants, particularly in 2016-17 and 2017-18. The table above shows the projected surplus in 2016-17 is $254 million, growing to $466 million in 2019-20.

The projected surplus for the years 2016-17, 2017-18 and 2018-19 are significantly less than what was projected for these estimate years in previous Budgets. Table 3.6 provides further details.

Over the four years of the Budget employee expenses are expected to decline in real terms, with nominal growth in each year generally below 2%. Realising restrained wages growth will be a key challenge for the Budget.

1.3.2 2015-16 improved result impacted by originally unbudgeted Motor Accident Commission dividend

The 2016-17 Budget estimates a net operating balance surplus of $258 million for 2015-16 compared to the budgeted surplus of $43 million. The difference between the budgeted and estimated result is mainly due to an unbudgeted dividend of $403.5 million from MAC provided for in the 2015-16 MYBR. This was also the case in 2014-15 where a dividend of $459.2 million contributed to a smaller than budgeted net operating deficit.

The 2016-17 Budget notes that the privatisation of MAC will result in almost $2.1 billion returning to general government between 2014-15 and 2019-20 in the form of dividends and return of equity.[1] These amounts flow through to net lending or, in the case of equity contributions, directly to net debt.

1.3.3 Significant addition to operating funding for the Health and Ageing portfolio

The 2016-17 Budget includes new additional operating funding of $1.16 billion over the four budget years. This includes $526.8 million over four years (in addition to $144.4 million in 2015-16) applied to revising the timing and level of the Health and Ageing portfolio’s previously budgeted savings targets. This portfolio continues to face challenges in setting and achieving realisable savings targets.

1.3.4 Taxation revenue revised down significantly

Taxation revenue has been written down over all four years since the 2015-16 Budget. This mainly reflects lower than previously expected revenue for payroll tax, gambling tax and conveyance duties. The most significant write-down is for payroll tax. The Budget notes softer than expected employment and wages growth among payroll tax paying firms and that growth assumptions have been revised to reflect the low wage environment and the outlook for employment across medium to large employers.

1.4 Operating revenue

1.4.1 Growing expected reliance on GST Commonwealth funding

Chart 4.2 shows the annual proportions of actual GST and taxation revenue to total general government sector revenue, and the proportions estimated for the four years of the 2016-17

[1] 2016-17 Budget Paper 3 ‘Budget Statement’, table 5.12.

Budget. This chart indicates the widening gap between the GST and taxation revenue ratios over the forward estimates as a greater proportion of total revenue is expected from GST revenue grants and a diminishing proportion from taxation revenue.

This reflects:

- expected growth in the GST pool and South Australia's share of the pool
- a parameter effects write-down in taxation revenue over the four years of the 2016-17 Budget of $751 million
- the ongoing impact of a major taxation initiative in the 2015-16 Budget which foregoes an otherwise projected $668.2 million in property taxes over the four years of that Budget.

1.4.2 Significant increases in Commonwealth capital grants revenue

The 2016-17 Budget includes some significant increases in Commonwealth capital grant funding. Most are national partnership grants for road and rail projects. The Budget notes that the increases largely reflect the timing, and changes to the profile, of funding for road transport projects. Chart 4.4 shows these increases and the trend since 2012-13. These grants increase from an estimated $207.4 million in 2015-16 to an estimated $625 million in 2016-17 and $778.8 million in 2017-18. For the remaining two years grants reduce but are still expected to be just above $400 million in each year. Capital grant revenue influences the net operating result as related spending shows in purchases of non-financial assets. The net effect is in the net lending result (refer section 4.2.4).

1.5 Operating expenses

1.5.1 Operating expenses contained through savings initiatives

The 2016-17 Budget estimates over the four years contain significant savings initiatives that have been introduced by a number of previous Budgets. The flattening of growth in actual expenses in 2013-14 and 2014-15 and expected expenses in 2015-16 indicates that expenditure restraint has been achieved through the impact of cumulative savings initiatives (see chart 5.2).

1.5.2 Health and Ageing portfolio savings task continues to be a challenge

Previous Reports have emphasised that the Health and Ageing portfolio has not been able to achieve savings targets or has experienced other service demands that have necessitated additional funding. The Health and Ageing savings task was reassessed in the 2012-13 MYBR. This included revising the level and timing of budget improvements expected to be delivered across the forward estimates. Since 2012-13 a number of other changes have been made to the savings task in subsequent Budgets. Table 5.1 summarises changes to the Health and Ageing savings task since the 2012-13 Budget.

The 2016-17 Budget has allocated $526.8 million over four years (in addition to $144.4 million in 2015-16) in operating expenditure initiatives to revise the timing and level of the Health and Ageing portfolio's previously budgeted savings targets. Table 5.1 details the changes to the savings targets made by the 2016-17 Budget.

Achieving the current level of Health and Ageing savings continues to be a difficult challenge and poses a significant risk to achieving the Budget strategy.

1.5.3 New savings initiative: limiting wages growth

The 2016-17 Budget introduced new savings of $357 million over four years by revising its wages policy to limit wages growth to 1.5% p.a. over the next three years of each enterprise agreement. Achieving this level of wages restraint is important to achieving planned budget outcomes.

1.5.4 Recognising new Royal Adelaide Hospital impacts on operating expenditure from 2016-17

The 2016-17 Budget includes costs associated with recognising the nRAH in 2016-17 and the forward estimate years. This has contributed to the increase in costs in 2016-17 for interest expenses, depreciation and amortisation, and other operating expenses.

The Budget has assumed costs are incurred from December 2016. At the time of this Report there is still uncertainty about the date of technical completion and commercial acceptance. DTF advised that it intends to include the budget impacts of the latest delays in the 2016-17 MYBR.

1.6 Purchases and sales of non-financial assets

1.6.1 Maintaining a significant capital expenditure program

Purchases of non-financial assets for the general government sector in 2016-17 are expected to be $4.6 billion and are projected to be above $1.5 billion for each year of the forward estimates. Purchases increase significantly in 2016-17 due to the recognition of $2.8 billion for the nRAH.

Roads and public transport projects are a significant part of the projected capital expenditure program. Substantial amounts are also projected for Health and Education infrastructure.

Major capital projects carry high inherent risks including cost estimating, complex contract arrangements, cost escalations and timeliness of completion. Sustained higher capital outlays require effective procurement, contract and project management expertise and sound information systems and financial controls. Major projects are often subject to capital funding arrangements with the Commonwealth. Section 4.2.4 discusses this further.

1.6.2 Sales of non-financial assets include sector transfers of TAFE SA properties

Sales of non-financial assets are forecast to be $976 million in 2016-17 and $389 million in 2017-18.

Sales in 2016-17 include an estimated $650 million for transferring ownership of key TAFE SA properties from the Department of State Development to Renewal SA. As part of this arrangement Renewal SA will receive a commercial income stream from the properties it will own. The sale proceeds will flow through to the net lending requirement and debt in the general government sector in 2016-17. However, it has not changed the debt levels of the

NFPS, which consolidates the general government sector (Department of State Development) and the PNFC sector (Renewal SA). This is an inter-sector transfer that does not change the costs or debt position of the broader whole of government.

1.7 Balance sheet

1.7.1 Expected asset increases are significant and include recognition of the new Royal Adelaide Hospital

Total assets for the NFPS are expected to increase over the forward estimates from $69.4 billion as at 30 June 2016 to $76.6 billion as at 30 June 2020. There is a large increase in total assets in 2016-17 mainly due to the recognition of the nRAH ($2.8 billion).

Net acquisitions (purchases less depreciation and asset sales) increase non-financial assets by $5 billion for the four years through to 2019-20.

1.7.2 Borrowings and unfunded superannuation liability are the dominant liabilities

Borrowings and the unfunded superannuation liability are the major components of liabilities over the period of the forward estimates. For the NFPS, borrowings are estimated to increase by $3.3 billion from $12.1 billion in 2015-16 to $15.4 billion in 2019-20. The unfunded superannuation liability is estimated to reduce from $12.5 billion in 2015-16 to $11.1 billion in 2019-20.

1.7.3 General government sector net debt

The estimated general government sector net debt at 30 June 2016 is $4.1 billion. Net debt is expected to rise by $2.2 billion in 2016-17. This reflects:

- the recognition of the financial obligations for the nRAH ($2.8 billion) offset by
- the return of excess capital from MAC and privatisation fees that are treated as a return of equity ($514.6 million)

1.7.4 General government sector net debt is expected to peak at $6.6 billion as at 30 June 2018

The level of general government sector net debt has been, or will be, impacted by a number of inter-sector transactions including: SA Water debt restructure ($2.7 billion); MAC privatisation ($2.1 billion); and sale of TAFE SA properties ($650 million).

While these transactions have reduced the general government sector net debt, they have not changed the overall level of funds held and debt at the whole-of-government level.

1.7.5 Unfunded superannuation liability valuation is sensitive to interest rate movements

Unfunded superannuation liabilities are valued at points in time by discounting future superannuation benefit payments by a discount rate that reflects the prevailing risk-free interest rate, consistent with the requirement of AASs. A discount rate of 3.2% was used for the estimate in the 2016-17 Budget, compared with 3% for the 2015-16 Budget. A 1% decrease in the discount rate is estimated to increase the superannuation liability by $2.7 billion.

The SA Government reports that it remains committed to fully funding the superannuation liability by 2034. Table 4.4 of 2016-17 Budget Paper 3 'Budget Statement' itemises expected past service superannuation liability cash payments for 2015-16 and the four years of the Budget.

1.8 Treasurer's Statements

The main public accounts are the Consolidated Account, special deposit accounts and deposit accounts established under the PFAA.

A large proportion of public monies are received and expended through the Consolidated Account. The main receipts to the Consolidated Account are State taxation and Commonwealth general purpose grants to the State. The Treasurer's Statements set out the appropriation authority available from various sources for the financial year, including the annual *Appropriation Act*, the Governor's Appropriation Fund and specific appropriations authorised under various Acts. Also set out are the purpose and amount of payments from the Consolidated Account (that is, the use of that appropriation).

Special deposit accounts and deposit accounts are used by almost all agencies as their main operating account. The Treasurer's Statements only report the closing balances of these accounts. Details of agency transactions are reported in the individual general purpose financial reports of agencies. Money appropriated from Parliament in one year and transferred to a deposit account need not actually be expended in that year; it may be carried over into the next year unless required by the Treasurer to be paid to the Consolidated Account.

1.8.1 Consolidated account deficit for 2015-16

The Consolidated Account result for 2015-16 was a $1154 million deficit, exceeding the budgeted deficit of $1041 million.

Total payments from the Consolidated Account of $12.3 billion were within appropriation authority of $12.5 billion (refer Treasurer's Statement K).

1.8.2 Movements in the special deposit account and deposit account balances

The balance of funds on hand in special deposit accounts ($4552 million) and deposit accounts ($969 million) collectively increased by $789 million. The largest contribution to the increase was the MAC payment of $448.5 million in 2015-16 to the Highways Fund (a special deposit account). This is in addition to an $852.9 million contribution to the Highways Fund by MAC in 2014-15.

1.9 Limitation on audit analysis

Most of our analysis in this Report is based on data provided in the Budget Papers, particularly the 2016-17 Budget, supplemented with information provided by DTF.

There are some limitations associated with the data when analysing results. They include the following:

- The audit commentary in this Report is based on a review of the Budget material and related information. It is not an audit in the same sense as work conducted to provide an audit opinion on a financial report. The Budget data represents unaudited estimates.

- Our review considers the estimated result for 2015-16. Past experience is that actual results have varied, sometimes substantially, from the estimated result.

- Classification changes occur from year to year in revenue and expense definitions that can affect the comparability of individual items across the time series. Such changes do not generally affect the net lending (borrowing) result. The Budget Papers explain structural breaks in time series.

In my view, these limitations are reasonable and do not invalidate the overall trend analysis from Budget data.

2 Fiscal strategy and State credit rating

Key points

- ➔ Net operating result fiscal target has changed to a net operating surplus in the general government sector in every year
- ➔ For all years of the 2016-17 Budget the ratio of net debt to revenue stays marginally below the 35% maximum fiscal target
- ➔ Standard & Poor's upgraded South Australia's credit rating to AA with a positive outlook in September 2016.

2.1 Fiscal strategy

The SA Government sets out its fiscal strategy in each Budget and its broader fiscal targets, together with performance against those targets.

2.1.1 Sustainable operating surpluses were a key fiscal target in early budgets post the global financial crisis

After the global financial crisis in 2008-09 a common fiscal target was to achieve sustainable surpluses. Some of the key elements of past Budgets were as follows:

- 2009-10 Budget – The announced fiscal strategy was to return the State to sustainable surpluses in the medium term.
- 2010-11 Budget – The fiscal strategy was to establish and maintain sustainable surpluses through significant budget improvement measures.
- 2011-12 Budget – A key fiscal strategy was to re-establish and maintain sustainable operating surpluses. This Budget reported that taxation and GST revenues remained significantly below estimates made prior to the global financial crisis, and in the 2010-11 Budget.

2.1.2 Fiscal targets changed in 2011-12 mid-year budget review

The 2011-12 MYBR revised down revenue (mainly GST and taxation revenue) by $1.1 billion and the net operating balance was not forecast to return to surplus until 2014-15, two years later than forecast in the 2011-12 Budget. Key elements for this and subsequent Budgets were as follows:

- 2011-12 MYBR – New fiscal targets were set by the SA Government. Two key targets were:
  - — a net operating surplus by the end of the forward estimates (then 2014-15)
  - — a maximum ratio of general government net debt to revenue of 50%.
- 2012-13 and 2013-14 Budgets – No changes.
- 2014-15 Budget – Maintained the target of a net operating surplus by the end of the forward estimates. Changed the target of a maximum ratio of general government net debt to revenue of 50% to a maximum of 35%. This was in response to a reduction in general government sector net debt of $2.7 billion, arising from the SA Government's decision to change the gearing level (level of debt as a percentage of assets) arrangements of SA Water from 2014-15.

2.1.3 Net operating balance target changes in 2016-17

The net operating surplus fiscal target has been revised to a net operating surplus in the general government sector in every year.

2.1.4 Net operating balance target expected to be met for 2015-16 and 2016-17

The 2011-12 MYBR established a fiscal target of a net operating surplus by the end of the forward estimates. To meet that target as set, a net operating surplus needed to be achieved in 2014-15. The actual net operating result for 2014-15 was a deficit of $189 million.

The 2015-16 Budget expected a net operating surplus of $43 million. The 2016-17 Budget does project an expected net operating surplus of $258 million for 2015-16. This surplus is expected to be achieved because of the dividend of $403.5 million from MAC.

The 2016-17 Budget expects a surplus of $254 million in 2016-17 and growing surpluses in each of the forward years.

2.1.5 Debt fiscal target expected to be met for all years of the 2015-16 Budget

Since the 2011-12 MYBR the SA Government's debt fiscal target has been based on the ratio of general government net debt to revenue.

Net debt is expected to increase from $4.071 billion as at 30 June 2016 to $6.536 billion as at 30 June 2020. Net debt peaks as at 30 June 2018 at $6.561 billion. Expressed as a percentage of revenue, net debt is forecast to increase from 23.5% as at 30 June 2016 to 33.7% as at 30 June 2020.

Chart 2.1 shows the ratio of net debt to revenue for recent years and for the 2015-16 and 2016-17 Budgets.

Chart 2.1 – General government sector ratio of net debt to revenue Budget comparisons

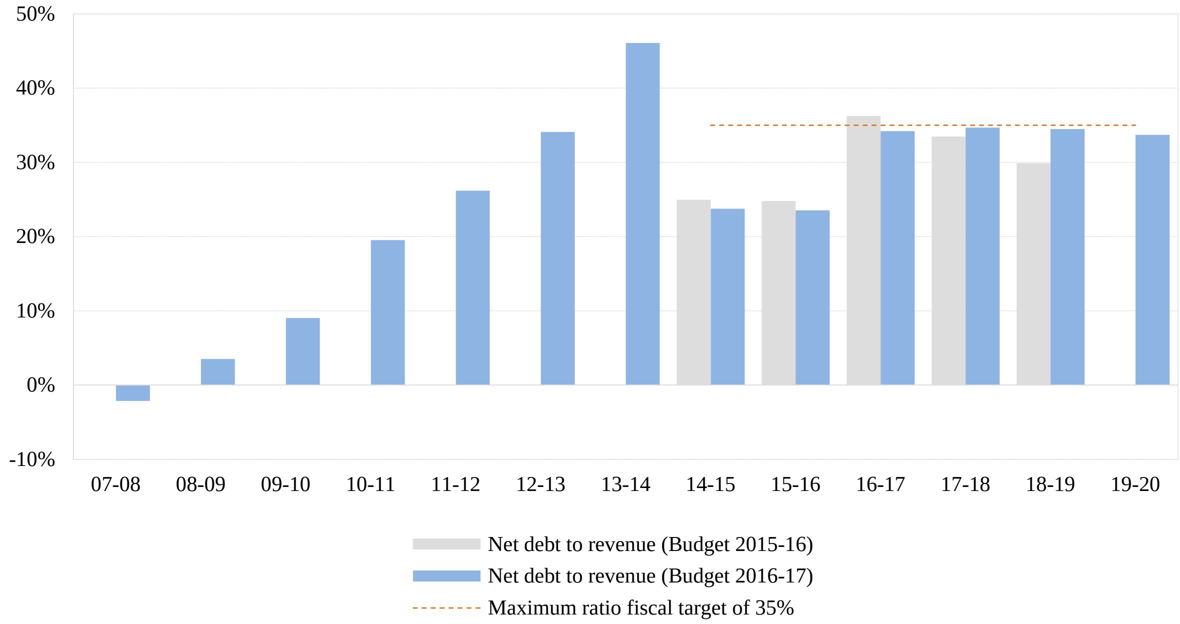


Chart 2.1 shows that for all years of the 2016-17 Budget the ratio of net debt to revenue stays marginally below the 35% maximum set by the SA Government's fiscal target in 2014-15. The ratio peaks in 2017-18 at 34.7%. Net debt increases significantly in 2016-17 as a consequence of recognising the finance lease obligation for the nRAH.

2.2 The State credit rating

2.2.1 Background to changes in the credit rating of the State

Securing and maintaining a triple-A credit rating for the State has been used in the past by the SA Government as another target measure (indicator) of prudent management of risks to State finances.

South Australia's credit rating from Standard & Poor's was downgraded from AAA to AA+ after the release of the 2012-13 Budget in May 2012. In early September 2012, Moody's also downgraded South Australia's credit rating.

Until this downgrade, South Australia had maintained a triple-A credit rating since 2004.

In late September 2012 Standard & Poor's further downgraded South Australia's credit rating from AA+ to AA with a stable outlook.

2.2.2 Standard & Poor's upgrades South Australia's credit rating

In late September 2016 Standard & Poor's upgraded South Australia's credit rating from AA with a stable outlook to AA with a positive outlook. This upgrade was based on their expectation that the State would:

- maintain its improved liquidity coverage ratio (cash and liquid assets as a percentage of debt maturities and interest payments)
- continue its improved budgetary performance and financial strategy.

2.2.3 Moody's highlights achievement of expenditure restraint

Moody's commented on the 2016-17 Budget that South Australia has made significant progress in reducing its current spending to support its budget targets, with expenditures growing at a record low of 1.3% on average over the four years from 2012-13 to 2015-16. Moody's saw this as an indication that the SA Government is serious about budgetary redress and will help it attain its tough spending targets. It also noted, however, that:

- maintaining very low expenditure growth will require strong government resolve
- the rate of growth in current expenditures is underpinned by minimal rises in employee costs, which are forecast to average 1.7% over the next four years, a result that could be challenging to achieve.

