Audit Office
of South Australia

Auditor-General’s Report 9 of 2025

State finances – insights on the 2025-26 Budget

Government of South Australia

[P.P.4ZL

Auditor-General's Report 9 of 2025

State finances
– insights on the 2025-26 Budget

Tabled in the House of Assembly and ordered to be published, 11 November 2025

First Session, Fifty-Fifth Parliament

By authority: T. Foresto, Government Printer, South Australia

2025

The Audit Office of South Australia acknowledges and respects Aboriginal people as the State's first people and nations, and recognises Aboriginal people as traditional owners and occupants of South Australian land and waters.

Audit Office
of South Australia

www.audit.sa.gov.au

Enquiries about this report should be directed to:

Auditor-General
Audit Office of South Australia
Level 9, 200 Victoria Square
Adelaide SA 5000

ISSN 0815-9157

Government of South Australia
Audit Office of South Australia

Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000
Tel +618 8226 9640
ABN 53 327 061 410
enquiries@audit.sa.gov.au
www.audit.sa.gov.au

10 November 2025

President
Legislative Council
Parliament House
ADELAIDE SA 5000

Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Dear President and Speaker

Report of the Auditor-General:
Report 9 of 2025 *State finances – insights on the 2025-26 Budget*

Under the *Public Finance and Audit Act 1987*, I present this report to you.

Content of the report

The 2025-26 State Budget was tabled in Parliament in June 2025. This report provides our observations on key trends and risks for the State's public finances based on our review of the Budget. This involved:

- reviewing the Budget against the SA Government's stated fiscal strategy
- analysing new budget measures and initiatives
- examining Budget estimates and forecasts
- analysing major assets and liabilities
- analysing South Australia's key fiscal measures compared to other Australian states
- reviewing credit rating agency reports on South Australia.

Our analysis is based on data provided in the 2025-26 Budget Papers, supplemented by information provided to us by the Department of Treasury and Finance.

Acknowledgements

The review team for this report was Salv Bianco, Ken Anderson, Stephen Gladigau and Veronika Kosourikhina.

We appreciate the cooperation and assistance given by staff of the Department of Treasury and Finance during our review.

Yours sincerely

Andrew Blaskett
Auditor-General

Contents

Appendices

Audit snapshot – State finances – insights on the 2025-26 Budget

What we reviewed and why

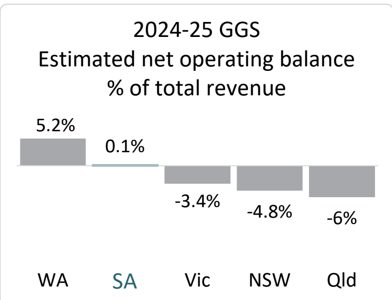
The State Budget sets out the SA Government’s fiscal strategy, actual and forecast financial position and new policy initiatives. It is also a key tool to manage and monitor government programs and performance. This report gives our insights into key trends and risks for the State’s public finances based on our review of the 2025-26 State Budget.

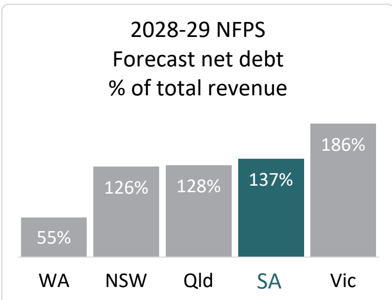
Our key insights

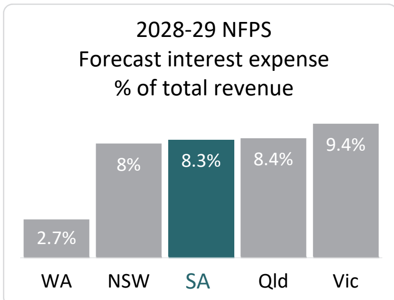
- **Health initiatives account for over half of total new expenditure initiatives** in the four State Budgets from 2022-23 to 2025-26.
- There is a heightened risk that SA Health will not achieve its expenditure forecasts. This is mainly due to **hospital activity continuing to grow well above historical trends**. SA Health has also had difficulties achieving its savings targets.
- The SA Government will face challenges meeting employee expense forecasts as **wage negotiations for almost three quarters of the general government sector workforce** are occurring after a period of high inflation.
- There are **several risks attached to the SA Government’s historically large capital program**, including delivering projects on time and on budget given construction industry capacity constraints and increasing costs. Small percentage budget overruns on the capital program could also significantly impact the State’s debt position.
- Assessments of the sustainability of net operating surpluses should consider that **Commonwealth grant revenue for capital projects is significant and one-off** in nature.
- Rising debt and interest costs owing to the scale of the State’s capital program may **constrain the State’s fiscal capacity** and its ability to deliver the same level of services.

Key budget indicators

South Australia is generally ‘middle of the pack’ on budget sustainability indicators compared to other states. It is in a less favourable position compared to Western Australia, is similar to New South Wales and Queensland, and in a more favourable position than Victoria.







S&P/Moody’s credit rating

WA AAA/Aaa **NSW** AA+/Aaa **SA AA+/Aa1** **Qld** AA+/Aa1 **Vic** AA/Aa2

Note: GGS refers to the general government sector and NFPS to the non-financial public sector. The chart above does not include Tasmania as the 2025-26 Budget for this state was not available at the time this report was prepared.

1 Executive summary

1.1 Introduction

The State Budget sets out the SA Government’s fiscal strategy, actual and forecast financial position and new policy initiatives. It is also a key tool to manage and monitor government programs and performance.

This report provides our insights on key trends and risks for the State’s public finances based on our review of the 2025-26 State Budget (2025-26 Budget). Our analysis is based on data in the 2025-26 Budget Papers, supplemented by information provided to us by the Department of Treasury and Finance (DTF). The data and assumptions underlying this information were not subject to audit and no audit opinion is provided on the accuracy of historical or forecast figures in the 2025-26 Budget.

1.2 Our key insights

1.2.1 Ongoing funding pressures in SA Health and Department for Child Protection

Over half of the total funding for new expenditure initiatives in the four budgets from 2022-23 to 2025-26 relates to SA Health (53% or $7.7 billion).

SA Health will face challenges in achieving its expenditure forecasts in the 2025-26 Budget, given that public hospital activity continues to grow[a] well above the historical trend assumed in recent budgets and difficulties it has had in improving its service delivery efficiency to achieve savings targets.

The 2025-26 Budget indicates total expenditure for the Department for Child Protection increased by 36% from 2021-22 to 2024-25. This trend is not expected to continue, with total expenditure forecast to decrease by 8% between 2024-25 and 2025-26 and reduce further by 2028-29. If the placement mix between family- and non-family-based care is more in line with recent trends than the 2025-26 Budget assumptions and the objectives of the service optimisation review in progress is not achieved, there is a risk that considerably more funding may be needed for the Department for Child Protection in 2025-26 and across the forward estimates.

It is important that the root causes of ongoing significant budget overruns in SA Health and the Department for Child Protection are effectively identified and addressed to ensure the SA Government can achieve forecast operating surpluses.

[a] This is based on a weighted activity measure that considers both volume and complexity of patient treatments.

1.2.2 Assessments of sustainability of net operating surpluses should consider historically high Commonwealth capital grant revenue

Commonwealth Government capital grants for infrastructure are a significant driver of the forecast operating surpluses in the 2025-26 Budget. These grants are expected to significantly increase over the four years of the Budget, mainly due to the North–South Corridor River Torrens to Darlington project (T2D project). Excluding this one-off funding, which is for purchasing or constructing specific assets rather than for operational purposes, forecast net operating balances in each of the four years of the 2025-26 Budget would be over $1 billion in deficit.

Where capital grant revenue is expected to be significant, it should be considered in any assessments of the Budget's sustainability, particularly about fiscal target 1 in the 2025-26 Budget[b] and ensuring operating expenditures can be fully funded from operating revenues.

1.2.3 Wage agreements for most public sector employees are being negotiated after a period of high inflation

The SA Government will face challenges in negotiating wage agreements to meet employee expense forecasts in the 2025-26 Budget. The negotiations planned for 2025-26 cover most general government sector employees (73%) and are occurring after a period of high inflation. The Adelaide Consumer Price Index increased by 7.9% in 2022-23 and 4.9% in 2023-24, which is likely to influence wage increases sought through enterprise bargaining negotiations.

1.2.4 Challenges in delivering historically large capital program on time and on budget

The non-financial public sector (NFPS) capital program over the four years of the 2025-26 Budget is $27.3 billion and is $1.7 billion more than the previous Budget. Given the historically large size of the capital program, even small percentage budget overruns could significantly impact the State's overall financial position, including increased net lending deficits and net debt. Based on past experience with transport infrastructure projects in South Australia, 10% is a relatively small budget overrun. This would amount to a $1.5 billion cost increase for the T2D project.

The risk of significant cost overruns and project delays for the capital program is high, given:

- the inherent challenges in managing very large-scale infrastructure projects in which the State has limited experience, such as the extensive tunnelling works in the T2D project
- construction industry capacity constraints and skilled labour shortages in South Australia
- allowances made in project budgets may not be enough to cover increasing construction costs.

[b] Fiscal target 1: Achieve a net operating surplus in the general government sector every year.

Proper project planning, management and control will be essential to achieving the budgeted outcomes for capital projects in the 2025-26 Budget, including ensuring project budgets contain realistic allowances for unexpected cost increases.

1.2.5 Rising interest expenses may constrain the State's fiscal capacity

NFPS interest expenses as a proportion of total revenue are expected to reach 8.3% in 2028-29, up from 5.4% in 2024-25.

Rising debt and interest costs, mainly due to the scale of the State's capital program, may limit the State's fiscal capacity to respond to economic challenges and its ability to deliver the same level of services in the future. Total general government sector expenditure as a proportion of the State's economy, excluding interest payments, is expected to trend down from 18.4% in 2024-25 to 16.7% in 2028-29. This is occurring at the same time as critical service delivery areas, such as health, are experiencing increasing demand, and the State has below national average levels of spending on services.

Significant capital expenditure is also committed beyond the forward estimates, which could increase net debt and interest expenses. This includes an estimated $3.9 billion for the T2D project and the new Women's and Children's Hospital after 2028-29.

1.2.6 SA Government is 'middle of the pack' on budget sustainability indicators compared to other states

South Australia generally compares favourably to Victoria and is similar to New South Wales and Queensland on key budget sustainability indicators. It is in a less favourable position compared to Western Australia. South Australia performs less well on sustainability indicators that measure net debt and interest expenses as a proportion of the State's economy (gross state product (GSP)). The higher these ratios are, the more limited ability a state has to service its debt based on the size of its economy. South Australia's NFPS interest expense as a percentage of GSP ratio is forecast to be the highest of all states in 2028-29 (1.6%).

There were no changes to the SA Government's credit rating and outlook in the most recent Standard and Poor's and Moody's credit opinion reports (AA+ stable and Aa1 stable, respectively). South Australia is 'middle of the pack' compared to other states based on credit ratings following each state's 2025-26 Budget, with Western Australia having the highest credit rating (AAA and Aaa) and Victoria the lowest (AA and Aa2).[c]

[c] This analysis excludes Tasmania as its 2025-26 Budget was not available at the time of preparing this report. Moody's credit rating for Tasmania in October 2025 before its 2025-26 Budget was released was the same as Victoria (Aa2). Moody's had a negative outlook for Tasmania while it was stable for Victoria.

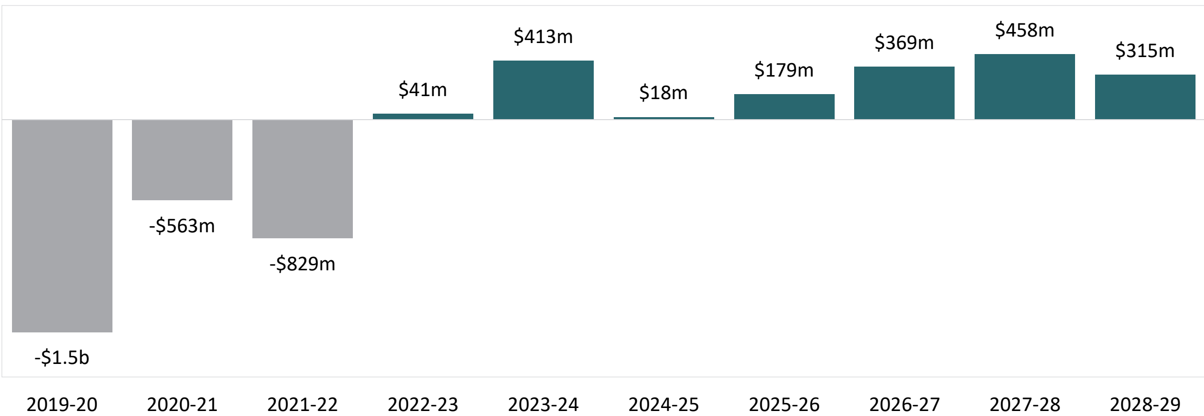
2 Net operating balance

2.1 Net operating balance fiscal target

2.1.1 Expected operating surpluses revised down in 2025-26 Budget

The SA Government has a fiscal target of achieving a net operating surplus in the general government sector every year, so that operating expenditures can be funded from operating revenues. Figure 2.1 shows the actual outcomes for the general government sector net operating balance from 2019-20 to 2023-24, the estimated result for 2024-25 and the expected outcomes for the four years of the 2025-26 Budget.

Figure 2.1: General government sector net operating balance from 2019-20 to 2028-29



Following significant deficits during the COVID-19 pandemic period between 2019-20 and 2021-22, the Budget returned to surplus in 2022-23. The SA Government expects to meet its fiscal target of achieving a net operating surplus every year in the 2025-26 Budget.

A marginal surplus is estimated in 2024-25 ($18 million). This surplus was revised down by $230 million since the original 2024-25 Budget, mainly due to the Whyalla Steelworks support package and SA Health expenditure initiatives to address increased levels of activity and higher costs of service delivery. This expenditure is largely offset by higher than expected conveyance duty revenue and GST revenue.

Moderate surpluses are expected over the four years of the 2025-26 Budget. However, the 2025-26 and 2026-27 surpluses are lower than forecast in the 2024-25 Budget.

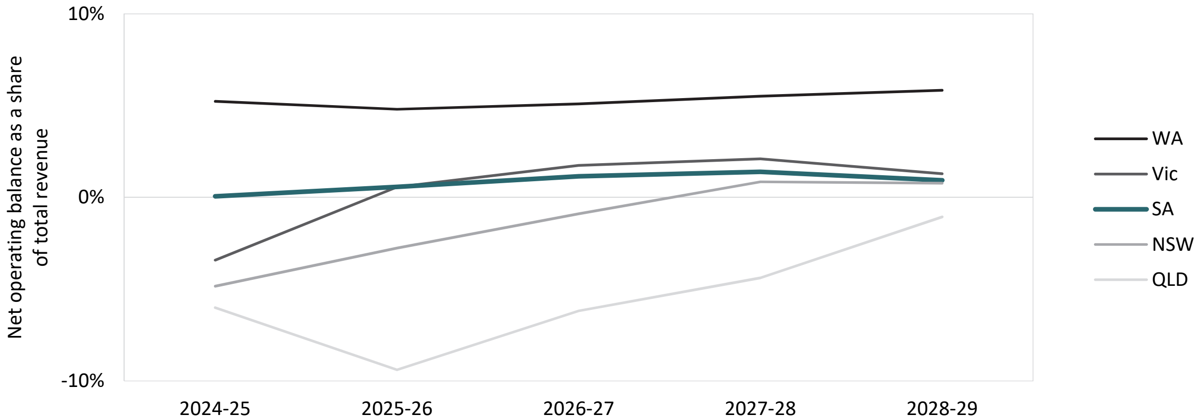
2.1.2 South Australia's forecast net operating balances are similar to or compare favourably with other states except Western Australia

Figure 2.2 shows the expected trend in general government sector net operating balances as a percentage of total revenue[d] compared to other Australian states.