3 Operating statement

Key points

- The estimated net operating result for 2015-16 exceeds budget due mainly to an unbudgeted dividend of $403.5 million from MAC.
- For 2015-16 net acquisition of non-financial assets is estimated to be $256 million, compared to the budgeted amount of $72 million, mainly due to lower than expected sales of non-financial assets.
- The 2016-17 Budget expects to return to a net operating surplus in 2015-16 and then achieve consistent net operating surpluses over all four budget years.
- The projected surpluses for 2016-17, 2017-18 and 2018-19 are significantly less than what was projected for these estimate years in previous Budgets.
- Expected revenue increases are mainly impacted by increases in GST revenue grants and Commonwealth capital grants.

3.1 Estimated net operating result for 2015-16 exceeds budget

The 2016-17 Budget estimates a net operating balance surplus of $258 million for 2015-16 compared to the budgeted surplus of $43 million. The difference between the budgeted and estimated result is mainly due to an unbudgeted dividend of $403.5 million from MAC provided for in the 2015-16 MYBR.

Net lending is estimated to be in surplus by $3 million, compared to the budgeted net lending deficit of $29 million.

Table 3.1 shows 2014-15 financial year data and differences between the estimated result and budget for 2015-16.

Table 3.1 – General government budget comparisons 2014-15 to 2015-16

	2014-15 Actual $'million	2015-16 Budget $'million	2015-16 Estimated result $'million	Difference to budget $'million	Difference to budget %
Revenue:					
Taxation revenue	4 376	4 543	4 406	(137)	(3)
Grants:					
Current	8 148	8 708	8 724	16	0
Capital	202	454	327	(127)	(28)
Sale of goods and services	2 329	2 329	2 416	87	4
Interest income	28	29	24	(5)	(17)
Dividend and income tax equivalent income	791	314	775	461	147
Other	674	720	622	(98)	(14)
Total revenue	16 549	17 097	17 295	198	1

	2014-15 Actual $'million	2015-16 Budget $'million	2015-16 Estimated result $'million	Difference to budget $'million	Difference to budget %
Less: **Expenses:**					
Employee expenses	7 493	7 512	7 749	237	3
Superannuation expenses:					
Superannuation interest cost	438	378	402	24	6
Other superannuation expenses	738	812	840	28	3
Depreciation and amortisation	853	916	889	(27)	(3)
Interest expenses	254	198	233	35	17
Other operating expenses	4 173	4 583	4 155	(428)	(9)
Grants	2 790	2 656	2 768	112	4
Total expenses	16 738	17 055	17 036	(19)	0
Net operating balance	(189)	43	258	215	500
Less: **Net acquisition of non-financial assets:**					
Purchases of non-financial assets	937	1 327	1 236	(91)	(7)
Less: Sales of non-financial assets	166	339	91	(248)	(73)
Less: Depreciation	853	916	889	(27)	(3)
Add: Change in inventory	4	-	-	-	-
Add: Other movements in non-financial assets	-	-	-	-	-
Total net acquisition of non-financial assets	(78)	72	256	184	256
Net lending (borrowing)	(111)	(29)	3	32	110

Note: Totals may not add due to rounding.

3.2 Net acquisition of non-financial assets 2015-16

3.2.1 2015-16 estimated net acquisition of non-financial assets exceeded budget

For 2015-16 net acquisition of non-financial assets (the balance of purchases of non-financial assets less sales of non-financial assets and depreciation) is estimated to be $256 million, compared to the budgeted amount of $72 million. The difference is mainly due to lower than expected sales of non-financial assets. This is mainly due to the timing of sales of non-financial assets.

3.2.2 Adjustments made to the 2015-16 Budget estimate of purchases of non-financial assets

The 2015-16 estimated result for purchases of non-financial assets of $1236 million is $91 million below the 2015-16 Budget.

Table 3.2 shows that, consistent with the high value of capital spending, significant adjustments were made during 2015-16. The estimated result decrease is predominantly driven by 'carryovers into 2016-17 and forward years totalling $184 million and project re-profiles totalling $176 million.

The 2015-16 estimated result also allows for mid-year budget adjustments and slippage provisions beyond the financial year.

Table 3.2 – Comparison of purchases of non-financial assets budget to 2015-16 estimated result

	$'million	$'million
2015-16 Budget		1 327
Policy decisions		100
Parameter variations:		
Carryovers from 2014-15	120	
Adjustment to capital slippage provision (net adjustment from MYBR and Budget)	120	
Carryovers into 2016-17 and forward years	(184)	
Significant project re-profiles	(176)	
Other (includes reclassifications to operating and contingency adjustments)	(71)	(192)
2015-16 estimated result		1 236

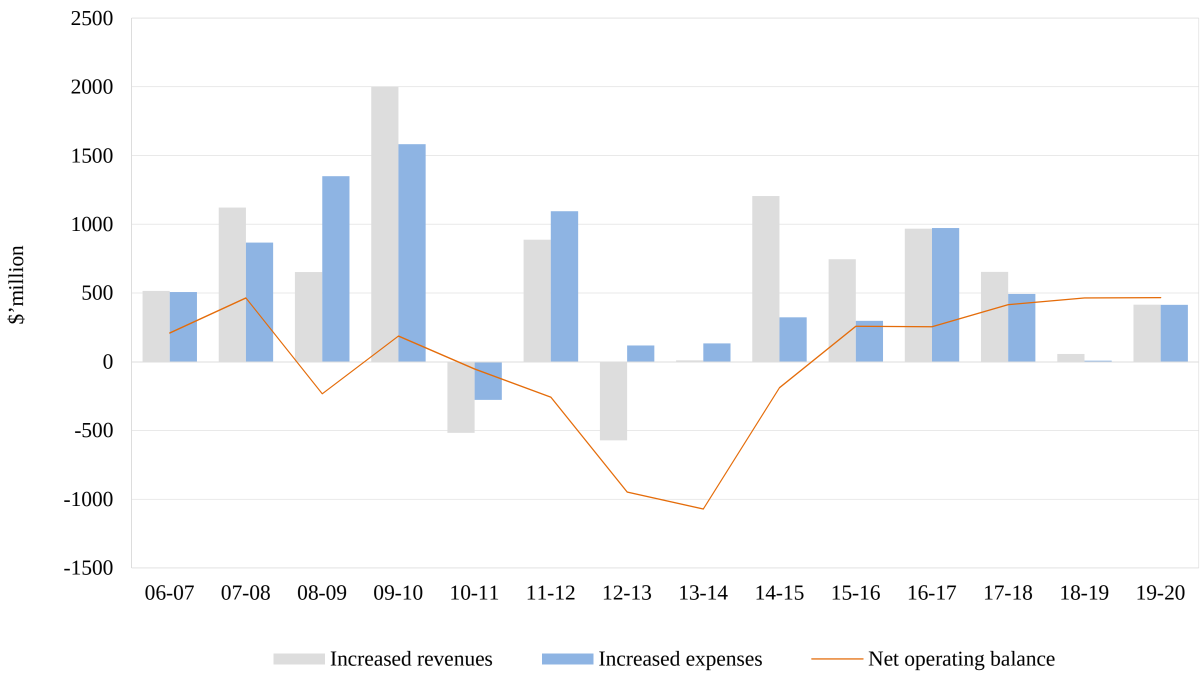
Note: Totals may not add due to rounding.

Table 3.2 shows that carryovers to 2016-17 are expected. These relate to identified projects across various portfolios. The 2015-16 estimated result also includes a provision for capital slippage, reflecting slippage expected to occur in the remainder of 2015-16.

3.3 Budget forecasts 2016-17 to 2019-20

Chart 3.1 shows annual increases in revenues and expenses since 2006-07 compared to annual changes estimated for the four years of the 2015-16 Budget, together with each year's net operating balance.

Chart 3.1 – Annual change in general government sector revenue, expenses and net operating balance



The global financial crisis affected the years 2008-09 to 2011-12. Commonwealth funding, including stimulus grants, peaked in 2009-10 and concluded in 2011-12.

3.3.1 Expected significant increases in GST and Commonwealth capital grants

Chart 3.1 shows that revenues increased by over $1 billion in 2014-15 (mainly due to GST grants revenue and dividend revenue increases) and are expected to increase significantly over the three years from 2015-16 to 2017-18. This increase over the three years is driven by expected increases in GST revenue grants and Commonwealth Government capital grant funding.

3.3.2 Consistent net operating surpluses expected

The Budget expects to return to a net operating surplus in 2015-16 and then achieve consistent net operating surpluses over all four years of the 2016-17 Budget, underpinned by significant GST revenue grants growth to 2017-18 and expenditure restraint. Over the four years of the Budget employee expenses are expected to decline in real terms, with nominal growth in each year generally below 2%.

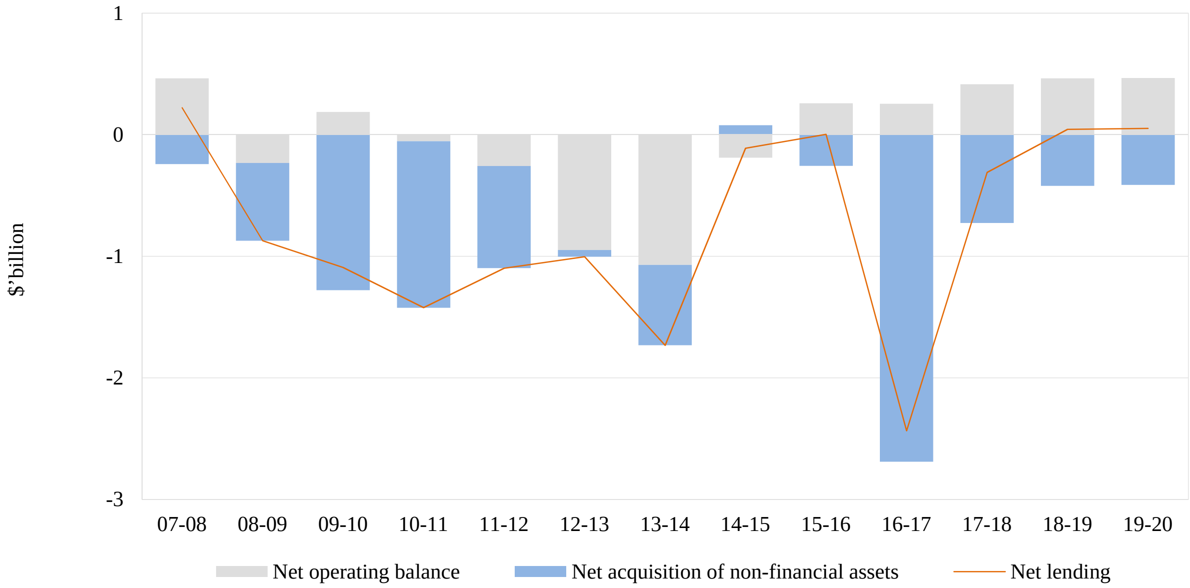
There is a significant expected increase in expenditure in 2016-17. The first-time inclusion of service payments (including finance charges) and amortisation costs for the nRAH contributes to this increase, as does the timing of expenditure for some Commonwealth funded programs.

The nRAH is budgeted to be recognised on the State's balance sheet for the first time in 2016-17. The significance of the ongoing costs for the nRAH highlights the importance of achieving all requirements for commercial acceptance of this project before taking responsibility for these costs.

3.4 Changing financial position

Chart 3.2 demonstrates the trend in net lending since 2007-08 and the expected trend over the forward estimates.

Chart 3.2 – General government sector net operating balance, net acquisition of non-financial assets[(a)] and net lending



(a) Net acquisition of non-financial assets included as negative amounts.

Chart 3.2 shows the increased frequency of net lending deficits (where revenues are less than operating and net investment expenditure) since 2008-09 reflecting:

- a significant capital expenditure program since 2008-09 (net acquisition of non-financial assets)
- significant net operating deficits for the period 2011-12 to 2014-15
- the recognition of the nRAH asset in 2016-17.

For the seven years from 2008-09 to 2014-15 net operating deficits were incurred in all years except 2009-10. A return to a net operating surplus is estimated for 2015-16. Net operating surpluses are projected for all four years of the 2016-17 Budget.

3.5 Reconciliation of variations since 2015-16 Budget

Each year a reconciliation is included in the Budget Papers of the current budget estimates with the corresponding estimates for the previous year. This explains differences between Budgets arising from the SA Government's two key categories.

- Parameter changes – are variations that do not flow from policy choice changes. Revenue includes taxation changes from economic activity and Commonwealth revenue. Expenses include carryovers between years from timing differences, reclassifications and corrections.
- Policy changes – are the decisions made by the SA Government to increase or decrease taxation and spending.

Table 3.3 summarises all parameter and policy changes made since the 2015-16 Budget that affect the net operating balance.[2]

Table 3.3 – Reconciliation of general government sector net operating balance

	2015-16 Estimated result $'million	2016-17 Budget $'million	2017-18 Estimate $'million	2018-19 Estimate $'million
2015-16 Budget estimated net operating balance	43	654	727	961
Parameter and other variations:				
Revenue – taxation	(122)	(175)	(220)	(234)
Revenue – other	279	303	166	(462)
Operating expenses	291	(202)	(244)	11
Net effect of parameter and other variations	448	(74)	(298)	(685)
Policy measures:				
Revenue – taxation	(15)	(21)	(4)	(5)
Revenue – other	(12)	3	15	24
Revenue – offsets	67	126	365	374
Operating expenses	(272)	(434)	(389)	(206)
Net effect of policy measures	(232)	(326)	(13)	187
2016-17 Budget estimated net operating balance	258	254	415	464

Note: Totals may not add due to rounding. Brackets mean an unfavourable change.

[2] 2016-17 Budget Paper 3 'Budget Statement', table 1.5.

3.5.1 Revenue variations

Taxation revenue parameter variation downgrades are significant over the forward estimates, amounting to $751 million. Table 3.4 shows the components of revenue parameter changes.[3]

Table 3.4 – Revenue parameter changes since the 2015-16 Budget

	2015-16 Estimated result $'million	2016-17 Budget $'million	2017-18 Estimate $'million	2018-19 Estimate $'million
All State taxation	(122)	(175)	(220)	(234)
Commonwealth specific purpose and National Partnership grants:				
Special purpose	35	18	13	(106)
National partnership	(235)	184	232	(112)
GST revenue grants	56	23	(36)	(169)
Sales of goods and services	67	71	71	44
Other contributions and grants	(10)	(12)	(15)	(21)
Dividends and income tax equivalents	461	86	7	8
Interest income	(7)	(8)	(8)	(8)
Royalties	(67)	(64)	(71)	(77)
Other	(23)	4	(26)	(22)
Total	155	127	(53)	(697)

Note: Totals may not add due to rounding.

Table 3.4 shows that taxation revenue has been written down over all four years since the 2015-16 Budget. This mainly reflects lower than previously expected revenue for payroll tax, gambling tax and conveyance duties. The most significant write-down is for payroll tax. The Budget notes softer than expected employment and wages growth among payroll tax paying firms and that growth assumptions have been revised to reflect the low wage environment and the outlook for employment across medium to large employers.

Other notable parameter revisions since the 2015-16 Budget include:

- dividend and income tax equivalents for 2015-16 and 2016-17 have been revised upwards due to the dividend payments from MAC
- royalties have been revised down in all four years mainly reflecting lower than expected commodity prices for petroleum, iron ore and copper.

3.5.2 Operating expense variations

Table 3.3 shows that parameter effects are estimated to increase operating expenses by $144 million over the four years to 2018-19. Policy spending decisions since the 2015-16 Budget are expected to add a further $1.3 billion to operating expenses over the same period, $272 million of which is estimated for 2015-16.[4] Table 3.5 shows the value of policy measures taken in each of the past five years after presenting the Budget for the year.

[3] Sourced from 2016-17 Budget Paper 3 'Budget Statement', table 1.7 and 2015-16 MYBR, table 1.7.
[4] 2016-17 Budget Paper 3 'Budget Statement', table 1.5.

Table 3.5 – Policy spending decisions

	2011-12 $'million	2012-13 $'million	2013-14 $'million	2014-15 $'million	2015-16 $'million
Policy measure operating expenses	199	352	226	164	272

Table 3.5 shows that $1.2 billion was added to spending for the past five years – an average of $242 million p.a.

3.6 Net operating balance – issues and trends

3.6.1 Changes in net operating balance estimates

Table 3.6 tracks how net operating balance estimates for the general government sector have changed since the 2008-09 Budget.

Table 3.6 – Comparison of estimated net operating results between budgets

Net operating balance	2008-09 $'million	2009-10 $'million	2010-11 $'million	2011-12 $'million	2012-13 $'million	2013-14 $'million	2014-15 $'million	2015-16 $'million	2016-17 $'million	2017-18 $'million	2018-19 $'million
2008-09 Budget	160	356	434	424							
2009-10 Budget	*(233)	(304)	78	96	304						
2010-11 Budget		*187	(389)	55	216	370					
2011-12 Budget			*(53)	(263)	114	80	655				
2012-13 Budget				*(258)	(867)	(778)	(15)	512			
2013-14 Budget					*(948)	(911)	(431)	375	661		
2014-15 Budget						*(1 071)	(479)	406	776	883	
2015-16 Budget							*(189)	43	654	727	961
2016-17 Budget								*258	254	415	464

* Actual or estimated result.

The actual net operating surplus result for 2009-10 of $187 million was heavily influenced by Commonwealth funding in response to the global financial crisis and other changes.

Large downward revisions to net operating balance post the global financial crisis

Table 3.6 shows that the changes since the estimated surpluses of the 2008-09 Budget (before the global financial crisis) represent a $1.7 billion unfavourable turnaround over the four years to 2011-12.

Table 3.6 also shows the ongoing impact on the estimates for the years 2012-13 to 2015-16. For example, expected surpluses in the 2011-12 Budget became estimated deficits in the 2012-13 Budget. The cumulative unfavourable expected turnaround in the net operating surplus between these two Budgets was $2.5 billion. The 2013-14 Budget revised the net operating surpluses down by a further cumulative amount of $767 million. This mainly reflected the deterioration of GST and taxation revenue estimates over this period and the present level of expenditure projections.

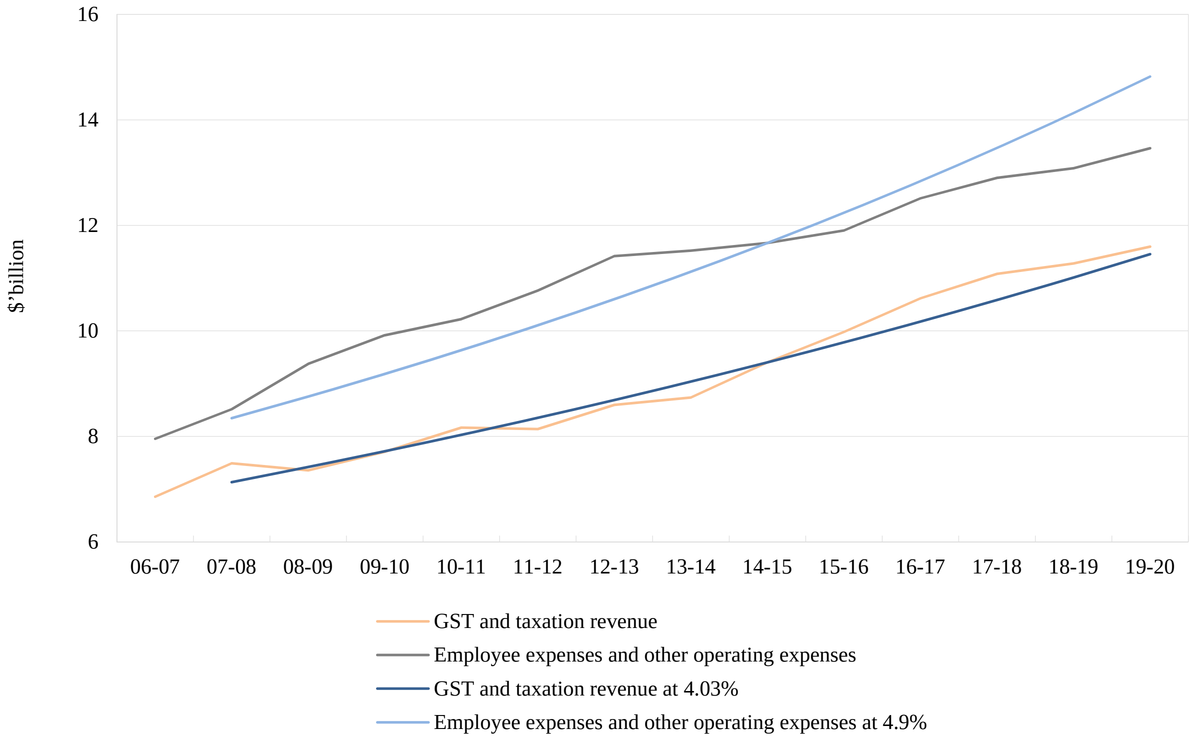
Downward revision of operating surpluses in the 2016-17 Budget

The 2016-17 Budget expects net operating surpluses for all four years. The projected surpluses for 2016-17, 2017-18 and 2018-19 are significantly less than what was projected for these estimate years in previous Budgets. Two key impacts are the downward revision of taxation revenue and new spending initiatives (including over $500 million for the Health and Ageing portfolio).

3.6.2 Trends in key revenue and expense items

The net operating result is at risk from both revenue and expense outcomes. Chart 3.3 compares trends for key revenue and expense items in the 2016-17 Budget, namely GST and taxation revenue and employee and other operating expenses.

Chart 3.3 – Comparison of GST and taxation revenue and employee expenses and other operating expenses



GST and taxation revenue projections tracking closely with historical average growth rates

In chart 3.3, the GST and taxation revenue line tracks actual revenues up to 2014-15 and estimated revenues from 2015-16 to 2019-20. For the nine years to 2014-15, these two combined items grew on average annually by about 4.03%. Applying this average growth rate from 2006-07 through to 2019-20 creates the GST and taxation revenue at 4.03% line. The charted past experience and the budget estimates lines correlate closely.

Employee expenses and operating expenses are forecast to grow at rates lower than historical growth rates

For the nine years to 2014-15 combined employee and other operating expenses grew on average annually by about 4.9%. Applying this average growth rate from 2006-07 to 2019-20 creates the employee expenses and other operating expenses at 4.9% line. Comparing the trend of this line to the estimated expenses for the 2016-17 Budget shows an increasing difference between the two lines. This difference highlights the significance of the expenditure restraint built into the 2016-17 Budget estimates.

The flattening of growth in actual expenses in 2013-14 and 2014-15 and expected expenses in 2015-16 indicates that expenditure restraint has been achieved through the impact of cumulative savings initiatives. The 2016-17 Budget estimates over the four years contain significant savings initiatives that have been introduced in recent Budgets. New savings (being the value for the four years of each Budget) introduced since the $1.5 billion Sustainable Budget Commission savings in the 2010-11 Budget include:

- $430.7 million in the 2012-13 Budget
- $227.2 million in the 2012-13 MYBR
- $140 million in the 2013-14 Budget
- $1.5 billion in the 2014-15 Budget
- $357 million in the 2016-17 Budget.

Savings initiatives are discussed in section 5.2.

4 Operating revenues

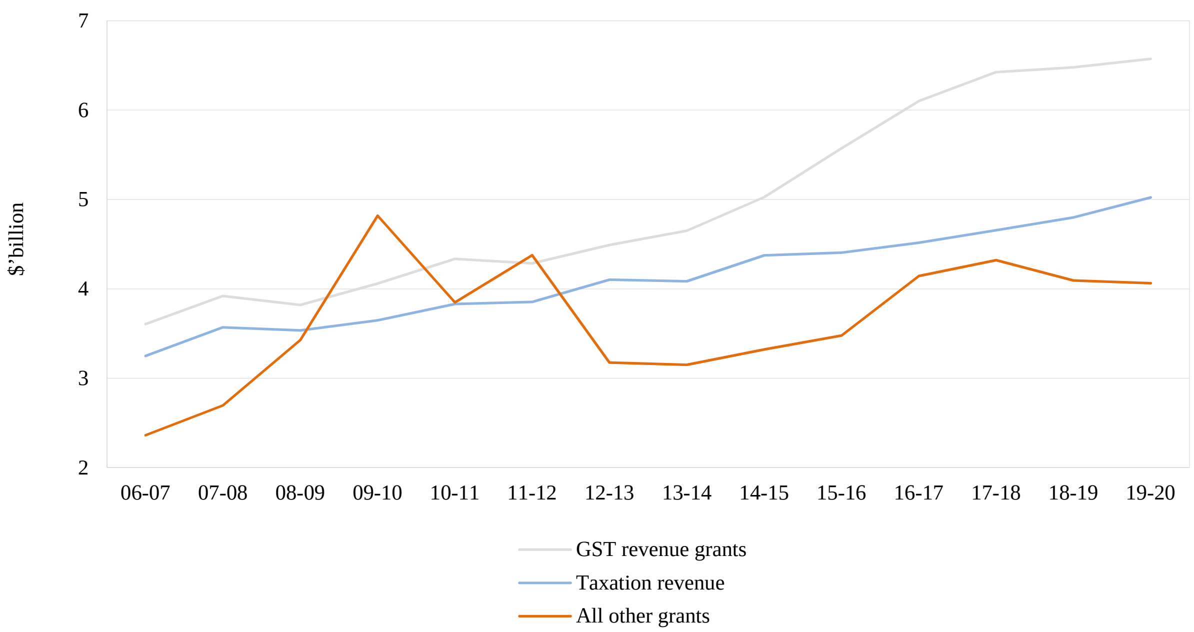
Key points

- Expected significant growth in GST revenue grants and Commonwealth capital grants for the period 2015-16 and 2017-18.
- Relatively modest growth in taxation revenue is expected (at or below 3.1% nominal for all years of the Budget except 2019-20).
- A greater proportion of total revenue is expected from GST revenue grants and a diminishing proportion from taxation revenue for 2015-16 to 2017-18.
- Total dividend and income tax equivalent income in 2015-16 is expected to be $461 million higher than the 2015-16 Budget mainly due to a large unbudgeted dividend payment ($403.5 million) from MAC. MAC also paid a dividend of $459.2 million in 2014-15.
- There are no further dividends budgeted for MAC from 2017-18 onwards, which results in a significant decrease in budgeted distributions received from PFCs.
- A $121.9 million decrease in the expected SA Water dividend and income tax equivalent in 2016-17 due to water and sewerage prices decreasing in 2016-17 in line with the Essential Services Commission of South Australia's final determination.
- Royalty revenue in 2015-16 is estimated to be $68 million lower than budgeted mainly due to continued deterioration in commodity prices.

4.1 Revenue forecasts 2016-17 to 2019-20

Chart 4.1 shows expected trends for the major revenue items in the 2016-17 Budget against the experience of the 10 years to 2015-16.

Chart 4.1 – General government sector Commonwealth grants and taxation revenue



4.1.1 Impact of the global financial crisis and the response

Chart 4.1 highlights the impact of the global financial crisis and subsequent global economic uncertainty over the period 2008-09 to 2011-12. Over this period GST revenue grants and taxation revenue fell in 2008-09 and GST revenue grants fell in 2011-12.

After the global financial crisis, immediate and large reductions in GST revenue grants and taxation revenue were offset by Commonwealth stimulus funding. Chart 4.1 shows that the category 'all other grants' (principally other Commonwealth grants) increased markedly in the period 2008-09 to 2010-11. This was mainly due to the Commonwealth Government's Nation Building – Economic Stimulus Plan and Nation Building Plan for the Future capital grants. Grants remained high in 2011-12, mainly reflecting the timing of Commonwealth capital grants for major water, road and rail infrastructure projects.

4.1.2 Expected strong growth in GST revenue grants and capital grants

Chart 4.1 shows the significant growth in GST revenue grants for the period 2015-16 to 2017-18. Thereafter, amounts flatten out at these higher levels. The Budget notes an increase in South Australia's per capita relativities for the distribution of GST revenue grants in 2016-17. The Budget also notes the full negative impact on relativities, from 2018-19, of incorporating new data in the wages cost assessment. A further significant trend is the growth in all other grants for the period 2014-15 to 2017-18. This is mainly Commonwealth government capital grants.

This is contrasted with the relatively modest growth in taxation revenue over most of the forward estimates. Real growth is expected to be below 1% for 2016-17 to 2018-19 and 2.1% in 2019-20.

4.2 Operating revenues – trends and issues

GST revenue grants in 2015-16 are estimated to be $56 million higher than budgeted, while taxation revenues for 2015-16 have been revised down by $137 million since the 2015-16 Budget.

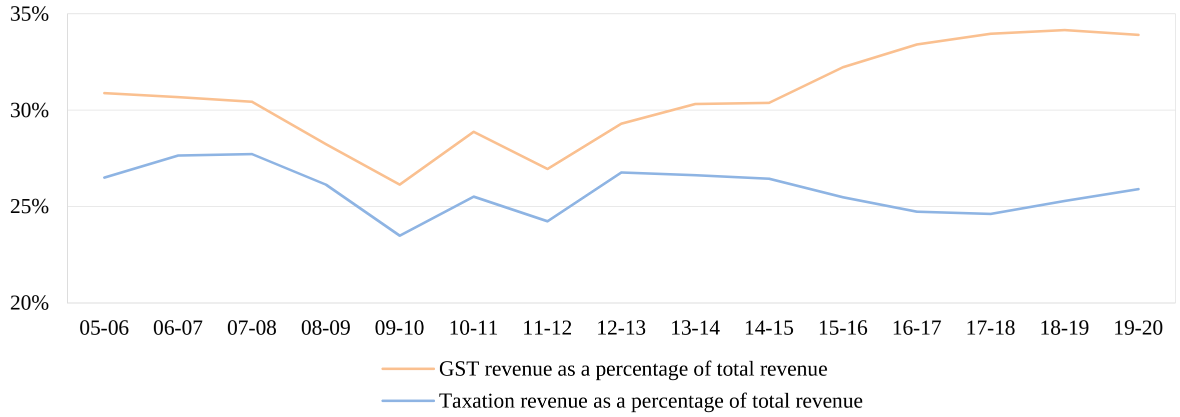
GST revenue has shown to be highly sensitive to household spending patterns. State taxation also varies with economic activity and demand for housing. GST revenue is expected to grow nominally by 9.5% in 2016-17, 5.3% in 2017-18 and then below 2% for the last two years of the forward estimates.

Nominal growth for taxation revenue is expected to be at or below 3.1% for all years of the Budget except 2019-20 (4.7%).

4.2.1 Trends in GST and taxation revenue

The significance of GST and taxation revenue is demonstrated in chart 4.2, which shows the annual proportions of actual GST and taxation revenue to total general government sector revenue and the proportions estimated for the four years of the 2016-17 Budget.

Chart 4.2 – GST grant revenue and taxation revenue as a percentage of total revenue



Impact of the global financial crisis

Chart 4.2 illustrates the impact of the global financial crisis on GST grant revenue and taxation revenue over the period 2008-09 to 2011-12. In this period there were major write-downs in successive Budgets of GST grant and taxation revenue estimates. Over this same period the State received significant Commonwealth temporary grant funding in response to the global financial crisis.

Forecast changes in the proportions of major revenue sources

Chart 4.2 also shows the widening gap between the GST and taxation revenue ratios over the period 2014-15 to 2017-18 as a greater proportion of total revenue is expected from GST revenue grants and a diminishing proportion from taxation revenue. Revenue is primarily dependant on the level of economic activity. While State revenues are expected to change only modestly, the increased proportional reliance on GST revenues means heightened exposure to national economic activity. Although a more diversified risk, the experience of the global financial crisis shows it is potentially significant.

Over the four years of the 2016-17 Budget there is an upward trend in the GST revenue ratio, which approaches 34%. For taxation revenue, the trend over the forward estimates is that the ratio reduces and then flattens. This reflects:

- expected growth in the GST pool and South Australia’s share of the pool
- a parameter effects write-down in taxation revenue over the four years of the 2016-17 Budget of $751 million
- the ongoing impact of a major taxation initiative in the 2015-16 Budget which foregoes an otherwise projected $668.2 million in property taxes over the four years of that Budget.

4.2.2 Relative volatility of major taxation revenues

The two largest items of State taxation are payroll tax and conveyance duty. Growth in payroll tax is based on the outlook for employment and wages growth and payroll compositional factors. For conveyance duty, the Budget assumes that underlying property market transactions will return to long-term trend levels over the medium term. Property prices are expected to grow broadly in line with long-term trend growth in per capita nominal household income.

The Budget comments on the difficulty in predicting trends in property market values and activity levels, particularly transaction numbers which can change significantly from one year to the next. This makes forecasting property taxes difficult, especially conveyance duty. Since 1998-99 the annual growth in conveyance duty revenue has ranged from negative 20% to positive 42%.

Volatility of conveyance duty compared to payroll tax

The difference in volatility of the two main sources of taxation revenue is represented in chart 4.3, which shows actual annual nominal percentage changes from 2004-05 and expected changes over the forward estimates.

Chart 4.3 – Annual percentage change in payroll tax and conveyance duty

Chart 4.3 shows the relative stability of payroll tax growth over the period in comparison to the significant fluctuations in conveyance duty. It also demonstrates that, over the forward estimates, both conveyance duty and payroll tax are expected to only grow modestly for most years.

4.2.3 Risk factors for major revenue items

Conveyance duties are a volatile revenue stream, sensitive to both transaction levels and transaction prices. The 2016-17 Budget reports that there is a risk that property prices and/or activity levels will be lower than estimated, particularly if structural changes in the economy cause employment uncertainty.

The Budget also identifies there is a risk that employment or wages growth will be lower than forecast, which would reduce payroll tax revenue.

The Budget further notes that South Australia’s GST revenue grants comprise over 50% of total grant revenues and therefore the budget is particularly exposed to lower than expected growth in the GST pool. Further, changes to the methodology and data underlying the Horizontal Fiscal Equalisation process for GST grant distribution have the potential to significantly impact (both positively and negatively) the State’s revenue base and budget position.

Risk analysis in the Budget Papers notes that a 1%:

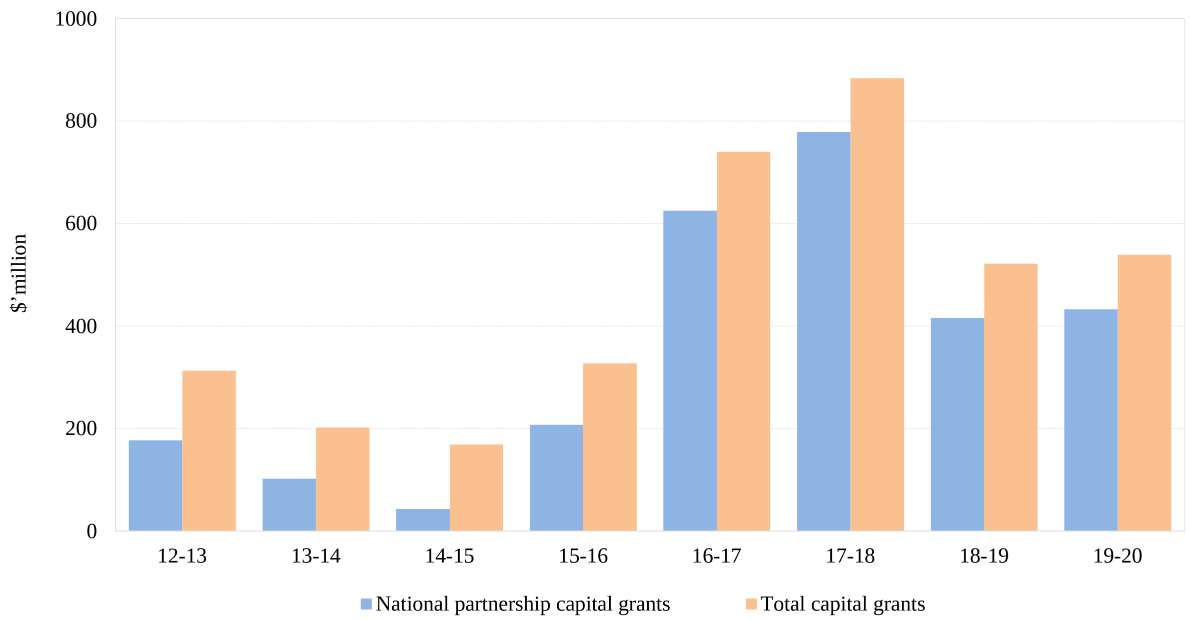
- change in GST pool growth has a revenue impact for South Australia of about $61 million p.a. and a 0.01 change in South Australia's relativity would result in a change in GST revenue grants of about $43 million. This highlights the importance of GST to the Budget projections
- change in taxable payrolls equates to about $11 million in payroll tax revenue
- variation in 2016-17 property values equates to about $10 million in conveyance duty revenue
- variation in transactions in 2016-17 equates to about $8 million in conveyance duty revenue.

4.2.4 Expected strong growth in Commonwealth capital grant revenue supports the operating result

The net operating balance is also significantly influenced by capital grant revenue from the Commonwealth. The 2016-17 Budget includes some substantial increases in Commonwealth grant funding. Most are national partnership grants for road and rail projects. The Budget notes that the increases largely reflect the timing, and changes to the profile, of funding for road transport projects.

Chart 4.4 shows the recent trend in Commonwealth capital grant funding and the expected trend over the forward estimates.

Chart 4.4 – Commonwealth capital grant funding



Most of this capital grant funding does not have a corresponding operating expenditure in the operating statement. Rather, the expenditure from this funding is reflected in the 'purchases of non-financial assets' line item, which impacts directly on the net lending balance. The operating result is impacted once the asset is complete and in use through the annual charging of depreciation expense over the useful life of the asset.

4.2.5 Sales of goods and services

Revenue from sales of goods and services ($2416 million) represented 14% of estimated total revenues in 2015-16. Sales of goods and services by the general government sector includes government fees and charges. Most government fees and charges will be increased by 1.7% from 1 July 2016.

Revenue from sales of goods and services in 2015-16 is estimated to be $87 million higher than the 2015-16 Budget, mainly due to upward revisions to health unit fees and Commonwealth Government contributions.

Revenue from sales of goods and services is expected to be $2719 million in 2019-20. This reflects expected growth in real terms of 1.1% in 2016-17, 1.8% in 2017-18, a decline of 0.3% in 2018-19, and then an increase of 0.3% in 2019-20.

4.2.6 Dividend and income tax equivalent income

Dividend and income tax equivalent income are the distributions received from PNFCs and PFCs. As the distributions come from two other GFS sectors, on a consolidated financial reporting basis these distributions are considered internal transfers and have no effect on the whole-of-government consolidated operating result. On the GFS sector basis, transfers are recorded as revenue in the general government sector and therefore impact this sector's net operating balance.

Chart 4.5 shows the trend in distributions received from PFCs and PNFCs for the 10 years to 2019-20.

Chart 4.5 – Distributions received by the general government sector (nominal)

2015-16 distributions above budget

In 2015-16 total distribution income is estimated at $775 million and predominantly comprises the dividend payment from MAC to the Highways Fund (controlled by the Department of Planning, Transport and Infrastructure) of $403.5 million and SA Water dividend, and income tax equivalent payments totalling $298.6 million.

Total dividend and income tax equivalent income in 2015-16 are expected to be $461 million higher than the 2015-16 Budget mainly due to the large unbudgeted dividend payment ($403.5 million) from MAC. A further $105.8 million dividend is expected to be paid by MAC in 2016-17 following the transition to the new Compulsory Third Party arrangements.