---

[d] Due to substantial differences in the revenue base of each state, net operating balance as a percentage of total revenue is used as the basis for comparison.

Figure 2.2: Net operating balance as a share of total revenue for Australian states between 2024-25 and 2028-29[e]



Source: 2025-26 South Australian and interstate budget papers.

The estimated 2024-25 net operating results vary significantly in each state:

- Western Australia has a significant estimated operating surplus.
- South Australia has a marginal operating surplus.
- Victoria, New South Wales and Queensland are expecting operating deficits.

South Australia's forecast net operating balance as a proportion of total revenue between 2025-26 and 2028-29 is either more favourable, or similar, compared to all other states except Western Australia.

2.2 Policy and parameter variations

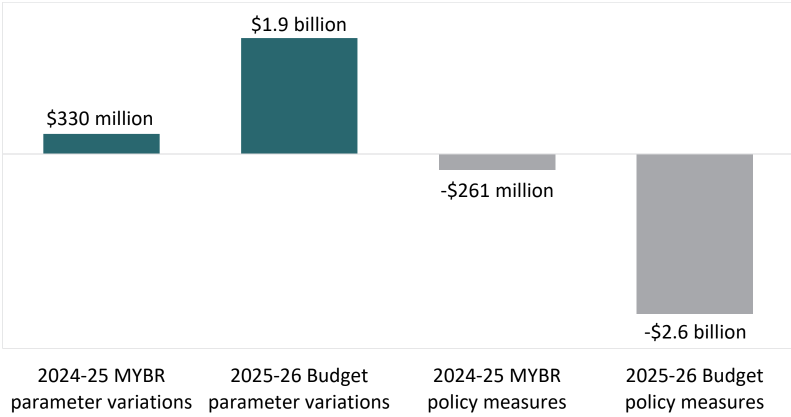
2.2.1 Expenditure on new policy measures significantly exceeds upward revisions to estimated revenues

Policy measures are decisions made by the SA Government to increase or reduce spending or to raise or lower taxes. Parameter changes are variations that do not flow from policy choice changes and are generally outside the SA Government's control, such as changes in GST receipts from the Commonwealth Government owing to national economic conditions and revisions to distribution methodologies.

Figure 2.3 shows how policy and parameter variations since the 2024-25 Budget cumulatively impact net operating balances from 2024-25 to 2027-28. It shows that total expenditure from new policy measures in the 2024-25 mid-year budget review (MYBR) and 2025-26 Budget ($2.9 billion) is $700 million higher than improvements in net operating balance forecasts due to parameter variations ($2.2 billion). This led to a reduction in net operating balance surplus forecasts between the 2024-25 and 2025-26 Budgets, for all years except 2027-28.

[e] Figure 2.2 does not include Tasmania as its 2025-26 Budget was not available at the time of preparing this report.

Figure 2.3: Total general government sector net operating balance policy and parameter variations since the 2024-25 Budget



Expenditure on new policy measures in the 2025-26 Budget mainly relates to SA Health[f] and the Whyalla Steelworks support package. See section 3.2.1 for more about these new policy measures.

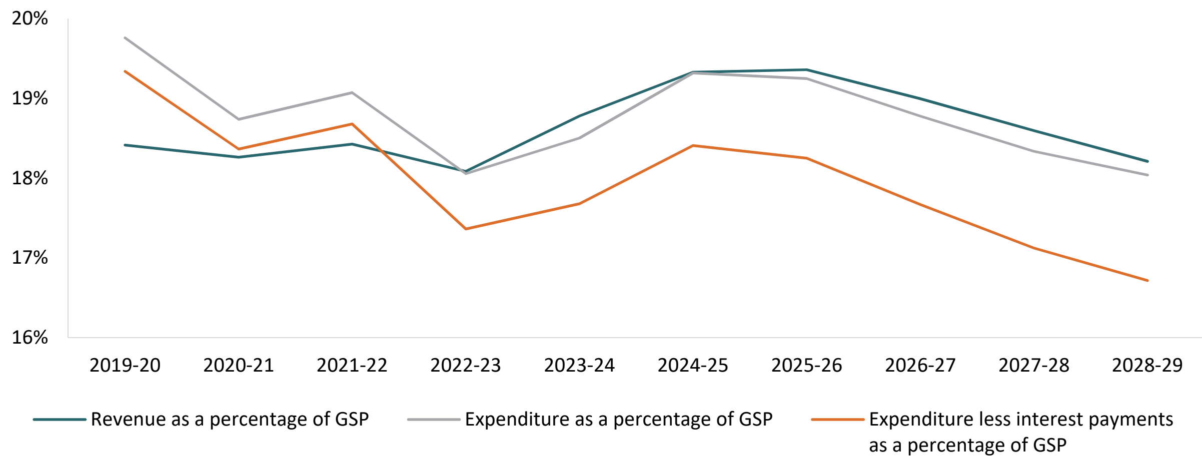
Parameter variations that positively impact the net operating balance are mainly due to improved forecasts for State taxation revenue and GST revenue. See section 4 for more about the trends and risks for these revenue items.

2.3 2025-26 Budget in context of the State's economy

2.3.1 SA Government's expenditure on service delivery as a proportion of the State's economy is trending down

Figure 2.4 shows revenue and expenditure for the general government sector as a percentage of GSP from 2019-20 to 2028-29. It also shows expenditure less interest payments as a percentage of GSP.

Figure 2.4: General government sector revenue and expenditure as a percentage of GSP



Source: Audit calculation based on 2025-26 Budget Paper 3 *Budget Statement* and information provided by DTF.

f SA Health comprises the Department for Health and Wellbeing, local health networks and the SA Ambulance Service Inc.

Figure 2.4 shows that general government sector expenditure as a percentage of GSP less interest payments is expected to decrease by 1.7% from 18.4% in 2024-25 to 16.7% in 2028-29. Interest payments are estimated to represent 7.3% of total general government sector expenditure in 2028-29, up from 4.7% in 2024-25.

The Commonwealth Grants Commission analyses each state's ratio of actual to assessed expenses. Assessed expenses reflect the Commission's estimate of the expenses a state would incur if it were to follow average policies and operate at average efficiency.[1] A ratio below 100 suggests that a state has below national average levels of spending, given its characteristics.

The actual to assessed expenses ratio for South Australia was 91% in 2023-24, which is the lowest of all Australian states and territories.[2] As this ratio is less than 100%, it indicates a shortfall in expenditure relative to what the Commonwealth Grants Commission assesses would be spent if South Australia was providing the same services with the same level of efficiency as the average of all states and territories, considering the differences in assessed need for those services.

Risk insight

An increasing proportion of general government sector expenditure is expected to be for interest expenses rather than service delivery over the four years of the 2025-26 Budget. This increasing interest burden may limit the State's fiscal capacity and its ability to deliver the same level of services in the future, at the same time as critical service delivery areas, such as health, are experiencing increasing demand.[g] The State also has below national average levels of spending on services.

2.4 Capital grant revenue

2.4.1 Assessments of sustainability of net operating surpluses should consider variability in capital grant revenue

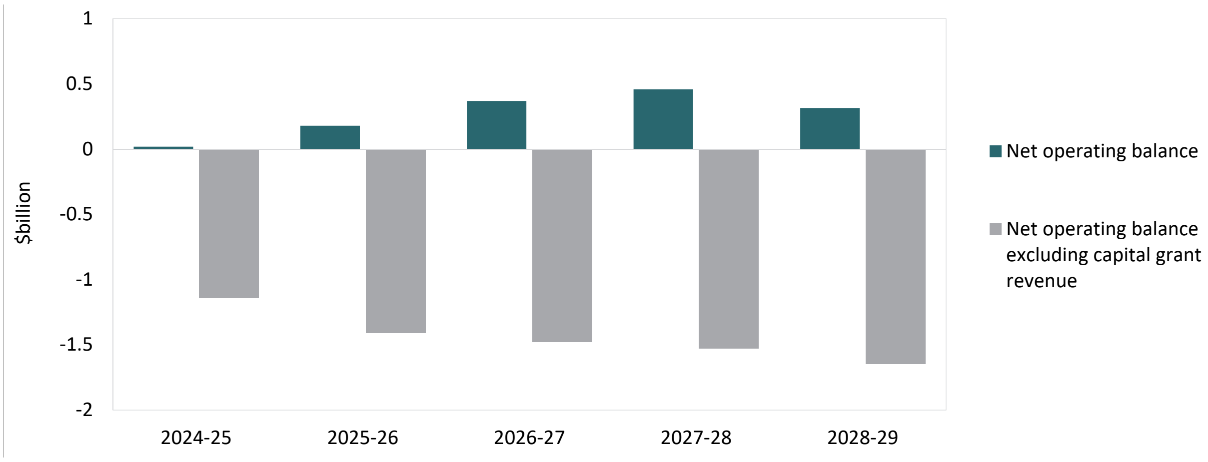
National partnership grant revenue from the Commonwealth Government for infrastructure projects is expected to increase in each year of the 2025-26 Budget, rising by 90% from $1 billion to $1.9 billion between 2024-25 and 2028-29. This is mainly due to the T2D project, which accounts for 69% of this grant revenue.

The capital expenditure related to this grant funding is reflected in the 'purchases of non-financial assets' budget line item, which impacts directly on the net lending balance as it is spent. The net operating balance is only impacted once assets are complete and in use through the annual charging of depreciation expense over their useful lives. This depreciation expense is spread over several years in later reporting periods.

[g] Section 3.3 provides more about SA Health demand trends.

Figure 2.5 shows that capital grant revenue is a significant driver of forecast operating surpluses over the four years of the 2025-26 Budget.

Figure 2.5: Impact of total capital grant revenue on general government sector net operating balance for the period 2024-25 to 2028-29



Excluding this one-off funding, which is for the purpose of purchasing or constructing specific assets rather than for operational purposes, forecast net operating balances would be over $1 billion in deficit each year. The net operating balance deficit, excluding capital grant revenue, progressively increases between 2024-25 and 2028-29 to $1.6 billion.

Risk insight

Where capital grant revenue is expected to be significant, it should be considered in any assessments of the Budget's sustainability, particularly for fiscal target 1 and ensuring operating expenditures can be fully funded from operating revenues.

3 Expenses

3.1 Operating expenses fiscal target

3.1.1 Operating expenses growth trending above fiscal target between 2023-24 and 2025-26

The SA Government has a fiscal target to limit general government operating expenditure growth to trend growth in household income. The 2025-26 Budget tracks progress against this target based on whether average general government operating expenditure growth is limited to trend growth in household income of 4% per annum. It notes that average operating expenditure growth from 2024-25 to 2028-29 is 2.7% per annum.

However, actual general government operating expenditure growth in 2023-24 was 8.5% and it is estimated to be 8.8% for 2024-25 and 4.1% for 2025-26 in the 2025-26 Budget. The average growth for these three years (7.1%) is above the 4% per annum target.

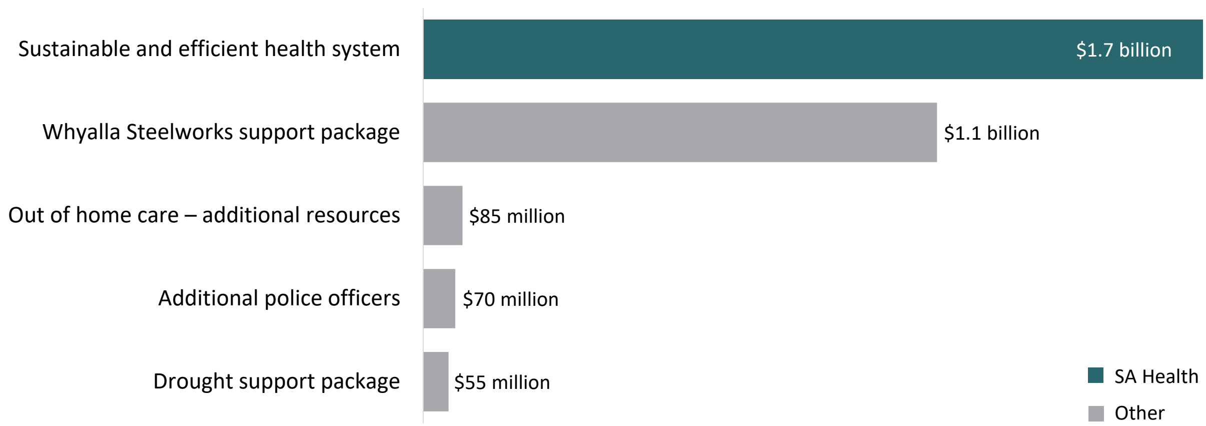
The expected expenditure growth forecast for 2024-25 in the 2025-26 Budget (8.8%) is also significantly higher than at the time of the 2024-25 Budget (4.2%), 2023-24 Budget (1.1%) and 2022-23 Budget (2.6%).

3.2 New operating expenditure initiatives

3.2.1 SA Health initiatives and the Whyalla Steelworks support package comprise over 70% of total new expenditure initiatives

New operating expenditure initiatives for the general government sector in the 2025-26 Budget ($3.8 billion) are similar in amount to the 2024-25 Budget ($4.2 billion). The two largest new initiatives in the 2025-26 Budget represent most of the total (74%), as shown in figure 3.1.

Figure 3.1: Five largest new operating expenditure initiatives in the 2025-26 Budget



The sustainable and efficient health system initiative accounts for 94% of all new SA Health initiatives. See section 3.3 for more on this initiative.

The Whyalla Steelworks support package is being delivered in partnership with the Commonwealth Government. It mainly comprises:

- $768 million for administration costs, including $384 million for an extended administration period if required
- $242 million for future steelworks infrastructure upgrades
- $50 million for the South Australian Business Creditor Assistance Scheme
- $30 million for Whyalla Airport upgrade.

The Commonwealth Government is contributing $418 million to the SA Government for this initiative over the four years of the 2025-26 Budget, split between 2024-25 ($200 million) and 2025-26 ($218 million).[h]

The 2025-26 Budget notes that the Commonwealth and SA Governments previously announced $384 million (split equally) to fund the costs of operating the Steelworks during the administration period. They expect that this will fund the costs of administration for about the first six months. As it is expected that the sale of the Steelworks will take longer than six months, the 2025-26 Budget has also provisioned a further $384 million in 2025-26 for administration costs, on the basis that the Commonwealth Government will agree to continue to contribute towards half of this cost.[i]

DTF advised us that:

- administration costs and funding for future steelworks infrastructure upgrades are held in contingency and will be released as payments are needed
- a further $96 million will be budgeted in 2029-30 for the State’s future contribution to support a new owner to invest in future steelworks infrastructure upgrades.

[h] In February 2025, the Commonwealth and SA Governments announced a joint $2.4 billion package to secure the long-term future of the Whyalla Steelworks and support the Whyalla community. The Commonwealth’s contribution to the package is $1.7 billion, while the SA Government contribution is $650 million. Most of the Commonwealth’s contribution is for working with a new Steelworks owner to ensure it has a sustainable long-term future. This contribution is expected to be made directly by the Commonwealth Government to the new owner and hence is not reflected in the SA Government’s 2025-26 Budget.