SA Water's dividend and income tax equivalent in 2015-16 are estimated to be $60.8 million higher than budget, mainly due to higher than expected water sales in 2015-16 and unbilled revenue from 2014-15. The decline in distributions from SA Water to $176.7 million in the 2016-17 Budget is primarily attributable to lower water and sewerage prices.

Distributions from SAFA are estimated to be $9 million below budget in 2015-16 reflecting decreased revenue from its insurance operations. SAFA dividends in 2015-16 include a special dividend payment of $30 million, which is a return of excess capital from SAFA's fleet and treasury operations.

Longer term trends in distributions

Chart 4.5 demonstrates that total distributions are expected to peak in 2014-15 and 2015-16 before flattening out over the four years to 2019-20. These peaks are mainly due to MAC dividends in 2014-15 ($459.2 million) and 2015-16 ($403.5 million).

Distributions received from PFCs in the 2016-17 Budget include a further $105.8 million in dividends from MAC. MAC's ongoing net financial position is now dependant on running off existing claims and investment performance. There are no further dividends budgeted for MAC from 2017-18 onwards, which results in a significant decrease in budgeted distributions received from PFCs. However, the Budget does include payments from MAC to the Highways Fund that are categorised as return of equity for all four years of the Budget, including $255.2 million in 2016-17. Table 5.12 of Budget Paper 3 'Budget Statement' provides the detail of the equity returns expected for each year. These equity returns are not treated as revenue but are recorded in the balance sheet and increase cash balances and reduce net debt.

All dividends and income tax equivalents for PFCs from 2017-18 to 2019-20 relate to Homestart Finance and SAFA.

The capital of the major PFCs over the past two financial years is summarised in table 4.1.

Table 4.1 – Capital of the major PFCs

	2015-16 $'million	2014-15 $'million
MAC	688	823
SAFA	327	354
Homestart Finance	157	173
Total	1 172	1 350

Table 4.1 indicates that MAC still has $688 million of equity as at 30 June 2016.

Distributions received from PNFCs are budgeted to decrease by $127 million to $184 million in 2016-17. This is mainly due to a $121.9 million decrease in the SA Water dividend and income tax equivalent to $176.7 million. This is due to water and sewerage prices decreasing in 2016-17 in line with the Essential Services Commission of South Australia's final determination. The SA Government has announced that for SA Water customers, drinking water usage charges will decrease by 3.4% (nominal) on average in 2016-17, metropolitan sewerage charges will decrease on average by 13.7% (nominal) and country sewerage charges will decrease on average by 13.2% (nominal).

The SA Water dividend and income tax equivalent are budgeted to gradually increase over the remainder of the forward estimates, with total distributions from SA Water estimated to be $241.7 million in 2019-20.

4.2.7 Other revenue

Other revenue mainly comprises royalties, fines, penalties and school fundraising revenues. The 2015-16 estimated result of $622 million is $98 million lower than the 2015-16 Budget estimate.

Royalty revenue in 2015-16 is estimated to be $68 million lower than the original 2015-16 Budget estimate largely as a result of continued deterioration in commodity prices for copper, uranium, iron ore and zircon together with slower than previously forecast recovery in the price of crude oil. Royalty revenue is expected to grow moderately over the forward estimates, largely reflecting the recovery of commodity prices and anticipated lower foreign exchange rates.

Fines and penalties revenue in 2015-16 has been revised down by $22 million since the 2015-16 Budget estimate largely due to delays in fixed cameras and point-to-point cameras coming online, as well as lower detections from fixed and mobile cameras. Modest growth in fines and penalties revenue is expected from 2016-17.

5 Operating expenses

Key points

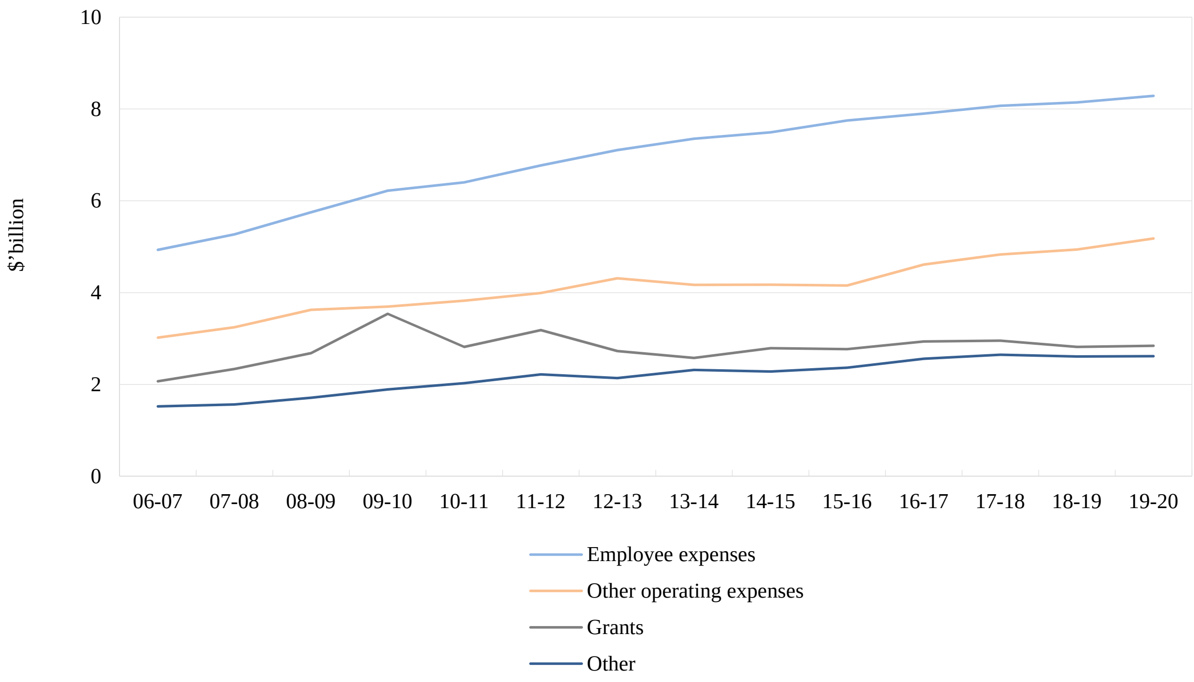
- Salaries and wages savings intitative was introduced in the 2016-17 Budget that is estimated to save $357 million over the forward estimates.
- The 2016-17 Budget includes an expenditure initiative of $526.8 million over four years (in addition to $144.4 million in 2015-16) for the Department for Health and Ageing. This mainly represents restoration of funding passed through as reductions in previous budgets.
- A number of one off factors impact the significant growth in expenditure in 2016-17, including support for the Whyalla Steelworks, reforms of the taxi and chauffeur industry and expenditure associated with the nRAH.
- Between 1 November 2010 and 30 June 2016, 3704.8 FTE reductions were achieved through TVSP payments at a cost of $427 million.

5.1 Expense forecasts 2016-17 to 2019-20

5.1.1 Trends in expenditure items

Chart 5.1 shows trends expected for total expenses in the 2016-17 Budget split into four main categories, against the experience of recent years.

Chart 5.1 – General government sector expenses



Consistent with recent past Budgets, the 2016-17 Budget expects significant restraint in spending.

Restrained growth in employee expenses expected

Employee expenses are estimated to increase in 2015-16 and beyond but at significantly lower rates than the experience in earlier years. Nominal growth rates over the four years of the 2016-17 Budget are mainly below 2%, with expenses declining in real terms. This partly reflects expected reductions in employment numbers over the forward estimates. The 2016-17 Budget also announced that the SA Government has revised its wages policy to limit wage growth to a maximum of 1.5% p.a. over the next three years of each enterprise agreement. Previously wages growth was limited to 2.5% p.a. This initiative is estimated to save $357 million over the forward estimates.

Future wage negotiations are critical to expenditure control

Salaries and wages remain the main public sector operating cost. The 2016-17 Budget notes that enterprise bargaining negotiations were completed or are progressing for a number of major workforce groups. Budget commentary states that the outcomes of future wage negotiations will be crucial in determining whether expenditure forward estimates in this Budget can be achieved, and the planned level of government services can be delivered in light of the current challenging economic conditions.

The Budget indicates that if public sector-wide wage outcomes for new enterprise agreements vary by 1% p.a. from allowances in the forward estimates, the budget impact is estimated to be approximately $169 million in 2019-20. The Budget states that any wages growth above the 1.5% p.a. limit will need to be offset by productivity improvements or other cost reduction measures.

The 2016-17 Budget provides for anticipated public sector wage increases over the forward estimates period, both in individual agency budgets, and in the total of the contingency items in the administered items for DTF to cover future enterprise agreement outcomes.

In 2015-16 enterprise agreement negotiations were finalised for teachers and preschool education staff, police officers and Rail Commissioner tram operations employees. Enterprise bargaining negotiations will occur for a number of groups in 2016-17, including building, metal and plumbing trades, TAFE SA lecturers, ambulance officers, visiting medical specialists, nurses/ midwives, salaried medical officers and firefighters.

Other operating expenses – significant growth in 2016-17 expected

Other operating expenses include items such as supplies and services, consultancies and contractors, repairs and maintenance, computer and communication charges and operating leases.

The 2016-17 Budget notes that a number of one-off factors impact the significant growth in expenditure in 2016-17, including support for the Whyalla steelworks, reforms of the taxi and chauffeur industry and expenditure associated with the nRAH. Further, there is real growth across the forward estimates mainly due to growth in expenditure within:

- Communities and Social Inclusion (disability services and equal remuneration order for workers in the social and community services sector)
- Education and Child Development (expenditure associated with the National Education Reform Agreement).

Grant expenses

The fluctuation in grant expenses up to 2011-12 is mainly associated with fluctuations in Commonwealth grant revenues discussed in section 4.1.

Other expenses

Other expenses include superannuation expenses, depreciation and amortisation and interest expenses. There is an increase in 2016-17 as a result of the first-time recognition of expenses (interest and amortisation expense) associated with the nRAH finance lease agreement.

DTF have advised that expenses for the nRAH included in the 2016-17 Budget year are:

- Finance charges – $154 million
- Operating expenditure – $72 million
- Amortsation expense – $49 million

These costs are included on the assumption, at the time the budget was prepared, of commercial acceptance at the end of November 2016. Subsequent to the Budget, other delay issues have arisen. DTF have advised that the budget impacts of the latest delays will be included in the 2016-17 MYBR.

5.1.2 Annual movements in employee expenses and other operating expenses

The expenditure restraint built into the 2016-17 Budget and recent past Budgets is illustrated by the estimated annual movements in the two main expenditure items of the Budget, employee expenses and other operating expenses. These two items combined represent 69% of expenses for 2016-17, a proportion comparable with most years.

Chart 5.2 shows the annual movements estimated or projected for employee and other operating expenses for the period 2015-16 to 2019-20 compared to the previous eight years' experience.

Chart 5.2 – Annual change in employee and other operating expenses

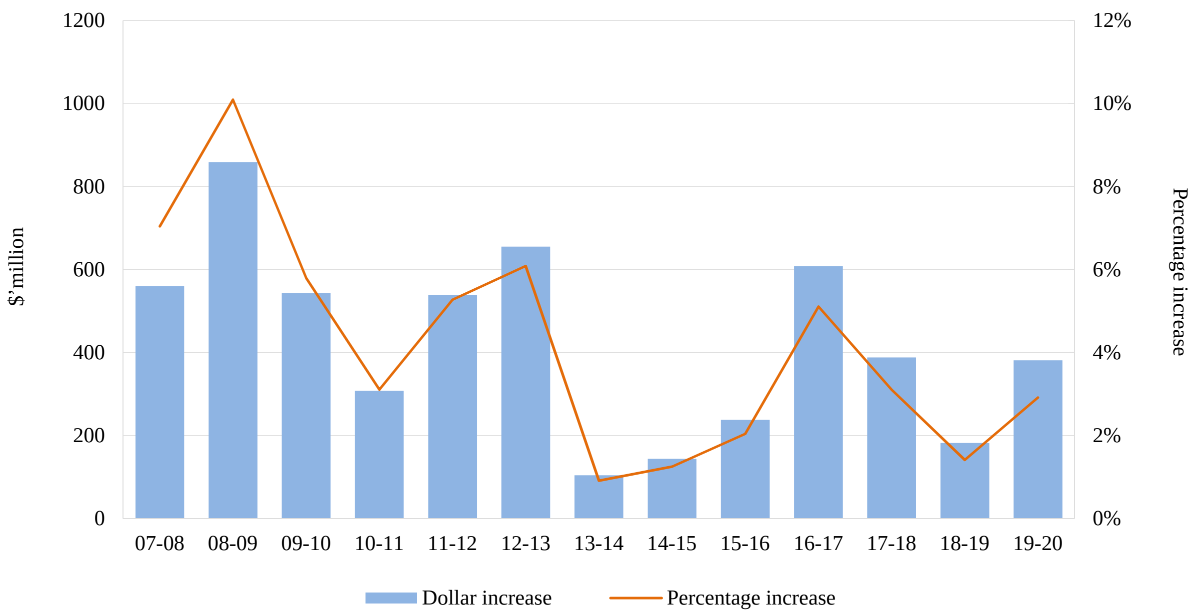


Chart 5.2 shows growth in 2013-14 and 2014-15 (actual) and 2015-16 (estimated) at or below 2%. This reflects the realisation of savings introduced in recent Budgets. An increase in expenses of 5% is expected in 2016-17 mainly due to a number of one-off items (refer section 5.1.1). For the remaining three years of the 2016-17 Budget expenditure growth for these two items combined is predicted to grow at or below 3% p.a.

5.2 Savings initiatives

5.2.1 Savings initiatives have been significant since the 2010-11 Budget

The 2010-11 Budget consolidated savings announced in earlier Budgets (of over $700 million p.a. by 2013-14) into new savings, which totalled $1.5 billion over four years, arising from the recommendations of the Sustainable Budget Commission. These were additional to cost recovery and revenue measures ($478.6 million) and some retained savings included in agencies from previous Budgets.

Since the 2010-11 Budget, subsequent Budgets have introduced additional significant savings initiatives including:

- The 2012-13 Budget introduced new savings initiatives totalling $430.7 million over the four years of the forward estimates. The two main measures were an increase in the efficiency dividend from 0.25% to 1% of employee expenses and the reduction of a further 1000 FTEs over the forward estimates.
- The 2012-13 MYBR introduced $227.2 million of savings initiatives through an additional efficiency dividend of a 1% p.a. reduction in the net cost of services and a reduction in costs in specifically identified portfolio areas.
- The 2013-14 Budget introduced savings measures of $140 million through the extension of the 1% p.a. efficiency dividend to 2016-17, the bringing forward of 2015-16 savings measures and reducing the maximum TVSP payout.
- The 2014-15 Budget saw a return to major savings measures (other than in the form of efficiency dividends) amounting to $1.5 billion over the four years of the Budget. This is made up of operating savings of $1.2 billion and investing savings of $290 million.
- The 2016-17 Budget introduced new savings of $357 million over four years by revising its wages policy to limit wages growth to 1.5% p.a. over the next three years of each enterprise agreement.

The expenditure outcome for 2013-14 and 2014-15, together with the estimated result for 2015-16, indicate that there has been expenditure restraint compared to prior years.

5.2.2 Health and Ageing has had difficulties achieving savings targets

Previous reports have emphasised that the Health and Ageing portfolio has not been able to achieve savings targets or has experienced other service demands that have necessitated additional funding. The Health and Ageing savings task was reassessed in the 2012-13 MYBR. This included revising the level and timing of budget improvements expected to be delivered across the forward estimates. The 2013-14 MYBR also made some adjustments to the savings targets. The Health and Ageing savings task is discussed in section 5.3. Achieving the current level of Health and Ageing savings continues to be a difficult challenge and poses a significant risk to achieving the Budget strategy.

5.3 Health and Ageing portfolio savings task

5.3.1 Background

In the past, Health and Ageing has not been able to achieve savings targets or has experienced other service demands that have necessitated additional funding. Given that savings measures required of agencies were continuing, together with requirements to further reduce expenditure, Health and Ageing implemented the following strategies:

- Following Cabinet approval in November 2011, the Office for Business Review and Implementation was established within the Department for Health and Ageing to support the delivery of improved financial management and savings measures.

- In 2012 Health and Ageing commissioned the hospital budget performance and remediation reviews of the three main local health networks.

In July 2012 and October 2012 the SA Government approved the implementation of specific efficiency strategies identified in the hospital budget performance and remediation reviews and additional measures required to meet forward budget estimates. On both occasions the SA Government was advised the savings measures proposed were still insufficient for Health and Ageing to meet its budget targets by 2015-16.

5.3.2 Reassessment of Health and Ageing savings targets

At the time of the 2012-13 Budget, the Department for Health and Ageing was projected to overspend its 2011-12 Budget by $122 million. A provision was made in the Budget for this projected overspend. In addition, the 2012-13 Budget included new operating initiatives totalling $167 million in 2012-13 and 2013-14 to re-profile the Department for Health and Ageing's budget savings task. The aim was to provide Health and Ageing with additional resources for a more even annual build-up of savings to enable it to achieve its aggregate savings target by 2014-15.

The SA Government reassessed the level and timing of budget improvement it considered Health and Ageing could deliver across the forward estimates. This resulted in a reduction of $523.2 million to the Health and Ageing's budget savings target over the forward estimates in the 2012-13 MYBR.

The 2014-15 Budget introduced additional savings of $532.7 million for the Health and Ageing portfolio. This included identifying hospital bed reductions or efficiencies in other health services to save $332 million over the forward estimates.

The 2016-17 Budget includes an expenditure initiative of $526.8 million over four years (in addition to $144.4 million in 2015-16) for the Department for Health and Ageing. This mainly represents restoration of funding passed through as reductions in previous Budgets.

5.3.3 Health and Ageing savings task since the 2012-13 Budget

Table 5.1 provides the revised savings measures since the 2012-13 Budget and a breakdown of the Health and Ageing's savings initiatives.