[i] In July 2025 the Commonwealth and SA Governments announced that they would provide a further $275 million for the Whyalla Steelworks to continue operating as it transitions to new ownership with a plan to deliver long-term sovereign steelmaking. The additional funding follows the formal opening of the sale process in June 2025. <https://www.minister.industry.gov.au/ministers/timayres/media-releases/backing-workers-through-whyalla-steelworks-sales-process>.

Risk insight

In addition to the Whyalla Steelworks support package in the 2025-26 Budget, the SA Government has provided support to other businesses since the Budget was released, including Nyrstar ($55 million contribution to Port Pirie strategic response package)[j] and Bedford Group ($15 million secured loan).[k]

There are risks that need to be considered when providing government assistance to businesses, including:

- it may encourage poor business management practices if businesses believe the government will rescue them from failure
- funds may be diverted from government services to provide it
- assistance packages may lack clear pathways to profitability or sustainability, making it difficult to justify public expenditure.

Government support provided to businesses should be tied to clear restructuring plans and performance benchmarks.

3.2.2 The Hydrogen Jobs Plan has been deferred

The 2025-26 Budget explains that the SA Government has deferred implementing its Hydrogen Jobs Plan. DTF advised us that:

- the timeline for deferral of the Hydrogen Jobs Plan, including when the project is expected to restart, is dependent on the outcome of the sale process for the Whyalla Steelworks
- hydrogen will be a key component for the transformation to green iron and steel production and the State will need to work closely with any successful purchaser in relation to hydrogen requirements
- no budget is held for the deferred project and new budget funding will have to be sought for any future expenditure.

The 2025-26 Budget includes $4 million for closing out the Hydrogen Jobs Plan project. This involves overseeing the sale of four hydrogen-capable gas turbines owned by the SA Government and managing the turbine contract, including costs for logistics, storage and insurance.

---

[j] DTF advised us that the Commonwealth and SA Governments committed to a joint $93 million Port Pirie Strategic Response package, with funding commitments of $38 million from the Commonwealth Government and $55 million from the SA Government. The combined support package, coupled with investment from the company, aims to enable Nyrstar to maintain its operations while progressing detailed engineering plans to potentially rebuild and modernise its smelters and, at the same time, fast track feasibility studies into critical metals production.

[k] DTF advised us that the SA Government's support package to the Bedford Group announced in July 2025 is a $15 million secured loan and will see the SA Government purchase the Bedford Group's Balyana property.

3.3 SA Health expenditure

3.3.1 SA Health's total actual expenditure is consistently higher than its original budget

SA Health's actual total expenditure was 10% or more above its original budget between 2021-22 and 2023-24. The 2025-26 Budget estimates its total expenditure will be 8% above its original budget in 2024-25.[l]

Actual total SA Health expenditure increased by $1.7 billion between 2021-22 and 2024-25, with average annual growth of 7.4%. The 2025-26 Budget estimates that it will only grow by $467 million between 2025-26 and 2028-29, with average annual growth of 1.7%. This forecast represents a significant reduction in expected expenditure growth compared to recent actual historical trends.

3.3.2 SA Health activity continues to grow well above the historical trend

The 2025-26 Budget includes a sustainable and efficient health system initiative ($1.7 billion) that provides funding to address the increasing levels of demand experienced across the public health system and the higher cost of service delivery across local health networks.

Demand for public health services, based on national weighted activity units,[m] is expected to have grown by more than 4.5% in 2024-25. This follows estimated growth above 4% in 2022-23 and 2023-24. This is well above the historical trend growth of 2% per annum assumed in the 2024-25 Budget forecasts and other recent budgets.

DTF advised us that:

- the main drivers behind the additional activity in 2024-25 are multi-faceted and involve increases in separations (episodes of care) and acuity/complexity of patients
- most of the growth was in outpatient activity, sub-acute maintenance care and admitted inpatient activity
- about 60% of the additional funding provided to SA Health in 2024-25 for the sustainable and efficient health initiative was for increased demand and additional activity growth
- from 2025-26, activity growth is budgeted to revert to the long-term historical trend of 2% per annum.

[l] This is based on the 2024-25 estimated result for the Department for Health and Wellbeing in the Agency Statements (Budget Paper 4, Volume 3), as the final actual budget outcome was not available at the time of this report. The Department for Health and Wellbeing's actual total 2024-25 expenses in its annual financial statements were $754 million (8%) more than its original budget.

[m] Demand for health services is based on a weighted activity measure that considers both volume and complexity of patient treatments, called the national weighted activity unit.

Risk insight

The SA Health Winter Demand Plan 2025[3] and SA Health Regional Aged Care Strategy 2021–2025[4] note:

- South Australia has one of the oldest populations in Australia, and older individuals typically require more complex and frequent healthcare
- many older South Australians are experiencing long waits for aged care placement, leading to extended hospital stays and delays in discharges, which contribute to overcrowding and increased demand on hospital resources
- seasonal surges in respiratory illnesses like influenza, COVID-19, and Respiratory Syncytial Virus have placed further strain on hospital capacity
- despite expanding bed capacity and introducing virtual and urgent-care clinics, the demand for health care continues to outpace supply. The health system is still adapting to the long-term impacts of the COVID-19 pandemic and broader demographic shifts.

South Australia's resident population growth rate in recent years is also higher than the State's long-run average,[5] likely impacting public hospital weighted activity growth. Forecasts of weighted activity need to consider these emerging trends, particularly where there is evidence of sustained activity growth higher than experienced historically.

3.3.3 Revised SA Health savings targets expected to exceed forecast net operating balance surpluses by 2028-29

SA Health's savings targets total $1.3 billion over the four years of the 2025-26 Budget, which is 76% of total general government savings of $1.7 billion. This compares to SA Health savings totalling $1.1 billion over the four years of the 2024-25 Budget. Figure 3.2 shows SA Health's savings targets as advised to us by DTF.

Figure 3.2: Summary of SA Health's savings targets

	2024-25 $million	2025-26 $million	2026-27 $million	2027-28 $million	2028-29 $million
Savings targets in 2024-25 Budget	105	198	316	460	-
Re-profile of savings targets	-105	-108	-76	-13	-
Revised savings targets in 2025-26 Budget	-	90	240	447	563

DTF advised us that SA Health did not achieve its 2024-25 savings target of $105 million, mainly due to increased demand for public health services and the higher cost of service delivery experienced across all local health networks.

Risk insight

SA Health's savings targets progressively increase over the four years of the 2025-26 Budget. The savings target ($563 million) will exceed the estimated net operating surplus for the general government sector ($315 million) by 2028-29. This highlights the importance of SA Health meeting its savings targets so that forecast net operating surpluses are achieved, particularly in the later years of the forward estimates.

Over half of the total funding for new expenditure initiatives in the four budgets from 2022-23 to 2025-26 relates to SA Health (53% or $7.7 billion).

3.3.4 SA Health's budget target is now aiming to achieve a sustainable growth rate rather than national efficient price

In our previous State finances reports, we noted that the planned time frame for achieving the national efficient price (NEP) was repeatedly delayed over several consecutive Budgets. DTF advised us that:

- the NEP increased substantially in 2025-26 (12.3%), reflecting the NEP catching up to actual costs experienced across the health system nationally in previous years
- South Australia's performance against the NEP based on the latest available data for national weighted activity units is 115%, which is a slight improvement on recent years
- South Australia performed closer to the NEP than all other states, except Queensland (107%) and New South Wales (112%).[n]

SA Health's budget targets now reflect the broader objective of increasing operational efficiency to achieve a sustainable rate of growth in overall health expenditure across the forward estimates, rather than achieving NEP.

Risk insight

SA Health will face challenges in achieving its expenditure forecasts in the 2025-26 Budget, given public hospital activity continues to grow well above the historical trend growth assumed in recent budgets and difficulties SA Health has had in improving the efficiency of its service delivery to achieve savings targets.