Table 5.1 – Summary of revised savings measures and initiatives

	2012-13 $'million	2013-14 $'million	2014-15 $'million	2015-16 $'million	2016-17 $'million	2017-18 $'million	2018-19 $'million	2019-20 $'million
Revised savings target[(1)]								
Aggregate budget improvement required	(169.0)	(351.3)	(448.4)	(503.8)	(535.2)	(568.6)	(604.0)	(641.3)
2012-13 MYBR reduction in savings measures	122.9	128.3	148.7	123.4	83.9	73.4	62.7	51.6
2012-13 post-MYBR revised savings measures	(46.1)	(223.0)	(299.7)	(380.4)	(451.3)	(495.2)	(541.4)	(589.7)
2013-14 Budget savings measures		16.1	(5.0)	(5.1)	(5.3)	(5.4)	(5.5)	(5.7)
2013-14 Budget revised savings measures	(46.1)	(206.9)	(304.7)	(385.6)	(456.5)	(500.6)	(546.9)	(595.4)
2013-14 MYBR savings adjustments		43.8	40.3	15.3	(1.8)	(1.8)	(1.9)	(1.9)
2014-15 Budget savings measures			(17.6)	(94.5)	(157.3)	(263.7)	(302)	(341.9)
2014-15 Budget revised savings		(163.2)	(282.0)	(464.8)	(615.6)	(766.1)	(850.8)	(939.2)
2014-15 MYBR savings measures			(1.5)	(6.1)	(6.5)	(6.8)	(7.0)	(7.1)
2015-16 Budget savings measures				48.0	49.3	50.5	51.8	53.7
2015-16 Budget revised savings measures			(283.6)	(422.8)	(572.8)	(722.5)	(806.0)	(892.7)
2016-17 Budget reduction in savings measures				152.2	151.2	133.6	99.0	155.1
2016-17 Budget revised savings measures				(270.7)	(421.6)	(588.8)	(707.0)	(737.6)
Annual growth in savings task		(117.1)	(120.4)	12.9	(151.0)	(167.2)	(118.2)	(30.6)
Annual savings achieved	(126.5)	(108.7)	(92.4)	(14.4)				

	2016-17 $'million	2017-18 $'million	2018-19 $'million	2019-20 $'million
Department for Health and Ageing savings initiatives[(2)]				
Productivity measures	52.3	187.8	251.2	261.0
Additional savings measures	46.0	92.2	135.8	155.8
Potential savings requiring further analysis	39.8	25.3	36.4	37.3
	138.1	305.3	423.4	454.0

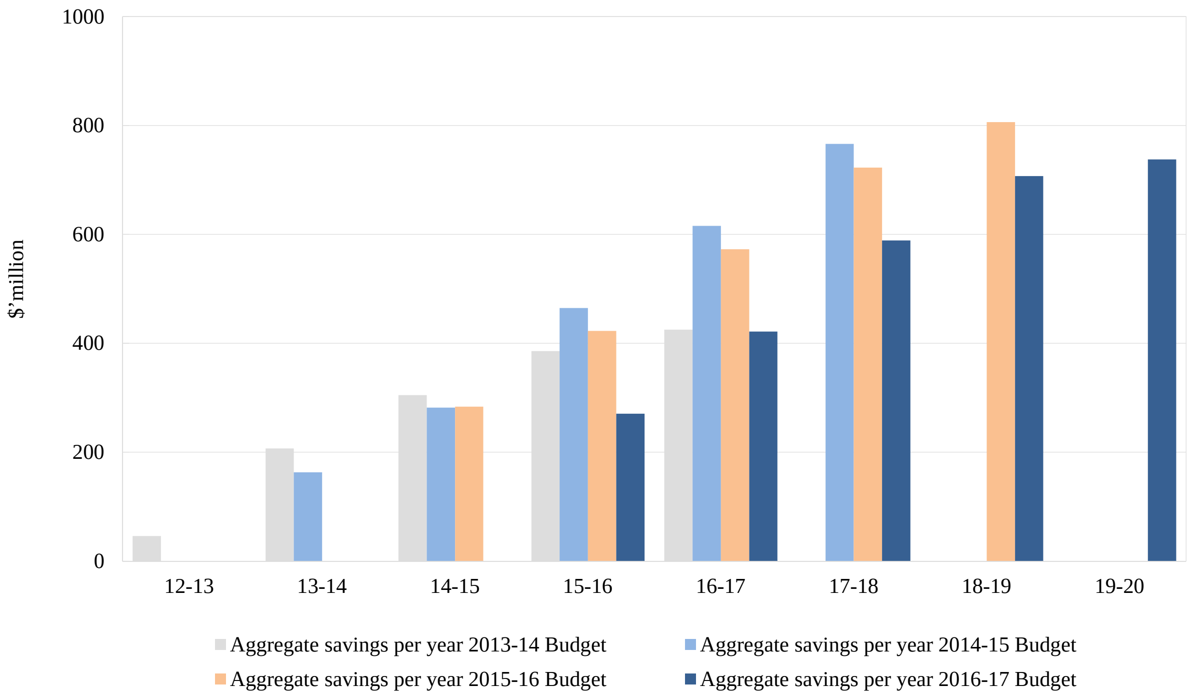
Note: Totals may not add due to rounding.

(1) Revised savings target figures provided by DTF in September 2016.

(2) Savings initiatives figures provided by the Department for Health and Ageing in September 2016 for savings starting in 2016-17 and subsequent years. For example 2016-17 is $151 million less $12.9 million and 2017-18 is $138.1 million plus $167.2 million.

Chart 5.3 shows how aggregate savings estimates for the Health and Ageing portfolio have changed over recent budgets. It shows the reduction in Health and Ageing savings targets since the 2014-15 Budget (where there were significant increases).

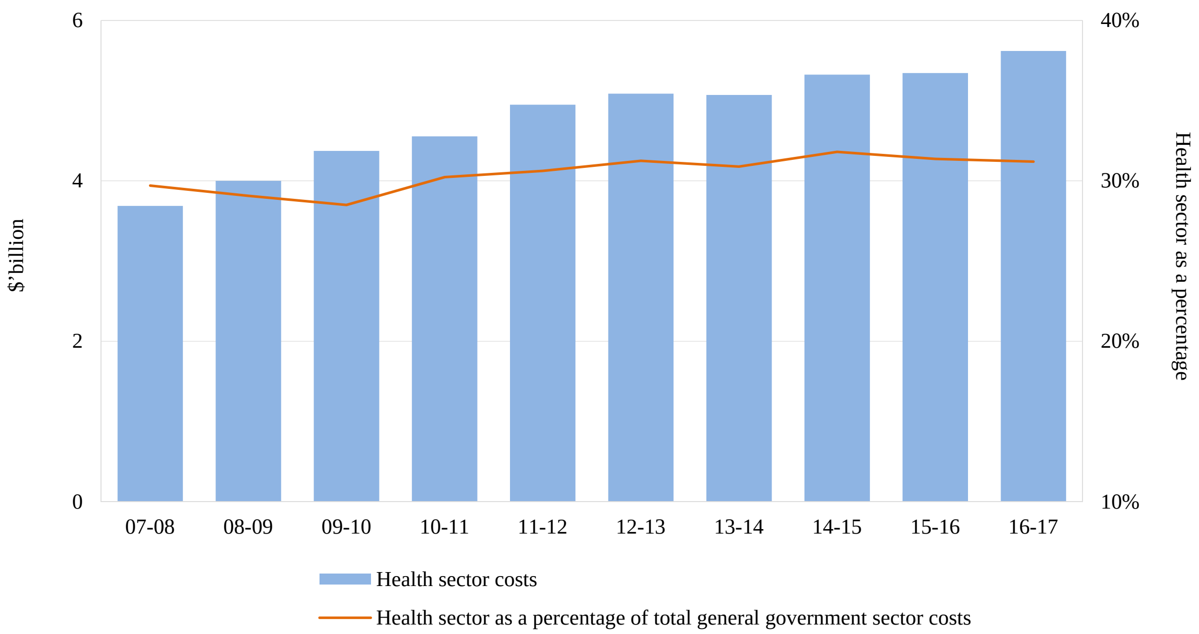
Chart 5.3 – Comparison of Health and Ageing savings task between budgets



5.3.4 Health sector costs are a significant component of general government sector costs

Health sector costs are a significant component of the general government sector budget. Chart 5.4 shows the actual health sector costs over the past eight years[5] compared to the 2015-16 estimated cost and the 2016-17 budgeted cost.

Chart 5.4 – Health sector costs



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[5] Source of data is table A.20 'General government sector expenses by function' from the Final Budget Outcome for each year.

5.4 Reduction of full-time equivalents

5.4.1 Full-time equivalent reductions have been a key part of the Budget savings strategy since 2010-11

A key part of the savings strategy in Budgets since 2010-11 has involved reducing public sector FTEs. For example the:

- 2010-11 Budget included a reduction of 3743 FTEs, excluding increases from other initiatives
- 2012-13 Budget introduced a savings initiative to reduce a further 1000 FTEs
- 2013-14 Budget brought forward the 2015-16 FTE reductions into 2014-15
- 2014-15 Budget included savings initiatives for reductions of a further 308 FTEs from specific measures, including 200 FTEs identified as a result of the reductions announced in the 2014-15 Commonwealth Budget.

5.4.2 2016-17 Budget projection full-time equivalent reductions

The 2016-17 Budget notes that FTEs in the general government sector are estimated to decrease by 833 between 30 June 2016 and 30 June 2020, reflecting the cumulative impact of savings measures, partially offset by new expenditure measures.

FTE reductions have been achieved through various means such as TVSPs, natural attrition, not renewing employment contracts and not filling vacancies.

Table 5.2 summarises DTF's advice on all general government budgeted FTE reductions associated with specific savings measures since the 2008-09 Budget.

Table 5.2 – FTE employee reductions as at 30 June

	2010 FTEs	2011 FTEs	2012 FTEs	2013 FTEs	2014 FTEs	2015 FTEs	2016 FTEs	2017 FTEs	Total FTEs
2008-09 MYBR	1 200	200	200						1 600
2010-11 Budget	-	608	954	742	369				2 673
2011-12 Budget		-	26	200	202	2			430
2011-12 MYBR		-	18	16	3				37
2012-13 Budget			-	7	309	350	350		1 016
2012-13 MYBR			-	-	202	65	393		660
2013-14 Budget[(a)]				-	-	-	-	-	-
2013-14 MYBR[(a)]				-	-	-	-	-	-
2014-15 Budget					-	70	68	170	308
2014-15 MYBR[(a)]									
2015-16 Budget						-	13	-	13
2015-16 MYBR[(a)]									
2016-17 Budget[(a)]									-
Originally budgeted FTE reduction	1 200	808	1 198	965	1 084	487	824	170	6 737

Note: Totals may not add due to rounding.

(a) No new specific FTE savings measures are included in these Budgets.

5.4.3 Status of achieving full-time equivalent caps as at 30 June 2016

Table 5.3 reflects information provided by agencies to DTF and compares the approved FTE cap to the actual level of FTEs (as at the last pay period in June) for key general government sector agencies (excluding a number of small agencies). The FTE caps reflect agency profiling of the cap as at the end of June 2016.

Table 5.3 – Actual and cap FTEs by portfolio as at 30 June 2016

Agency	Actual FTEs	Approved cap FTEs	Variance FTEs	Variance %
Attorney-General's	1 390	1 425	-35	-2.5%
Communities and Social Inclusion	3 591	3 772	-181	-4.8%
Correctional Services	1 933	1 864	68	3.7%
Courts Administration Authority	625	633	-8	-1.2%
Defence SA	30	35	-5	-15%
Education and Child Development	24 124	23 876	248	1.0%
Electoral Commission of SA	23	27	-5	-16.8%
Emergency Services	1 215	1 174	41	3.5%
Environment Protection Authority	210	210	-1	-0.3%
Environment, Water and Natural Resources	1 610	1 581	29	1.8%
Health and Ageing	30 626	30 836	-210	-0.7%
Planning, Transport and Infrastructure	2 900	3 094	-193	-6.2%
Premier and Cabinet	1 416	1 611	-195	-12.1%
Primary Industries and Regions	871	886	-15	-1.7%
SA Police	5 686	5 795	-109	-1.9%
State Development	3 245	3 316	-71	-2.1%
Tourism	127	126	1	0.5%
Treasury and Finance	393	411	-17	-4.2%
Total	80 016	80 674	-658	-0.8%

Note: Actual and approved FTE cap figures provided by DTF.
Positive variances indicate over FTE cap.
Totals may not add due to rounding.

DTF advised that, based on data received from major agencies, overall agencies estimated they would be 658 FTEs below their budgeted FTE levels as at 30 June 2016. The 2016-17 estimate of FTEs for the general government sector as at 30 June 2016 was 81 759.[6] FTE monitoring is limited to key agencies representing most of the general government sector.

The overall position comprised various agencies being over or under their cap. For example:

- the Department for Communities and Social Inclusion reported actual FTEs of 181 below its cap mainly due to vacancies in domiciliary care
- the Department of Education and Child Development reported that actual FTEs were 248 above cap mainly due to additional teaching and early childhood workers and staff in schools and pre-schools, offset by delays in recruitment and other general vacancies across Families SA

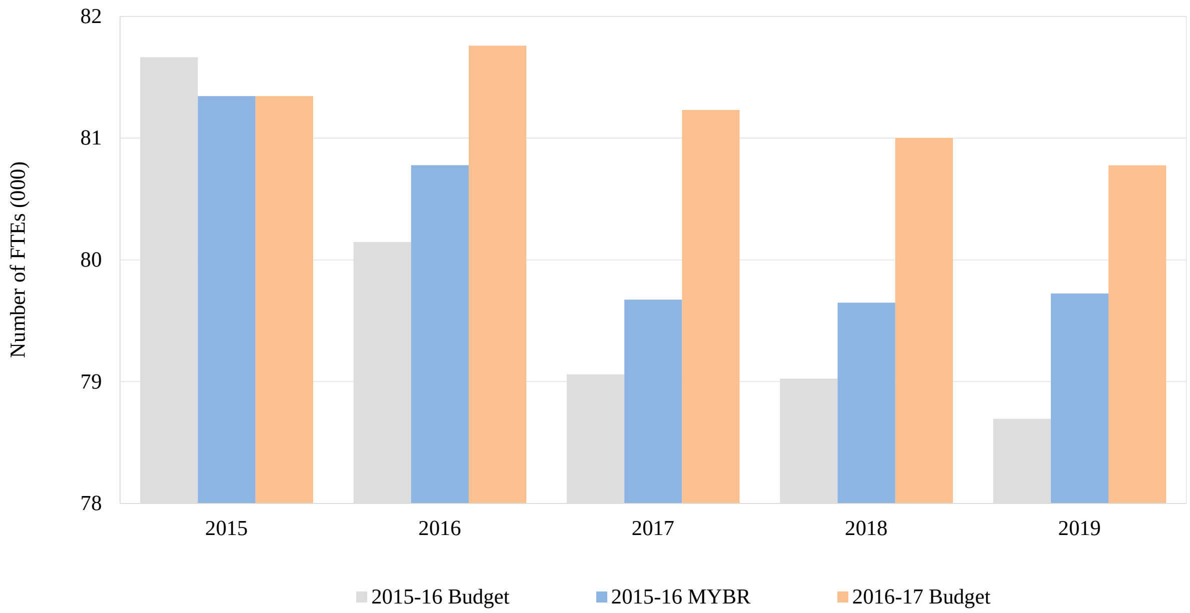
6 2016-17 Budget Paper 3 'Budget Statement', page 26.

- the Department for Health and Ageing reported that actual FTEs were 210 below cap mainly due to implementation delays for the EPAS project (resulting in lower than forecast recruitment) and general vacancies across the department.
- the Department of Planning, Transport and Infrastructure reported actual FTEs of 193 below its cap mainly due to the acceptance of TVSPs as part of the organisational restructure as well as other vacancies across the department and positions filled by contractors
- the Department of the Premier and Cabinet reported actual FTEs of 195 below its cap mainly due to vacancies and long-term leave positions within Shared Services SA and other vacancies across the department.
- South Australia Police reported actual FTEs of 109 below its cap primarily due to unsworn vacancies.

5.4.4 Revision upwards of projected full-time equivalents in recent Budgets

Expected FTE levels have been revised upwards in the 2015-16 MYBR and 2016-17 Budget as illustrated in chart 5.5.

Chart 5.5 – General government sector FTEs as at 30 June



The 2016-17 Budget estimates that general government sector FTE levels will decrease by 569 FTEs between 30 June 2015 and 30 June 2019, compared to the 2971 reduction estimated in the 2015-16 Budget. The 2016-17 Budget estimates a further increase of 150 FTEs from 30 June 2019 to 30 June 2020.

The upward revision in FTE levels in the 2016-17 Budget compared to the 2015-16 Budget is due to:

- an adjustment in the mix of expenditure under the National Education Reform Agreement, resulting in expected higher staffing numbers as outlined in the 2015-16 MYBR

- initiatives approved in the period after the 2015-16 MYBR to ensure compliance with educator to child ratio requirements for government funded pre-schools
- measures announced as part of the 2016-17 Budget including support to Health and Ageing, and Correctional Services.

5.4.5 Targeted voluntary separation program

The SA Government introduced a TVSP scheme from November 2010 to help agencies to achieve savings targets. The scheme remains in operation and TVSP payouts up to a maximum of 52 weeks' pay are available for workforce reductions associated with specific measures or structural adjustment.

DTF has advised that between 1 November 2010 and 30 June 2016, 3704.8 FTE reductions were achieved through TVSP payments (excluding executive reductions), as reported to DTF.

Until 30 June 2015 agencies were centrally reimbursed for TVSP payments made to achieve savings measures. From 1 July 2016, agencies are responsible for meeting the costs of TVSPs, unless otherwise approved by the SA Government.

Table 5.4 provides a summary of FTE reductions achieved through TVSP payments (excluding executive reductions), as reported by agencies to DTF, during the period 1 November 2010 to 30 June 2016.

**Table 5.4 – FTE reductions from TVSPs reported by agencies
1 November 2010 to 30 June 2016**

	FTE reductions from TVSPs
General government sector:	
Attorney-General's	137.7
Communities and Social Inclusion(1)	208.7
Correctional Services	25.2
Courts Administration Authority	7
Defence SA	1
Education and Child Development(2)	357.1
Environment, Water and Natural Resources(3)	320.7
Environment Protection Authority	8.2
Health and Ageing	745.9
Planning, Transport and Infrastructure(4)	564
Premier and Cabinet	197
Primary Industries and Regions(5)	141.2
SACE Board of SA	1
SA Country Fire Service	-
SA Fire and Emergency Services Commission	15
SA Lotteries	37.3
SA Police	5
SA Ambulance Service	10
SA Metropolitan Fire Service	3
SA State Emergency Service	1
State Development(6)	320.8
TAFE SA	424.5

	FTE reductions from TVSPs
Tourism	26.8
Treasury and Finance	70.5
Zero Waste SA	8
Public non-financial corporations sector:	
Forestry SA	68.3
Total	3 704.8

Note: Totals may not add due to rounding.

(1) Formerly Families and Communities.
(2) Formerly Education and Children's Services.
(3) Formerly Environment and Natural Resources and incorporating Water.
(4) Formerly Transport, Energy and Infrastructure incorporating Planning and Local Government.
(5) Formerly Primary Industries and Resources.
(6) Formerly Further Education, Employment, Science and Technology and Manufacturing Innovation, Trade, Resources and Energy (formerly Trade and Economic Development) and incorporating Arts SA.

The main FTE reductions from TVSPs in 2015-16 related to TAFE SA (62.3 FTEs) and the Department of Planning, Transport and Infrastructure (151.7 FTEs).

DTF has advised that from 1 November 2010 to 30 June 2016 total TVSP payments to staff totalled $427.2 million, most of which were centrally funded. These figures exclude fees paid to Shared Services SA for administering the scheme, payroll tax, employee assistance and executive termination payments.

5.5 Contingency provisions

Contingency amounts are incorporated into the Budget to provide flexibility if additional expenditure is required to be made by the SA Government. Table 5.5 shows the composition of contingency provisions for 2015-16 and 2016-17.

Table 5.5 – Contingency provisions

	2015-16 Budget $'million	2015-16 Estimated result $'million	2016-17 Budget $'million
Employee entitlements	86	52	50
Investing contingencies	125	47	36
Supplies and services	307	56	180
	519	154	266

Note: Totals may not add due to rounding.

While allocating sums to each of the categories for presentation purposes, contingency funds may also be transferred from other lines where available. The 2016-17 Budget includes contingency amounts totalling $266 million, $112 million more than the estimated outcome for 2015-16.

5.6 Interest expense

Interest expenses comprise interest paid by the Treasurer on net government borrowings and interest expenses of agencies related to finance leases.

Estimated interest expense in 2015-16 was $233 million, $35 million higher than forecast in the 2015-16 Budget.

Interest payments on the finance lease for the nRAH will commence in 2016-17 ($154 million). The commencement of the nRAH finance lease agreement is the main driver of the projected increase in interest expense from 2016-17.

The Budget notes that a 1% increase in the average interest rate applying to general government sector debt would increase net interest expense by approximately $62 million in 2016-17, rising to $65 million in 2019-20.

Debt movements are discussed further in section 7.3.

5.7 Grants

Grants expense from the general government sector represents payments to other sectors of government and the private sector. These payments include:

- grants to non-government schools, local government and industry
- payments to the South Australian Housing Trust
- community service obligation payments to SA Water and Renewal SA.

Over the period 2009-10 to 2012-13 grants expense was influenced by the flowthrough of Commonwealth grant revenue. Grants are estimated to be $2768 million for 2015-16, $112 million over budget predictions.

Grants are budgeted to increase by $169 million to $2937 million in 2016-17 largely due to:

- anticipated growth in grant payments provided to non-government schools under the National Education Reform Agreement

- the timing of Commonwealth funding that was on-passed to local government in 2014-15 instead of 2015-16

- an increase in community service obligation payments to Renewal SA to ensure it makes a commercial return on the TAFE SA properties that are to be purchased from the Department of State Development in 2016-17.

Grants are budgeted to decrease from 2017-18 to 2019-20 resulting from:

- funding arrangements for aged care and disability services under the National Disability Insurance scheme

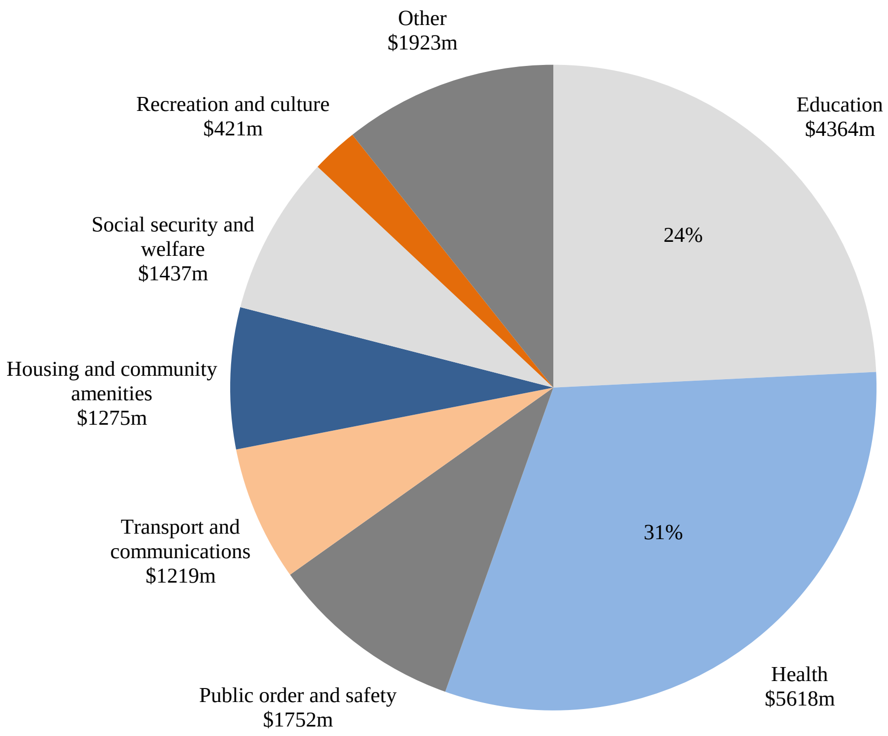
- the profile of expenditure associated with the South Australian River Murray Sustainability program.

This was offset by growth in grant payments provided to non-government schools under the National Education Reform Agreement.

5.8 Expenses by function

The GFS reporting framework also provides information on expenditure (excluding capital payments) by function for the general government sector. Chart 5.6 shows the 2016-17 Budget expenses and demonstrates the extent to which the health and education sectors dominate the overall expenditure by the State.

Chart 5.6 – General government sector expenses by function[7]



[7] 2016-17 Budget Paper 3 ‘Budget Statement’, table A.16.

6 Purchases and sales of non-financial assets

Key points

- ➔ Purchases of non-financial assets increase significantly in 2016-17 due to the recognition of $2.8 billion for the nRAH.
- ➔ Sales are expected to be $976 million in 2016-17 (including the $650 million TAFE SA properties transfer) and $389 million in 2017-18 before reducing significantly to below $40 million for the last two years of the forward estimates.

6.1 Capital payments

6.1.1 Past experience and 2015-16 estimate

For the period 2010-11 to 2014-15 actual capital expenditure in the general government sector has exceeded $1.5 billion annually except in 2014-15 ($900 million). The estimated level of capital expenditure for 2015-16 is $1.2 billion. As in past years, carryover adjustments were made for delays where expenditure will now be incurred in later years. As part of the budget carryover process, investing carryovers from 2015-16 to 2016-17 and future years are $184 million.

6.1.2 The capital program in the 2016-17 Budget is significant

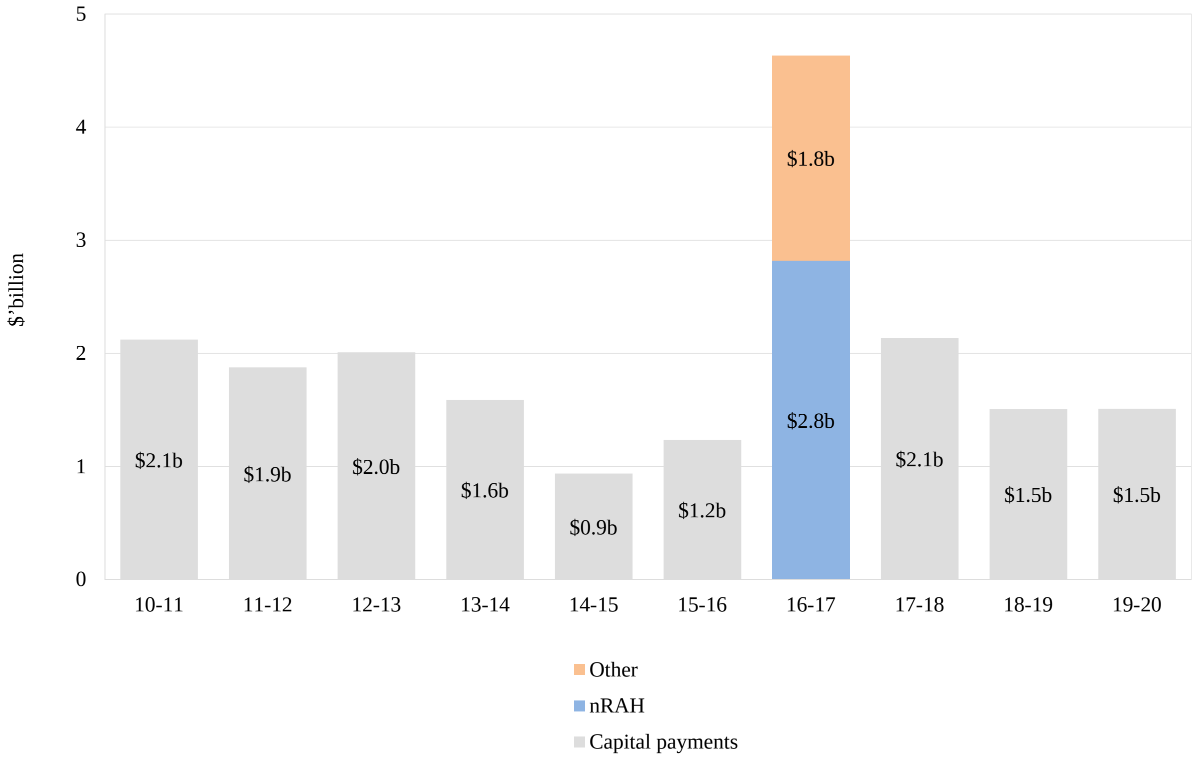
Significant capital outlays (and the nature of the activity) introduce a heightened risk to the proper management and control of capital projects. Purchases of non-financial assets are projected to be over $1.5 billion for all four years of the 2016-17 Budget. The Budget includes a slippage allowance for 2016-17 of $430 million, compared to $320 million in the previous year.

The capital program also comprises large projects with inherent complexities and risks. Over the four years to 2019-20 capital spending includes:

- $2 billion on road projects
- $782.6 million on major public transport projects
- $322.2 million on the redevelopment of major metropolitan and regional hospitals,
- $441.8 million on education projects
- $222.1 million on the upgrade of Her Majesty’s Theatre and redevelopment of the Adelaide Festival Centre precinct

Chart 6.1 shows the purchase of non-financial assets over the 10 years to 2019-20.

Chart 6.1 – General government sector purchase of non-financial assets (nominal)



Purchases of non-financial assets are forecast to increase significantly in 2016-17 mainly due to the recognition of the nRAH asset and finance lease liability.

6.1.3 Effective management of major capital projects

Although there will be components of future expenditure that have effectively been committed, the forward years contain funds contingent on approvals.

Major projects carry high inherent risks including cost estimating, complex contract arrangements, cost escalations and timeliness of completion. Sustained higher capital outlays require effective procurement, contract and project management expertise and sound information systems and financial controls.

6.2 New Royal Adelaide Hospital – Public Private Partnership project

In June 2011 the SA Government announced financial close on a contract with the SA Health Partnership Nominees Pty Ltd consortium to build, operate and maintain the nRAH under a Public Private Partnership arrangement. The hospital is expected to open in 2016-17.

The nRAH is recognised as an asset and a finance lease liability of $2.8 billion in the 2016-17 forward estimate year. This accounts for the large increase in net debt in 2016-17. The amount represents the net present value of design and construction costs, lifecycle payments, interest and other project costs.

Annual service payments of over $300 million are also budgeted to commence in 2016-17.

Only part of this annual payment amount will be expensed each year as it includes cash payments that are applied to the reduction in the lease liability in the State balance sheet. The rest of the payment is reflected as an expense in the operating statement, including finance charges on the lease and operating expenditure.

DTF also advised that an annual expense of $73 million is expected for amortising the asset on the balance sheet.

6.2.1 Financial reporting of Public Private Partnership projects

Depending on the terms of contracts, Public Private Partnerships may, through their contractual arrangements and assignment of risks and benefits under current accounting standards, be classified as either:

- a finance lease that transfers substantially all the risks and rewards incidental to ownership of an asset
- an operating lease that does not transfer substantially all the risks and rewards incidental to ownership and is excluded from the State balance sheet (may be off-balance sheet).

The capital component of the Public Private Partnership arrangement for the nRAH is to be recognised as a finance lease in the balance sheet, and consequently has an impact on net debt and net financial liabilities. As the State is the lessee, at the commencement of the lease term, lessees recognise finance leases as assets and liabilities in the Statement of Financial Position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs of the lessee are added to the amount recognised as an asset. Subsequently, minimum lease payments are apportioned between a finance charge and reducing the outstanding liability.

6.3 Asset sales

Total asset sales for the general government sector over the four years to 2019-20 are estimated to be $1.4 billion.

Most sales of non-financial assets are expected in 2016-17 ($976 million) and 2017-18 ($389 million) before reducing significantly to below $40 million for the remaining two years of the forward estimates.

6.3.1 Sale of TAFE SA properties to the Urban Renewal Authority – an inter-sector transfer of ownership

Sales in 2016-17 include an estimated $650 million for the transfer of the ownership of key TAFE SA properties from the Department of State Development to Renewal SA. As part of this arrangement Renewal SA will receive a commercial income stream from the properties it will own. The sale proceeds will flow through to the net lending requirement and debt in the general government sector in 2016-17. However, it has not changed the debt levels of the broader public sector (the NFPS) which comprises the general government sector (Department of State Development) and the PNFC sector (Renewal SA).

DTF has advised that Renewal SA will fund the purchase of the assets through an equity injection from the SA Government of $250 million ($105 million was provided in 2015-16) and borrowings from SAFA of $400 million. Other expected financial implications of the sale arrangement include:

- Renewal SA will receive approximately $55 million p.a. in lease income. TAFE SA is expected to pay $20 million p.a. to Renewal SA and the SA Government will pay $35 million p.a. as a community service obligation to allow Renewal SA to earn a commercial return on the properties

- Renewal SA will have operating costs of approximately $2 million p.a. and depreciation expense of approximately $18 million p.a.

- The Department of State Development will make savings in operating costs of approximately $2 million p.a.

- Renewal SA will incur interest costs and a guarantee fee on the borrowings.

6.3.2 The 2016-17 Budget flags potential sale processes for HomeStart Finance and Land Services Group

The 2016-17 Budget also contains a number of efficiency and reform measures for assets and liabilities including:

- a scoping study on the possibility of transferring the commercial elements of HomeStart Finance's current loan book and/or making its database available to the private sector

- the separation and outsourcing of the transactional/service delivery activities provided by the Land Service Group. This involves a proposed outsourcing contract to the private sector to process transactions, including the right to use the related data for commercial purposes.

6.3.3 Significant sale proceeds since the global financial crisis

Since the global financial crisis in 2008-09, sales of non-financial assets were highest in 2012-13 at $1.2 billion as a result of finalising two significant sale processes: proceeds from the forward sale of the State's Green Triangle forest plantations ($635.1 million) and proceeds from the appointment of Tatts Lotteries SA Pty Ltd as exclusive Master Agent to operate the Lotteries Commission of South Australia's brands and products for 40 years ($402.8 million). These amounts are exclusive of stamp duty.

7 Balance sheet

Key points

- The State's net worth is expected to strengthen by $4.7 billion over the four years of the 2016-17 Budget. This is due to a rise in the value of non-financial assets (capital investment) offset by increases in net financial liabilities.
- The recognition of the nRAH in 2016-17 increases non-financial assets by $2.8 billion but the finance lease arrangements also increase borrowings by $2.8 billion
- Net financial worth deteriorates over the forward estimates by $2.6 billion due primarily to the growth in borrowings of $3.3 billion and other employee benefits of $500 million, offset by a reduction in the superannuation liability of $1.4 billion.
- Total NFPS net debt is expected to peak in 2017-18 ($14.2 billion) and decrease slightly in 2018-19 and 2019-20 reflecting small net lending surpluses.
- The past service superannuation liability cash payment for 2016-17 is estimated to be $458 million.

7.1 Introduction

The balance sheet sets out the assets, liabilities and net worth (difference between assets and liabilities) of the State. This Chapter provides commentary on trends and influences noted for the State public sector financial position.

The information below principally relates to data for the NFPS, which consolidates the general government and PNFC sectors, due to the high value of non-financial assets in PNFCs.[8]

7.2 Assets

Total assets are expected to increase over the forward estimates from $69.4 billion as at 30 June 2016 to $76.6 billion as at 30 June 2020. There is a large increase in total assets in 2016-17 mainly due to the recognition of the nRAH ($2.8 billion).

Net acquisitions (purchases less depreciation and asset sales) increase non-financial assets by $4.7 billion for the four years to 2019-20.

Total financial assets are expected to be $4.8 billion in 2015-16, decreasing slightly to $4.75 billion in 2019-20. Total financial assets include investments in other public sector entities. This represents the value of the SA Government's interest in PFCs including ReturnToWorkSA and MAC.

[8] Balance Sheet data is for the NFPS unless otherwise stated due to the high value of non-financial assets in PNFCs.

7.2.1 Return to Work Corporation of South Australia

Changes to legislation reduced future compensation entitlements

On 1 July 2015 the *Workers Rehabilitation and Compensation Act 1986* was replaced with the *Return to Work Act 2014*, significantly reducing future compensation entitlements. As a result of these legislative changes and ReturnToWorkSA's initiatives to get claimants back to work sooner, the Return to Work Scheme became fully funded for the first time in many years in 2014-15.

Total comprehensive result decreased by $1.5 billion in 2015-16

The total comprehensive result for ReturnToWorkSA in 2015-16 was a loss of $44 million. This compares to a total comprehensive profit result of $1.5 billion in 2014-15. The decrease of $1.5 billion in the total comprehensive result was mainly due to:

- premium revenue for the Return to Work Scheme decreasing by $150 million to $495 million, mainly because the average premium rate reduced from 2.75% in 2014-15 to 1.95% in 2015-16
- the outstanding claims liability decreased by $51 million in 2015-16
- net investment profit decreasing by $101 million due to lower investment market conditions.

Funding ratio remains above 100%

The funding ratio (assets divided by liabilities) for the Return to Work Scheme was 114.3% in 2014-15 and is 112.9% in 2015-16. Given the improved financial results, ReturnToWorkSA reduced the average premium rate from 2.75% in 2014-15 to 1.95% in 2015-16. The total liability for outstanding claims has remained consistent at $2.5 billion in 2015-16. The average premium rate for 2016-17 will remain at 1.95%.

Further commentary is included in the section titled 'Return to Work Corporation of South Australia' in Part B of the Auditor-General's Annual Report for the year ended 30 June 2016 (2015-16 Annual Report).

7.2.2 Motor Accident Commission

Comprehensive profit result of $313 million achieved in 2015-16

MAC reported a comprehensive profit result for 2015-16 of $313 million. As at 30 June 2016 MAC had net assets of $688 million ($823 million), reflecting a $448.5 million return of capital during 2015-16, offset by a $165.6 million reduction in outstanding claims liability.

Privatisation of provision of Compulsory Third Party (CTP) Insurance from 1 July 2016

The SA Government opened the provision of CTP insurance to the private sector in South Australia from 1 July 2016. As a consequence, MAC has ended its role as the sole provider of CTP insurance in South Australia. MAC has ceased writing new CTP insurance policies and will run off its claims against policies issued up to and including 30 June 2016.

MAC paid $852.9 million from its surplus assets into the Highways Fund in December 2014. This payment was made out of the net assets above the level required for MAC's sufficient solvency, according to a formula approved by the Treasurer. The payment was also in line with section 26(2) of the *Motor Accident Commission Act 1992* which provides for payments to be made to the Treasurer, or as the Treasurer directs, where a surplus exists in the CTP Fund. The payment of $852.9 million flowed through to a reduction in general government net debt.

The 2015-16 MYBR outlined that strong investment returns and revisions to the actuarially assessed liability in 2014-15 provided the capacity for MAC to pay a further dividend of $403.5 million in 2015-16 while still retaining sufficient solvency. This further dividend was not originally included in the 2015-16 Budget and was made in addition to an equity return of $45 million. Consistent with the prior year, the Treasurer directed that these returns be paid to the Highways Fund as the funds were excess to MAC's minimum solvency requirements.

The dividend ($403.5 million) and equity return ($45 million) were paid to the Highways Fund in June 2016. This transaction is reflected in the 2015-16 estimated results of the 2016-17 Budget. The $448.5 million payment flows through to a reduction in general government net debt.

The MAC distributions are only repeatable to the extent MAC retains net equity and exceeds the required sufficient solvency ratio.[9]

Additional contributions of $620.4 million are expected in 2016-17 following the transition to the new CTP arrangements. These additional contributions comprise $259.4 million in private insurer approval fees, a $255.2 million return of capital from MAC and a dividend of $105.8 million from MAC. Beyond 2016-17, further contributions totalling $150 million are expected to be paid by MAC across the forward estimates. These further contributions will be provided as a return of capital.

It is anticipated that the privatisation of MAC will result in almost $2.1 billion being returned to SA Government (Highways Fund) between 2014-15 and 2019-20, comprising dividends of $968.5 million, a total return of equity of $843.9 million and private insurer approval fees of $259.4 million, as shown in table 5.12 of 2016-17 Budget Paper 3 'Budget Statement'.

Sensitivity of main balance sheet items

MAC's Statement of Financial Position comprises assets and liabilities that are sensitive to interest rates, claims experience and other assumptions and assets that are subject to market movements.

The estimated outstanding claims liability decreased by $165.6 million ($205 million decrease) to $1.7 billion in 2015-16. It is estimated on a basis to achieve an 80% probability that the provision is adequate. This requirement exceeds the Australian Prudential Regulation Authority's nominated target of 75% probability of sufficiency.

[9] To the extent that they are deposited into the Highways Fund the distributions will be applied for the purpose of the CTP Fund.

MAC is required to maintain a sufficient solvency target. It creates a prudential reserve for MAC and is determined by a formula issued by the Treasurer. As at 30 June 2016, the sufficient solvency target was $2131.1 million ($2383 million) which compares to the CTP Fund's assets of $2537.2 million ($2882.9 million), a surplus of $406.1 million and equating to 119% (121%) of the required level of sufficient solvency.

The level of solvency has increased importance given MAC has ceased writing new CTP policies and is now running off existing claims. Any shortfalls or deterioration in claims experience cannot be met by future premiums.