Given this risk, robust monitoring and evaluation frameworks are needed to inform assessments of whether SA Health initiatives and programs are improving the quality, sustainability and efficiency of the South Australian public health system. This includes understanding the root causes for the system's consistent budget overruns. DTF advised us that:

- it continues to work closely with Department for Health and Wellbeing and the local health networks on the oversight of budget improvement and system efficiency plans

[n] The performance of South Australia and other states against NEP is based on the latest available 2021-22 data released by the Independent Health and Aged Care Pricing Authority.

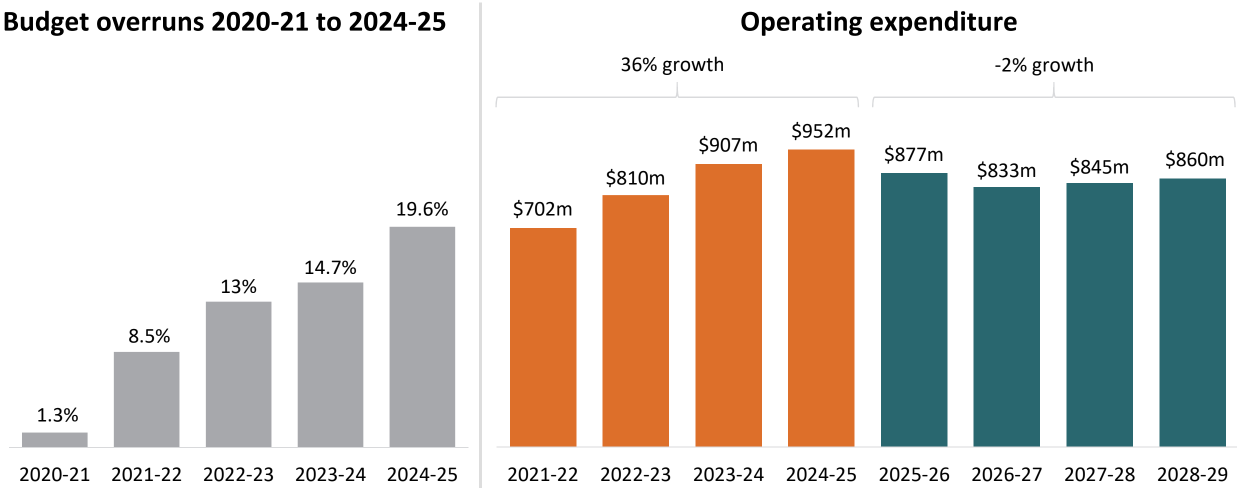
- plans to achieve budget improvement targets in 2025-26 have been created and it will continue to monitor the implementation of these plans through joint governance processes with SA Health, in addition to regular financial reporting processes
- there are many key indicators and performance measures, both qualitative and quantitative, that are collected by SA Health and shared with DTF through joint governance processes to monitor progress against the objective of achieving a quality, sustainable and efficient public health system.[o]

3.4 Department for Child Protection expenditure

3.4.1 Department for Child Protection continues to face challenges meeting its budget

Figure 3.3 shows recent significant unfavourable variations between the Department for Child Protection's original budget and actual total expenditure, trending at or above 8.5% since 2021-22 and estimated to reach almost 20% in 2024-25.

Figure 3.3: Overview of Child Protection's operating expenditure in the 2025-26 Budget[p]



Department for Child Protection expenditure increased by $250 million (36%) between 2021-22 and 2024-25. This includes an extra $129 million provided in the 2024-25 MYBR and $19 million in the 2025-26 Budget for additional resources for Out of Home Care in 2024-25.

The 2025-26 Budget does not forecast that this trend will continue. It estimates that total Department for Child Protection expenditure will decrease by 8% between 2024-25 and 2025-26. It is expected to decrease further in 2026-27 before increasing marginally in 2027-28 and 2028-29.

---

o See 'SA Health overview' in the Auditor-General's Report 8 of 2025 *Annual report for the year ended 30 June 2025: Part C Agency audits – October 2025* for more about SA Health's 2024-25 budget performance and activity.

p The amounts presented in figure 3.3 reflect total expenses for the Department for Child Protection in the Agency Statements (Budget Paper 4, Volume 1), excluding payments to the SA Government. The estimated result from the Agency Statements is shown for 2024-25, as the final actual budget outcome was not available at the time of this report. The Department for Child Protection's actual total 2024-25 expenses in its annual financial statements were $175 million (22%) more than its original budget.

DTF advised us that the decline in funding between 2024-25 and 2025-26 reflects the implementation of service optimisation. This funding support phases down over the forward estimates as the impact of the service optimisation review is expected to take effect. See section 3.4.2 for more about the service optimisation review.

DTF also advised us that the main assumptions in the 2025-26 Budget include:

- minimum growth in the number of children and young people in care, reflecting the relatively stable number of placements in recent years
- increasing the percentage of placements in family-based care compared to the total number of placements in care, reflecting the Department for Child Protection's focus to grow family-based care[q]
- continuing specialist residential care services, such as supported independent living placements to help transition young people to independent living and funding of specialist disability placements for high-needs children and young people.

Risk insight

There is a risk that the Department for Child Protection may need considerable additional funding in 2025-26 and across the forward estimates if:

- the placement mix between family and non-family-based care is more in line with recent trends than these assumptions
- the root causes of budget overruns are not effectively identified and addressed by the implementation of service optimisation.

3.4.2 The service optimisation review for the Department for Child Protection is ongoing

The 2025-26 Budget notes that the Department for Child Protection is continuing its review and implementation of service optimisation to ensure that its services are being delivered effectively and efficiently. The Department for Child Protection is actively committed to supporting family-based carers and continues to focus on increasing the number of children and young people being cared for in a family-based environment.[6]

DTF advised us that it is continuing to work with Department for Child Protection to explore options and monitor progress of initiatives to improve service provision and effectively manage the financial resources available to the Department. This includes initiatives such as the Finding Families and Additionally Approved Care programs in the 2025-26 Budget, which aim to place more children and young people in family-based care. There is currently no completion date for the service optimisation review as the work plan will continue while there are still identified opportunities for improvements.[r]

---

[q] The average cost per child is significantly higher for non-family-based care than for family-based care, which makes placement mix an important cost driver for child protection services. See 'Department for Child Protection' in the Auditor-General's Report 8 of 2025 *Annual report for the year ended 30 June 2025: Part C Agency audits – October 2025* for more about child protection services expenditure.

[r] See 'Department for Child Protection' in the Auditor-General's Report 8 of 2025 *Annual report for the year ended 30 June 2025: Part C Agency audits – October 2025* for more about the Department for Child Protection's 2024-25 budget performance and activity.

3.5 Employee expenses

3.5.1 Meeting SA Health and Department for Education FTE targets is important to achieve forecasts for employee expenses

Total estimated FTEs for 2024-25 in the 2025-26 Budget (97,074) are 2,047 FTEs (2.2%) more than originally estimated in the 2024-25 Budget. This follows higher actual than estimated FTEs in 2023-24 (3.2%), 2022-23 (3.3%) and 2021-22 (4.1%).

General government sector employment levels are expected to gradually increase by 3,698 FTEs over the four years of the 2025-26 Budget, from 98,689 in 2025-26 to 102,387 in 2028-29. This reflects an average increase in FTEs of 1.3% each year.

Risk insight

FTE projections are fundamental to employee expense budget forecasts. If they are not realistic and accurate, the risk of employee expense budget overruns increases.

Nearly 70% of general government sector FTEs are employed by SA Health and the Department for Education. This highlights the importance of meeting SA Health and Education FTE targets in achieving the total general government sector budget for employee expenses.

3.5.2 Increases in FTEs from new policy measures are mainly for SA Health and South Australia Police

The FTE impacts of the new policy measures in the 2025-26 Budget are shown in figure 3.4.