MAC's assets mainly comprise financial assets of $1.942 million and property of $588 million at 30 June 2016. These assets are exposed to the effects of movements in interest rates and to market risks that influence valuations.

An interest rate change will inversely affect the values of fixed interest investments. In practice, a proportion of the impact of this change will be offset by a corresponding inverse movement in MAC's outstanding claims liabilities valuations.

MAC estimates the financial impacts shown in table 7.1 based on 30 June 2016 exposures.

Table 7.1 – Estimated financial impacts of 30 June 2016 exposures

Item	Movement in variable (%)	Financial impact 2016 $'000	2015 $'000
Interest rates	0.5	(26 415)	(29 584)
Australian equity markets	(5)	(8 515)	(10 988)
International equity markets	(5)	(8 301)	(10 809)

MAC's property holdings were all reclassified as held for sale at 30 June 2016. This reclassification reflects that the properties were offered for sale through an expression of interest in 2015-16.

7.3 Liabilities

Borrowings and the unfunded superannuation liability are the major components of liabilities over the period of the forward estimates. Borrowings are estimated to increase by $3.3 billion from $12.1 billion in 2015-16 to $15.4 billion in 2019-20. The unfunded superannuation liability is estimated to reduce from $12.5 billion in 2015-16 to $11.1 billion in 2019-20.

7.3.1 Borrowings and net debt – general government

Net debt[10] comprises the stock of selected gross financial liabilities less financial assets. Net debt is reported in the balance sheet and is the sum of deposits held, advances received and borrowing, less the sum of cash and deposits, advances paid, investments, loans and placements.

[10] The indebtedness of the Treasurer, published in the Treasurer's Statements, represents the amount the Treasurer has borrowed from SAFA. This amount may be linked with the GFS accrual numbers, but a change in the GFS net lending position is not necessarily reflected by a change in the indebtedness of the Treasurer.

The estimated general government sector net debt at 30 June 2016 is $4.1 billion. Net debt is expected to rise by $2.2 billion in 2016-17 with the recognition of the financial obligations for the nRAH adding $2.8 billion that year, partially offset by a net operating surplus and returns from MAC. The return of excess capital from MAC in the form of dividends and a return of equity amounts to $620.4 million in 2016-17.

General government sector net debt is expected to peak at $6.6 billion at 30 June 2018, and then reduce slightly to $6.5 billion at 30 June 2020. The level of general government sector net debt has been, or will be, impacted by a number of inter-sector transactions including: SA Water debt restructure ($2.7 billion); MAC privatisation ($2.1 billion); and sale of TAFE SA properties ($650 million).

While these transactions have reduced the general government sector net debt, they have not changed the overall level of funds held and debt at the whole-of-government level. The whole-of-government consolidated financial report provides financial information consolidated for all sectors. This includes the elimination of inter-sector transactions. The consolidated financial report is subject to our review and comment and is usually released in December of each year. As part of my review this year I intend to provide analysis and comment in a separate Supplementary Report to Parliament on the 2015-16 consolidated financial report.

Table 7.2 explains the expected movements in net debt for the general government sector at the time of the 2016-17 Budget.

Table 7.2 – Reconciliation of movements in general government net debt as at the 2016-17 Budget

	2015-16 Estimated result $'million	2016-17 Budget $'million	2017-18 Budget $'million	2018-19 Budget $'million	2019-20 Budget $'million
Opening general government net debt	3 929	4 071	6 246	6 561	6 541
General government cash surplus/deficit	(5)	290	(353)	(24)	(15)
Add: Net cash flows from equity transactions	(110)	351	36	44	22
Less: Assets acquisition under finance leases and similar arrangements	-	(2 820)	-	-	-
Other movements	(27)	4	3	-	(2)
Improvement (Deterioration) in general government net debt	(142)	(2 175)	(315)	20	5
Closing general government net debt	4 071	6 246	6 561	6 541	6 536

Note: Table may not add due to rounding.

In table 7.2:

- general government cash surplus/deficit represents the sum of net cash flows from operating activities and net cash flows from investments in non-financial assets
- net cash flows from equity transactions impact on net debt but do not pass through the operating statement. This includes distributions from MAC treated as a return of equity.

7.3.2 Longer term trends in the level of debt – Non-financial public sector

In 2015-16 total NFPS net debt is expected to increase by $235 million to $10.911 billion (10.8% of South Australia's gross state product). Forward estimates show that net debt is projected to rise to $14.1 billion by 30 June 2020 (11.9% of South Australia's gross state product).

Chart 7.1 – South Australian NFPS net indebtedness 2010-11 to 2019-20

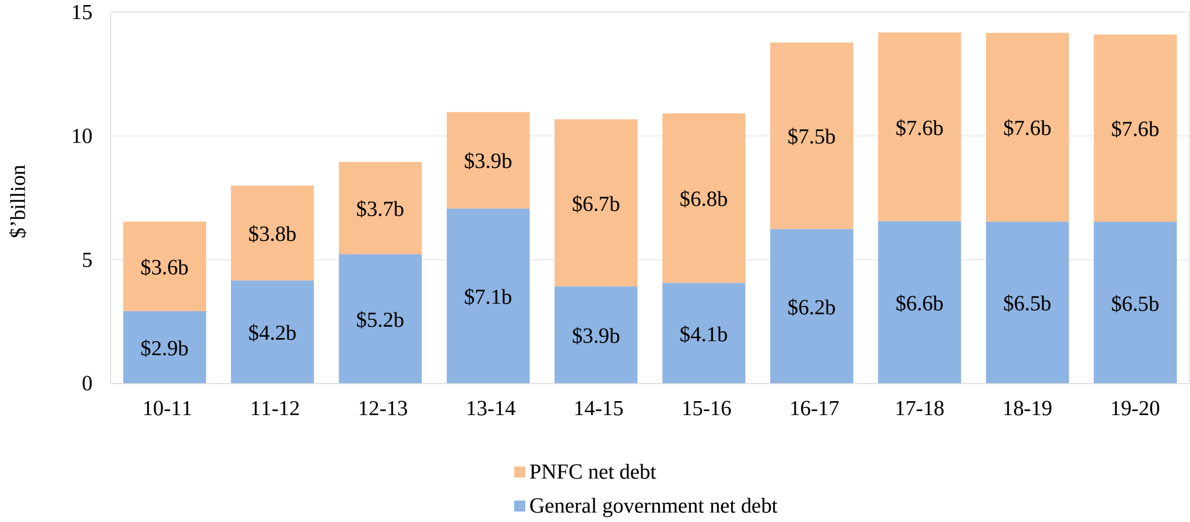


Chart 7.1 clearly demonstrates the 2014-15 reduction in general government debt, as well as the converse rise in PNFC debt, as a consequence of the SA Government's decision to vary SA Water's debt to asset gearing ratio. The main holder of debt in the PNFC sector is SA Water – approximately 93%. SA Water is a commercial business servicing its debt from business revenues.

The increase in general government net debt in 2016-17 reflects the recognition of the financial obligations for the nRAH which is predicted to add $2.8 billion to net debt. This increase is offset by an expected contribution of $620.4 million from MAC in 2016-17.

The increase in PNFC net debt in 2016-17 is mainly due to the transfer of key TAFE SA campuses to Renewal SA. Renewal SA is budgeted to pay $650 million to the Department of State Development for the TAFE SA properties. This transfer will be funded by an equity injection from the SA Government of $250 million and borrowings of $400 million.

Total NFPS net debt is expected to peak in 2017-18 ($14.2 billion) and decrease slightly in 2018-19 and 2019-20 reflecting small net lending surpluses.

7.3.3 The South Australian Government Financing Authority manages most of the State's debt

SAFA is the State's central borrowing authority and is also responsible for managing most of the State's debt. SAFA lends funds raised from financial markets to a number of South Australian public sector clients, including the Treasurer (who borrows on behalf of public sector agencies to support their operational requirements). SAFA aims to undertake its treasury functions in a risk neutral fashion and to protect the interests of the SA Government and clients.

At 30 June 2016 SAFA's liabilities were $23.7 billion. It had loans to the Treasurer totalling $10.5 billion. The Treasurer also has funds on deposit with SAFA totalling $5.2 billion as at 30 June 2016.

SAFA manages its treasury function through a portfolio structure. The portfolio structure and associated procedures contribute to enhanced treasury risk identification and management. This includes the daily management of liquidity, interest rate, currency and credit risk. Further details on SAFA's functions is included in the section titled 'South Australian Government Financing Authority' in Part B of the 2015-16 Annual Report.

7.4 Unfunded superannuation

7.4.1 Background to the unfunded superannuation liability

The unfunded superannuation liability is a long-term liability to current and past members of closed defined benefit superannuation schemes. The 2016-17 Budget reports that while financial market volatility in the recent past has resulted in multi-billion dollar revisions to the value of the liability recorded on the balance sheet, there has been no material change in the actual expected payments to beneficiaries underlying the liability.

Unfunded superannuation liabilities are valued at points in time by discounting future superannuation benefit payments by a discount rate that reflects the prevailing risk-free interest rate, consistent with the requirement of AASs.

The SA Government reports that it remains committed to fully funding the superannuation liability by 2034.

The unfunded superannuation liability is calculated in accordance with AASs as the net difference between the estimated value of accrued defined benefit superannuation obligations and the value of assets set aside to meet these obligations. Superannuation liabilities are determined on long-term estimates of total liabilities. This is a liability to current and past members of closed defined benefit superannuation schemes. They are not liabilities that will be called on in total in the immediate future meaning the ability to fund them over many years exists. The State has a long-term funding strategy in place.

In estimating the unfunded superannuation liability, a range of variable factors and assumptions are taken into account including scheduled past service contributions by the SA Government. The superannuation liability may change periodically as assumptions and earnings experience change and, because of discounting, as the Government bond rate changes and the period of settlement approaches. This is an accepted fact for this type of liability.

7.4.2 Estimated unfunded superannuation liability at 30 June 2016

The unfunded superannuation liability is estimated to decrease by $330 million from the estimated 30 June 2015 figure recorded in the 2015-16 Budget. Table 7.3 sets out the major elements comprising the movement from the estimated unfunded superannuation liability as at 30 June 2015 to 30 June 2016.

Table 7.3 – Estimated unfunded superannuation liability as at 30 June 2016

	$'million	$'million
Estimated unfunded liability as at 30 June 2015 (2015-16 Budget)		12 813
Add: Difference between actual and expected returns	89	
Movement in discount rate	(1 481)	
Adjustments to align with AASB 119	(62)	
Total changes		(1 454)
Actual as at 30 June 2015		11 358
Add: Higher than expected returns on investments	(6)	
Movement in discount rate	975	
Other movements	156	
Total changes		1 125
Estimated closing balance 30 June 2016 (2016-17 Budget)		12 483

Note: Totals may not add due to rounding

7.4.3 Superannuation discount rate

As required by AASs, the unfunded superannuation liability is estimated at a point in time by discounting future superannuation benefit payments by a discount rate that reflects the risk-free interest rate. The reference rate used is the rate that reflects the average maturity on the liability. Due to the high value of the expected payments to beneficiaries and the long-term nature of the liabilities, valuation of the superannuation liability is sensitive to movements in the discount rate. A discount rate of 3.2% (effective annual rate) has been used for the 2016-17 Budget, compared with 3% used in the 2015-16 Budget and 3.3% used in the 2015-16 MYBR. Table 7.4 shows the impact of varying the discount rate upwards from the current rate of 3.2%.

Table 7.4 – Sensitivity analysis of unfunded superannuation liabilities to discount rate movements as at 30 June 2016

Discount rate	Unfunded superannuation liability $'million	Increase (Decrease) $'million
3.2%	12 483	-
6.0%	7 243	(5 240)
7.5%	5 389	(7 094)

Table 7.4 shows how significantly the value of the liability can change with movements in interest rates alone. For example, should the composite of long dated Commonwealth Government nominal bond rates increase to 7.5%, the value of the unfunded liability will reduce by $7094 million. The Budget records that while financial market volatility in the recent past has resulted in multi-billion dollar revisions to the value of the liability recorded on the balance sheet, there has been no material change in the actual expected payments to beneficiaries underlying the liability.

7.4.4 Superannuation funding

DTF advised that total superannuation funding (including the fully funded Southern State Superannuation Scheme) is expected to be $1538 million in 2016-17, rising to $1687 million in 2019-20. Payments comprise amounts paid from agencies as contributions to current employees for new service and contributions.

The past service superannuation liability cash payments are affected by a number of factors including the long-term earnings rate on superannuation assets. Where investment performance exceeds the assumed rate, it is possible to reduce the level of past service payments required to fully fund superannuation liabilities by 2034. Additional funding contributions are, however, required to compensate for reduced earnings to remain on target.

The past service superannuation liability cash payment for 2016-17 is estimated to be $458 million.[11]

7.4.5 Earnings

The Superannuation Funds Management Corporation of South Australia (Funds SA) is responsible for managing the investment of superannuation assets. Investment earnings on superannuation assets are highly susceptible to economic conditions, financial markets and Funds SA's investment strategy. Further detail on Funds SA's investment performance is provided in the section titled 'Superannuation Funds Management Corporation of South Australia' in Part B of the 2015-16 Annual Report.

An earnings rate of 2.1% was estimated for 2015-16 at the time of the 2016-17 Budget. This is less than the long-term assumed earnings rate of 7% and less than the assumed earnings for 2015-16 at the time of the 2015-16 MYBR of 2.8%. The lower expected returns are due to the decline experienced in financial markets during 2015-16.

7.4.6 Long-term funding of superannuation liabilities

The commitment to fully fund unfunded liabilities was again reaffirmed by the SA Government in the 2016-17 Budget, with the position as at 30 June 2016 remaining consistent with the plan to eliminate unfunded superannuation liabilities by 2034.

Past service superannuation liability cash payments are estimated to increase over that period in line with the SA Government's expectations of salary inflation. Assuming no change in the discount rate and a return to long-term earnings, unfunded liabilities are estimated to have already peaked (2011-12). It is estimated that benefit payments will peak in 2024-25 ($892.5 million).

The SA Government's target to fully fund superannuation liabilities by 2034 is plausible based on these estimates. Based on current data and estimates, in 2034 the liability will be fully funded by equivalent assets of $11.1 billion.

7.5 Contingent liabilities

As reported in the Budget Papers[12] contingent liabilities are those that have not been recognised in the balance sheet, but rather are disclosed in notes to the accounts.

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[11] 2016-17 Budget Paper 3 'Budget Statement', table 4.4.

[12] 2016-17 Budget Paper 3 'Budget Statement', page 92.

Reasons for this are:

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

Contingent liabilities of the SA Government can arise from:

- legislative provisions requiring the SA Government to guarantee the liabilities of public sector organisations (eg financial institutions)
- the ordinary activities of the SA Government, which might give rise to disputes and litigation that remain unresolved at any given balance date.

Guarantees and contingent liabilities of the SA Government as at 30 June 2015 were valued at $1296 million ($1241 million as at 30 June 2014). Guarantees are valued at nominal values without adjustment for the probability of actual liabilities occurring.

8 Treasurer's Statements

> **Key points**
>
> ➔ Consolidated account payments were within appropriation authority for 2015-16.
>
> ➔ Special deposit account and deposit account balances grew to $5.5 billion as at 30 June 2016.

8.1 Treasurer's Statements – *Public Finance and Audit Act 1987*

The Treasurer's Statements are prepared under the PFAA to report on transactions and balances in the public accounts.

The main public accounts are the Consolidated Account, special deposit accounts and deposit accounts established under the PFAA.

A large proportion of public monies are received and expended through the Consolidated Account. The main receipts to the Consolidated Account are State taxation and Commonwealth general purpose grants to the State.

Special deposit accounts and deposit accounts are used by almost all agencies as their main operating account. The Treasurer's Statements only report the closing balances of these accounts. Details of agency transactions are reported in the individual general purpose financial reports of agencies.

The Treasurer's Statements set out the appropriation authority available from various sources for the financial year including the annual *Appropriation Act*, the Governor's Appropriation Fund, and specific appropriations authorised under various Acts. Also set out are the purpose and amount of payments from the Consolidated Account (that is, the use of that appropriation).

The Treasurer's Statements are reported, in full, in the Appendix – Volume 1 to the 2015-16 Annual Report.

8.2 Audit scope of the Treasurer's Statements

We reviewed the controls exercised by the Public Finance Branch over the appropriation and disbursement of monies through the public accounts. This included the:

- testing of appropriation disbursements under the annual *Appropriation Act*, the Governor's Appropriation Fund, contingency funds and other Acts
- establishment of and changes to Treasurer's special deposit accounts, imprest accounts and deposit accounts
- updating and recording of the Treasurer's loans and guarantees

- maintenance of the central general ledger.

Our audit work identified some areas where improvements could be made. Review findings are provided under the heading 'Audit findings and comments' in the section titled 'Department of Treasury and Finance' in Part B of the 2015-16 Annual Report.

8.3 The Consolidated Account outcome

Money must not be issued from the Consolidated Account except under authority of an Act of Parliament. Table 8.1 sets out total appropriation authority and actual payments for the Consolidated Account in 2015-16.

Table 8.1 – 2015-16 appropriation authority and payments

	Appropriation authority $'million	Actual payments $'million
Appropriation Act 2015	12 037.4	11 951.3
PFAA, section 15	21.0	21.0
Governor's Appropriation Fund	344.9	216.5
Specific appropriations authorised in various Acts	109.3	107.2
Total	12 512.7	12 296.1

The result on the Consolidated Account and variations from the Budget for 2015-16 were as follows.

Table 8.2 – 2015-16 Consolidated Account result

	2015-16 Budget $'million	2015-16 Actual $'million	Variation $'million
Total receipts	11 106.1	11 142.1	36.0
Total payments	12 146.8	12 296.1	149.3
Consolidated Account surplus (deficit)	(1 040.7)	(1 154.0)	(113.3)

The deficit of $1154 million ($1645.7 million surplus in 2014-15) is reflected as an increase in net debt serviced from the Consolidated Account as shown in Statement J of the Treasurer's Statements.

The key differences between actual and budgeted amounts were as follows:

- ***Receipts*** **–** main items that varied from budgetary expectations:
  - higher Commonwealth general purpose grants ($96.4 million) due to growth in the total GST pool available for distribution and South Australia's grant share
  - higher dividends and income tax equivalents from SA Water ($81.3 million) as a result of higher sales revenue and lower depreciation expense

- higher recoveries ($265.6 million) primarily due to the return of cash to the Consolidated Account in accordance with the cash alignment policy ($291.8 million) which is not budgeted for

offset by:

- lower taxation revenue ($299.1 million) mainly from payroll tax ($77.3 million) due to softer than expected employment and wages growth, and land tax ($231.3 million) due to the timing of billing certain government entities with large land tax liabilities
- lower royalties ($88.3 million) due to lower than expected mineral and petroleum prices.

- ***Payments*** – the main agency exceeding budgetary expectations was the Department of Planning, Transport and Infrastructure ($122.8 million). Refer to section 8.4.1 for further commentary on this variance.

Consistent with the previous year, in 2015-16 significant amounts were appropriated to agencies as equity. The main equity contributions were to the Department of Planning, Transport and Infrastructure ($298.2 million) and the Department for Health and Ageing ($178.2 million). Equity funding is credited directly to an agency's Statement of Financial Position, not through the Statement of Comprehensive Income. For further commentary refer to section 8.6. Details of the budget and actual data are presented in Treasurer's Statement A.

8.4 Appropriation flexibility

Appropriation authority flexibility arises from the provision of funds for additional/new initiatives or unforeseen cost pressures that can be used without a requirement to return to Parliament for additional appropriation authority. This flexibility is provided through a combination of legislative provisions and budget practices.

Table 8.3 sets out relevant items for 2015-16.

Table 8.3 – Appropriation flexibility

	Authority/ Budget $'million	Actual payments $'million
Governor's Appropriation Fund	344.9	216.5
Contingency provisions in administered items for DTF	518.6	159.0
PFAA, section 15	21.0	21.0
Total appropriation flexibility	884.5	396.5

Use of these provisions requires the Treasurer's approval. Use of contingency provisions does not affect the Budget result as they are already included as a budgeted expense item in the administered items for DTF.

8.4.1 Governor's Appropriation Fund

Section 12 of the PFAA provides for the Governor's Appropriation Fund, which is generally used to fund new government initiatives or to meet unexpected expenditure needs.

Details of the purpose of appropriations from the Governor's Appropriation Fund are provided in Treasurer's Statement K. The main items for 2015-16 are shown in table 8.4.

Table 8.4 – Main Governor's Appropriation Fund payments

Agency	Purposes	Actual payments $'million
Department of Planning, Transport and Infrastructure	Primarily for the Goodwood and Torrens Rail Junctions upgrade	122.840
Department for Communities and Social Inclusion	Primarily due to changes in funding arrangements associated with the National Disability Insurance Scheme transition agreement	34.339
Department for Education and Child Development	Primarily due to additional funding provided to Families SA to support an increase in the average number of children in care	25.589
Department of Primary Industries and Regions	For drought concessional loan schemes	20.000

8.4.2 Contingency provisions

Contingency provisions for employee entitlements, supplies and services and investing contingencies are included in the appropriation total of the 'Administered Items for the Department of Treasury and Finance' in Statement A of the Treasurer's Statements. These amounts are included within the total appropriation (and budgeted expenses) but may not be committed to a specific purpose at the time of the Budget. They are provided for potential budget impacts or for expenditure that is subject to further Cabinet or Ministerial approval.

Details of payments from the contingency funds to agencies are provided in Treasurer's Statement L. These payments represent additional funding to agencies.

The main contingency provision payments for 2015-16 are shown in table 8.5.

Table 8.5 – Main contingency provision payments

Agency	Total payments $'million
Department for Health and Ageing	69.562
Department of Planning, Transport and Infrastructure	41.525
Department for Treasury and Finance	11.888
Department for Communities and Social Inclusion	11.589

8.4.3 Appropriation by the Treasurer for additional salaries, wages etc

Section 15 of the PFAA provides that the Treasurer may appropriate from the Consolidated Account an amount sufficient to cover increases in public sector salaries, wages, allowances, payroll tax or superannuation contributions arising by reason of the award, order or determination of a court, tribunal or other body empowered to fix salaries, wages or allowances.

As with the Governor's Appropriation Fund, use of this provision adds to the amount appropriated by Parliament from the Consolidated Account annually and may affect the Budget result where there are unbudgeted expenses.

In 2015-16 $21 million was appropriated by the Treasurer to administered items for DTF under section 15 of the PFAA and used to meet additional costs for salaries and wage determinations. In 2014-15 the amount appropriated by the Treasurer was $14.4 million.

8.4.4 Appropriation transfers

In addition to the preceding provisions, appropriation can be transferred between agencies. Section 13 of the PFAA provides authority where excess funds exist for one agency and are necessary for another. Section 5 of the *Appropriation Act* provides authority where restructuring of an agency occurs so that appropriation related to transferring functions may in turn be transferred.

No section 13 or section 5 transfers occurred in 2015-16.

8.5 Special deposit accounts and deposit accounts

Most appropriation from the Consolidated Account is transferred to special deposit accounts and deposit accounts established under the PFAA. Under related provisions, money credited to those accounts can be spent without further appropriation from Parliament. This is of significance in that money appropriated in one year and transferred to a deposit account need not actually be spent in that year; that is, it can be carried over into the next year unless required by the Treasurer to be paid to the Consolidated Account.[13]

Table 8.6 shows that $5520.6 million is held in special deposit accounts and deposit accounts as at 30 June 2016.

Table 8.6 – Special deposit accounts and deposit accounts

	2015-16 $'million	2014-15 $'million	Increase (Decrease) $'million
Special deposit accounts	4 552.0	3 862.0	690.0
Deposit accounts	968.6	868.9	99.7
Total	5 520.6	4 730.9	789.7

[13] PFAA section 8(5) – any surplus of income over expenditure standing to the credit of a special deposit account must, at the direction of the Treasurer, be credited to the Consolidated Account.

Such unspent balances do come under the scrutiny of Parliament as they are reported in the financial positions of agencies and in the Budget Papers, and the balances are also reported in Treasurer's Statements F and G.

Significant balances at 30 June 2016 were:

- ***Special deposit accounts*** – Highways Fund ($1.723 billion), Accrual Appropriation Excess Funds ($824 million), Planning, Transport Infrastructure Operating Account ($257 million) and Victims of Crime Fund ($243 million)

- ***Deposit accounts*** – SA Health Special Purpose Funds ($127 million), Urban Renewal Authority ($115 million), South Australian Housing Trust ($99 million), Waste to Resources Fund ($87 million).

The Highways Fund special deposit account balance increased by $518.4 million to $1.723 billion as at 30 June 2016 mainly due to a $403.5 million dividend and $45 million equity return from MAC in 2015-16. These payments represent the return of excess capital from MAC to the Highways Fund to improve road safety and are in addition to the $852.9 million contribution made to the Highways Fund in 2014-15.

The Urban Renewal Authority deposit account increased by $100.4 million to $115 million as at 30 June 2016 due to a $105 million equity contribution from the SA Government to fund the purchase of TAFE SA properties from the Department of State Development in 2016-17.

The Waste to Resources Fund deposit account continues to grow gradually and has increased by a further $18.5 million to $86.8 million as at 30 June 2016. Section 17 of the *Zero Waste SA Act 2004* requires the Environment Protection Authority to transfer 50% of solid waste levies collected from waste depots to the Waste to Resources Fund, and these funds may only be used by Zero Waste SA (now Green Industries SA) for specific purposes prescribed by the *Zero Waste SA Act 2004*.

Special deposit account balances are subject to the Treasurer's cash alignment policy that aims to minimise balances as discussed below.

8.5.1 Accrual Appropriation Excess Funds Account

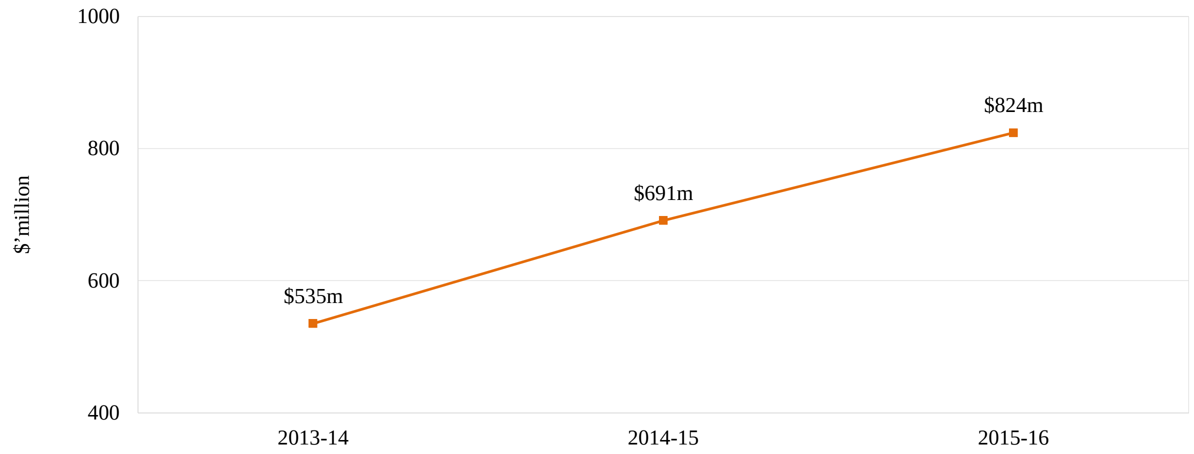
The approved purpose of the Accrual Appropriation Excess Funds Account is to record all receipts and payments associated with surplus cash balances generated in agencies by the shift to accrual appropriations.

Accrual appropriations are provided to agencies primarily for accruing leave liabilities (the value of the leave entitlement accruing to employees for the year rather than just the amount paid to employees taking leave in the year) and depreciation expenses.

DTF policy provides guidance on the use of funds in the Accrual Appropriation Excess Funds Account and the operation of the account.

Chart 8.1 shows the growth in the Accrual Appropriation Excess Funds Account balance for recent years.

Chart 8.1 – Accrual Appropriation Excess Funds Account



8.5.2 Treasury and Finance Administered Items – Intergovernmental Agreement on Federal Financial Relations Account (the Account)

The approved purpose of the Account is to receive and disburse money paid to the State under the Intergovernmental Agreement on Federal Financial Relations for the specific purposes listed in Schedule F of that agreement and for the national partnership payments for the purposes listed in Schedule G of that agreement.

The operations of the Account are included in DTF's administered financial statements, which are included in Part B of the 2015-16 Annual Report. The balance in the Account at 30 June 2016 was $20.8 million. This entire balance is committed to various SA Government agencies to fulfil requirements under the Intergovernmental Agreement on Federal Financial Relations agreements.

8.5.3 Cash alignment policy

The SA Government's cash alignment policy seeks to align agency cash balances with appropriation and expenditure authority. Under the policy, payments are required to be made to return surplus cash to the Consolidated Account. All special deposit accounts are reviewed at least annually to determine whether there is surplus cash in an account. The policy supports the Treasurer's discretionary power to require surplus funds in special deposit accounts to be paid to the Consolidated Account.

A total of $291.8 million ($147.2 million) of surplus cash was returned to the Consolidated Account during 2015-16. The main amounts are shown in table 8.7.

Table 8.7 – Cash alignment policy repayments

Agency	Total payments $'million
Department of Treasury and Finance – Administered Items	140.6
Department of Education and Child Development	60.9
Department for Health and Ageing	43.6

8.6 Equity contributions

Equity contributions to agencies are provided based on a DTF policy that provides guidance on budgeting for employee entitlements, depreciation, investing payments and appropriation, and for the operation of the Accrual Appropriation Excess Funds Account. Under the policy, agencies are provided with sufficient operating appropriation to fund their net operating expenses, including depreciation and employee entitlements.

Most investing payments are funded out of the appropriation provided to agencies for depreciation. In cases where net investing payments are less than the appropriation provided for depreciation, the surplus appropriation will be deposited into the Accrual Appropriation Excess Funds Account for future use. If the net cash requirement for investing payments exceeds depreciation, the cash shortfall is funded from the Accrual Appropriation Excess Funds Account or via an equity contribution if the balance in the Accrual Appropriation Excess Funds Account is not sufficient.

Treasurer's Instruction 3 'Appropriation' provides that where Schedule 1 to the *Appropriation Act* requires that money be appropriated to a public authority as a contribution of equity, as a loan or for program funding, the Treasurer acquires a financial interest in the net assets of the public authority concerned. Money issued or applied from the Consolidated Account under this instruction are not to be reported by the public authority as revenues in the period in which they are received, but are to be shown separately in the public authority's Statement of Financial Position, as a contribution of equity by the SA Government.

Total cumulative equity contributions as at 30 June 2016 were $5839 million. Details of equity contributions provided to agencies are set out in Treasurer's Statement I.

Appendix 1 – Reporting framework

1 Introduction

Three reporting frameworks are used for reporting on the State's finances, namely the:

- Uniform Presentation Framework
- AASs
- Treasurer's Statements issued under the PFAA.

The following sections provide a brief overview of each of the frameworks.

2 Uniform Presentation Framework

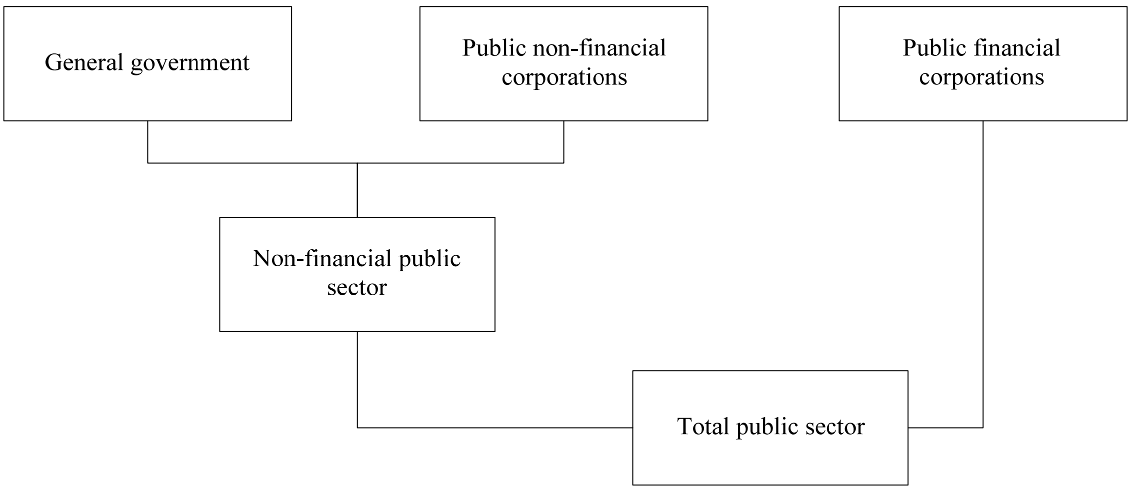
2.1 Background

By agreement between the Commonwealth, States and Territories, each jurisdiction presents their Budget Papers and mid-year budget update on a Uniform Presentation Framework basis.

The Uniform Presentation Framework is a reporting standard based on the Australian Bureau of Statistics' accrual based GFS framework. The primary objective of the Uniform Presentation Framework is to ensure that Commonwealth, State and Territory Governments provide a common core of financial information in Budget Papers to enable direct comparisons across jurisdictions.

In South Australia, the Budget is prepared using the GFS framework. The GFS framework excludes revaluations from the GFS net operating balance, as they are not transactions for the purposes of the GFS framework.

Three sectors (which are then consolidated into two additional sectors) of government activity are used in the GFS framework, recognising that SA Government responsibilities cover a wide range of activities. They are:



A description of the three primary sectors is as follows:

- ***General government*** – all budget dependent departments and agencies providing services free of charge or at prices below their cost of production or service cost. These are the services that tend to be primarily financed through taxes and other charges, and for this reason this sector tends to be the focus of fiscal targets.

- ***PNFCs*** **–** trading enterprises mainly engaged in producing goods and services for sale in the marketplace at prices that aim to recover most or all of the costs involved. In South Australia the sector includes the South Australian Housing Trust and SA Water. The consolidation of the general government and PNFC sectors represents the NFPS.

- ***PFCs*** **–** bodies primarily engaged in providing financial services. This includes financial institutions such as SAFA, HomeStart Finance and the Funds SA.

The Budget Papers include the following GFS financial statements:

- general government sector operating statement and balance sheet
- PNFC sector operating statement and balance sheet
- NFPS operating statement and balance sheet
- cash flow statements for these sectors.

The PFC sector data is not published in the Budget Papers.

2.1.1 Key Government Financial Statistics headline amounts

When analysing GFS financial statements, the key GFS headline amounts are as follows:

- ***GFS net operating balance*** **–** also referred to as operating result, is the excess of revenue over expenses from transactions. The net operating balance excludes expenditure on the acquisition of capital assets, but includes non-cash costs such as accruing superannuation entitlements and the consumption of capital (depreciation).

- ***GFS net lending/borrowing*** **–** represents the net operating balance less the net acquisition of non-financial assets. It indicates the extent to which accruing operating expenses and net capital investment expenditure is funded by revenues.

- ***Net worth*** **–** is calculated as total assets (both financial and non-financial) less total liabilities, shares and other contributed capital. Net worth incorporates a government's non-financial assets, such as land and other fixed assets, which may be sold and used to repay debt, as well as certain financial assets and liabilities not captured by the net debt measure, most notably accrued employee superannuation liabilities, debtors and creditors.

- ***Net financial liabilities*** **–** comprise total liabilities less financial assets (net financial worth), but exclude equity investments (net worth) in the other sectors of the jurisdiction. Net financial liabilities include substantial non-debt liabilities such as accrued superannuation and long service leave entitlements.

- ***Net debt*** **–** is the sum of deposits held, advances received and borrowing, less the sum of cash and deposits, advances paid, investments, loans and placements.

2.2 Scope of audit review of Government Financial Statistics financial statements

This Report primarily covers commentary on GFS based information. Although we seek to have a sound understanding of the Budget preparation process, the data and assumptions are not subject to audit. Work performed on the 2016-17 Budget year's GFS data has included some analytical procedures to ensure that the amounts presented are reasonably supported and that where trends in data materially differ they can be adequately explained.

Accordingly, no opinion is provided on the accuracy of either the historical or prospective figures presented.

3 Australian Accounting Standards

The AASs framework is the basis for agency (budget and actual) and whole-of-government (actuals only) reporting.

3.1 Agency financial reports

The statutory financial reports that are prepared by individual agencies and subject to audit are compiled using AASs.

3.2 AASB 1049 'Whole of Government and General Government Sector Financial Reporting'

The whole-of-government/general government consolidated financial report is prepared under accounting standard AASB 1049. AASB 1049 sets out the requirements for whole-of-government and general government sector financial reporting. The standard requires compliance with other applicable AASs (except as specified in the standard) and disclosure of additional information such as reconciliations to key fiscal aggregates determined in accordance with the Australian Bureau of Statistics' 'Australian System of Government Financial Statistics: Concepts, Sources and Methods'.

The consolidated financial report provides the opportunity to observe the financial result of the SA Government using a full accrual accounting basis, and the consolidation of all sectors. The consolidation process means that all inter-sector transactions are eliminated, including significant transactions relating to SA Water and MAC dividends and the transfer of TAFE SA properties to Renewal SA described in this Report.

3.3 Budgetary reporting in general purpose financial statements

Over many years the AASB worked towards an objective of harmonising generally accepted accounting principles and the GFS. This project, developed in phases, aimed to develop requirements for a single set of financial reports that are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements. That is, the AASB saw merit in requiring not-for-profit entities within the general government sector to report original budgeted information and explanations of major variations from budget. Consequently, the AASB issued AASB 1055 'Budgetary Reporting' in 2013. This standard was first applicable in 2014-15 and requires not-for-profit entities within the general government sector, whose budgeted financial statements are presented to Parliament, to disclose:

- original budgeted amounts, presented and classified on a basis that is consistent with the financial statements prepared in accordance with AASs
- explanations of major variances between the original budget and actual amounts (which may include reference to revised budgets presented to Parliament).

These disclosure requirements have applied to both the controlled and administered items of an entity where such budget information is presented to Parliament.

AASB 1055 requirements also apply to the general government sector and the whole-of-government financial statements, replacing budgetary reporting requirements previously held in AASB 1049.

4 Treasurer's Statements – *Public Finance and Audit Act 1987*

The Treasurer's Statements are prepared under section 22 of the PFAA, and are reported in the Appendix – Volume 1 to the 2015-16 Annual Report.

A summary of information prepared on this basis is provided in Chapter 8.

Appendix 2 – Acronyms used in this Report

Acronym	Description
AAS	Australian Accounting Standard[14]
AASB	Australian Accounting Standards Board
DTF	Department of Treasury and Finance
FTE	Full-time equivalent
GFS	Government Financial Statistics
GST	Goods and services tax
MAC	Motor Accident Commission
MYBR	Mid-year budget review
NFPS	Non-financial public sector
nRAH	New Royal Adelaide Hospital
PFAA	*Public Finance and Audit Act 1987*
PFC	Public financial corporation
PNFC	Public non-financial corporation
Renewal SA	Urban Renewal Authority
ReturnToWorkSA	Return to Work Corporation of South Australia
SAFA	South Australian Government Financing Authority
SA Water	South Australian Water Corporation
TVSP	Targeted voluntary separation package

[14] 'Australian Accounting Standards' means accounting standards issued by the Australian Accounting Standards Board that are in force in relation to the reporting period to which the financial report relates.