Figure 3.4: Estimated FTE impacts of 2025-26 Budget measures[s]

	2025-26 FTE impact	2026-27 FTE impact	2027-28 FTE impact	2028-29 FTE impact
Total FTE impact of new policy measures	**867**	**927**	**995**	**1,088**
SA Health	590	587	580	559
Police	36	148	267	384
Other agencies	241	192	148	145

Source: Government of South Australia, 2025-26 Budget Paper 3 *Budget Statement*, Table 2.9 and audit calculation using data from 2025-26 Budget Paper 5 *Budget Measures Statement*.

The increase in FTEs from the 2025-26 Budget policy measures is mostly due to new initiatives in SA Health, particularly for:

- the sustainable and efficient health system initiative (502 additional FTEs in each of the four years of the Budget)
- establishing a statewide cancer network (40 to 60 FTEs across the four years).

[s] The FTE impact in figure 3.4 reflects the number of additional FTEs funded each year by the new policy measures and is not cumulative across the four years of the 2025-26 Budget.

It is also due to additional FTEs in SA Police, mainly for the:

- additional police officers initiative – six FTEs in 2025-26 rising to 213 FTEs in 2028-29
- regional police security officers initiative – 36 FTEs in 2026-27 rising to 100 in 2028-29.

3.5.3 Wage negotiations occurring after a period of high inflation creates challenges for achieving employee expense forecasts

The 2025-26 Budget indicates that the outcomes of wage negotiations will be crucial in determining whether expenditure forward estimates in the 2025-26 Budget can be achieved and the planned level of government services can be delivered. It also notes that wage negotiations will continue or start in 2025-26 for a range of employee groups. Figure 3.5 highlights the significance of the wage negotiations.

Figure 3.5: Wage negotiations that are continuing or starting in 2025-26 for general government sector employees

$8.6 billion
total estimated wage base

79%
of estimated total employee expenses in the 2024-25 Budget

73%
of total general government sector employees

$456 million
estimated budget impact in 2028-29 if public sector-wide wage outcomes for new enterprise agreements vary by 1% p.a. from allowances in the forward estimates

Source: 2025-26 Budget Paper 3 Budget Statement and information provided by DTF.

DTF advised us that as a proportion of the total general government sector workforce, South Australian public sector salaried employees (35%), nursing/midwifery employees (17%) and South Australian public sector weekly paid employees (7%) are the most significant employee groups subject to wage negotiations in 2025-26. Salaried medical officers represent 3% of the total workforce, but 12% of the total estimated employee expenses.

The 2025-26 Budget provides for anticipated wage increases from enterprise agreement outcomes over the forward estimates, both in individual agency budgets and the total contingency items in DTF's administered items.

Risk insight

The recent high-inflation environment and cost-of-living pressures will create challenges for the SA Government in negotiating wage agreements to meet its employee expense forecasts in the 2025-26 Budget. The Adelaide Consumer Price Index increased by 7.9% in 2022-23 and 4.9% in 2023-24.[7] This is likely to influence wage increases sought through enterprise bargaining negotiations.

3.6 Monitoring budget programs and initiatives

3.6.1 Robust performance monitoring is required for existing budget programs to inform decision making

New operating expenditure initiatives represent no more than 4% of total expenses in each of the four years of the 2025-26 Budget, while existing programs and initiatives account for at least 96%. This shows the importance of monitoring existing Budget programs, as they represent the vast majority of budgeted expenditure. The agency statements in the 2025-26 Budget (Budget Paper 4) present performance and activity indicators with targets for existing programs.

Risk insight

Many of our previous reports[8] have highlighted significant scope to improve the performance monitoring and evaluation of SA Government programs, including ensuring that relevant and reliable data and sound performance measures are used to assess whether programs are achieving intended objectives. It is important to evaluate the efficiency and effectiveness of existing programs as part of managing the Budget, to inform decisions on whether programs should be continued, expanded or ceased.

4 Revenue

4.1 Grant revenue

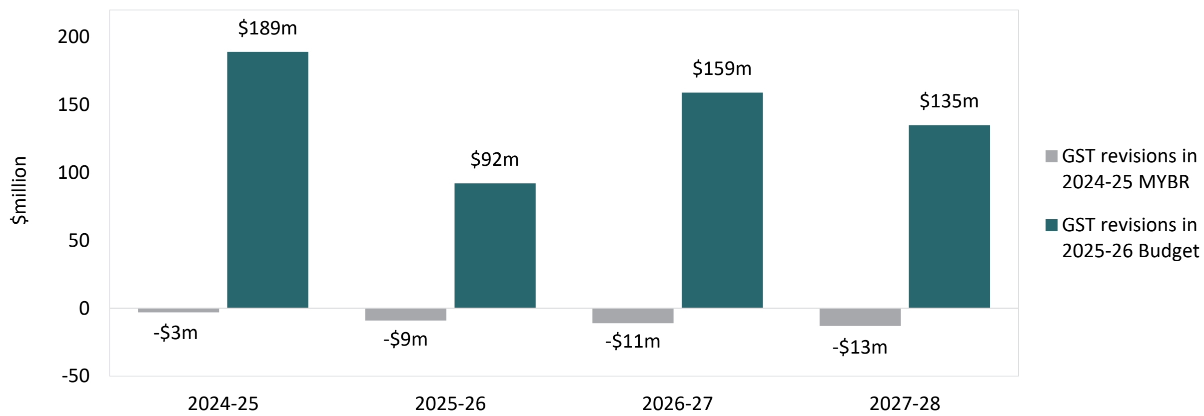
4.1.1 South Australia is highly reliant on Commonwealth Government grant revenue

Commonwealth Government grant revenue is expected to represent about 56% of total revenue over the four years of the 2025-26 Budget. Over half of this revenue relates to GST revenue grants. Given the significance of Commonwealth grant revenue to South Australia's revenue base, future trends in Commonwealth Government grant revenue, particularly GST revenue, will be critical to the SA Government's ability to generate operating surpluses and pay down its significantly increased net debt.

4.1.2 Volatility in GST receipts owing to changing economic conditions

GST revenue is the largest component of South Australia's revenue base and is expected to represent about 30% of total revenue between 2025-26 and 2028-29. It was revised up by a net total of $539 million in the 2024-25 MYBR and 2025-26 Budget, as shown in figure 4.1.

Figure 4.1: GST revenue revisions in the 2024-25 MYBR and 2025-26 Budget



Total revisions made since the 2024-25 Budget	$186 million	$83 million	$148 million	$122 million

This is due to changes in the size of the national GST pool and South Australia's share of the pool since the 2024-25 Budget, as shown in figure 4.2.

Figure 4.2: Factors contributing to GST revenue revisions in the 2024-25 MYBR and 2025-26 Budget

Source: Information provided by DTF.

South Australia’s GST revenue grants were revised up, mainly due to a larger national GST pool in the Commonwealth Government’s 2025-26 Budget compared with its 2024-25 Budget forecasts. This reflects the outlook for national consumption and dwelling investment.

Risk insight

The size of the national GST pool is impacted by the amount of GST collected across Australia. It is directly influenced by national trends in consumer spending and housing construction and is therefore subject to volatility based on changes in the Australian economy.

There are several factors that could adversely impact national economic conditions, including ongoing geopolitical tensions and conflicts and prolonged uncertainty about international trade policies. These factors pose risks to global investment and subsequently economic growth.

The 2025-26 Budget indicates that 1% lower growth in the GST pool than expected would reduce revenue for South Australia by about $90 million per annum.

The Commonwealth Grants Commission determines each state’s share of the pool in line with current Horizontal Fiscal Equalisation principles.[t] South Australia’s total share of the national GST pool is expected to trend downwards from 2024-25, as shown in figure 4.3.

Figure 4.3: South Australia’s estimated GST grants share from 2024-25 to 2028-29

2024-25	2025-26	2026-27	2027-28	2028-29
10.1%	10%	9.8%	9.2%	8.8%

Source: Information provided by DTF. Includes estimated ‘no worse off guarantee’ payments from the Commonwealth Government.

The 2025-26 Budget notes the decline in South Australia’s grant share reflects expected moderation in mining royalty revenue growth in other jurisdictions, changes in South Australia’s share of Commonwealth Government infrastructure grant funding and relative population growth in South Australia.

[t] The principles underlying the Commonwealth Grants Commission’s assessment of per capita relativities, which are the basis for the interstate distribution of GST revenue. Under these principles, GST revenue grants are distributed to give each state and territory the capacity to provide public services at an average standard and level of efficiency, for comparable revenue effort. This is sometimes referred to as full Horizontal Fiscal Equalisation. Since 2021-22 the distribution of GST revenue has been transitioning to new arrangements that aim to ensure each state or territory has the capacity to provide services at the standard of New South Wales or Victoria (whichever is greater).

Risk insight

The Commonwealth Grants Commission considers multiple factors in recommending updated annual GST distribution shares to the Commonwealth Government each year, including population growth forecasts, growth in taxable wages and salaries and conveyance duties, mining royalty revenue growth and the state's share of other Commonwealth Government payments. This creates challenges for DTF to accurately make GST forecasts and can lead to significant upward and downward revisions in annual budget and MYBR cycles.

4.1.3 The 'no worse off guarantee' under GST distribution transitional arrangements will end in 2029-30

New arrangements for distributing the national GST pool to the states started in 2021-22 and were initially introduced over a six-year transitional period. Under these arrangements, states are equalised based on the fiscal capacity of New South Wales or Victoria, depending on which has a higher fiscal capacity in each year.

A legislated 'no worse off guarantee' ensures that, cumulatively, no state will receive a lower GST share than it would have received under the previous distribution arrangement. Without the 'no worse off guarantee', South Australia's Budget estimates that its GST revenue would be $487 million lower in 2025-26.[9]

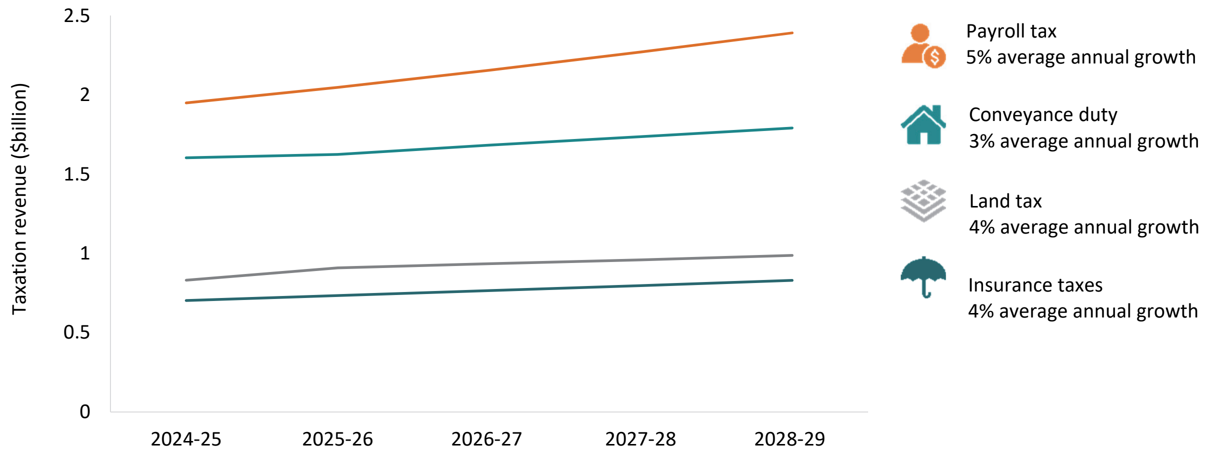
The National Cabinet agreed in December 2023 to extend the 'no worse off guarantee' under the new distribution system transitional arrangements from 2026-27 to 2029-30. The Productivity Commission will perform an inquiry into whether the changes to the fiscal equalisation arrangements are operating efficiently, effectively and as intended by the end of 2026. The inquiry will also examine the fiscal implications of the new arrangements for states.[10]

4.2 Taxation revenue

4.2.1 Forecast increases in taxation revenue are mainly due to payroll tax, conveyance duty and land tax

Taxation revenue as a proportion of total revenue is expected to remain steady at 23-24% over the four years of the 2025-26 Budget. It is forecast to grow annually by an average of 3.6% between 2024-25 and 2028-29, increasing by $1.1 billion from an estimated $7 billion in 2024-25 to $8.1 billion in 2028-29. Forecast increases in taxation revenue are mainly due to payroll tax ($442 million), conveyance duty ($188 million) and land tax ($157 million). Figure 4.4 shows the key taxation revenue trends.

Figure 4.4: Key taxation revenue trends from 2024-25 to 2028-29



The forecast rate of growth shown in figure 4.4 is much lower than that experienced between 2019-20 and 2023-24, when average annual growth for total taxation revenue was 10.1%. This was mainly due to growth in payroll tax (49%), conveyance duty (79%) and gambling taxes (96%) in this period.

4.2.2 Payroll tax forecasts assume continuing wages and employment growth

Payroll tax is the largest source of taxation revenue. It is expected to grow consistently by 5% each year in the four years to 2028-29, rising from an estimated $2 billion in 2024-25 to $2.4 billion in 2028-29. Forecast payroll tax revenue estimates are based on estimated growth in employment and earnings in South Australia. Employment is forecast to grow by 1% each year from 2024-25 to 2028-29,[11] with assumed average wages growth of 3.5% per annum.

> **Risk insight**
>
> Employment or wages growth may be lower than assumed in the 2025-26 Budget if there is an unexpected worsening in economic conditions impacting the labour market. This would flow through to downward revisions to payroll tax revenue.

4.2.3 Growth in conveyance duty expected to return to longer-term trends

Conveyance duty is expected to grow by an average of 3% per annum over the forward estimates, rising from $1.6 billion in 2025-26 to $1.8 billion in 2028-29. The 2025-26 Budget notes that this reflects stronger than expected growth in residential property prices and transactions. It indicates that based on conveyance duty collections, the average residential property price was projected to increase by 10% in 2024-25. It is assumed that residential property price growth will return to its long-term average of 3% per annum from 2025-26.

Risk insight

Conveyance duty revenue is affected by local property market variations, including property price growth rates and transaction volumes. Trends in property market values and activity levels can be difficult to predict. For example, the return to long-term average growth in residential property prices was assumed in several recent budgets, but price growth has continued to be higher than expected. This contributes to significant volatility in conveyance duty collections.

4.2.4 No new revenue raising measures limits budget flexibility

The 2025-26 Budget introduced two non-taxation revenue measures, which reduce the net operating balance by a total of $117 million between 2025-26 and 2028-29. This is larger than the impact of total new revenue measures in the 2024-25 Budget, which reduced the net operating balance by $18 million.

The two revenue measures in the 2025-26 Budget continue the $200 reduction in the materials and services charge for government school students and permanently reduce the price of metroCARD student 28-day passes.

Risk insight

No new policy measures for raising revenue in the 2025-26 Budget removes one potential avenue for achieving net operating surpluses if prevailing economic conditions do not drive forecast revenue increases or expenditure growth is greater than expected.

As interest costs are increasing significantly, no new policy measures for raising revenue also means less funding may be available for service delivery.

5 Capital program

5.1 Non-financial public sector capital program

5.1.1 The scale of the NFPS capital program continues to increase

The NFPS capital program[u] is $27.3 billion over the four years of the 2025-26 Budget, an increase of $1.7 billion compared to the four years of the 2024-25 Budget. This increase is mainly due to higher expenditure expected in 2028-29 compared to 2024-25 for the T2D project and the new Women's and Children's Hospital.

The expanded capital program will see land and fixed assets increase by $18.8 billion between 30 June 2025 and 30 June 2029. Figure 5.1 shows the purchases of non-financial assets for the NFPS over the 10 years to 2028-29 compared to the asset replacement ratio.[v]

Figure 5.1: NFPS purchases of non-financial assets from 2019-20 to 2028-29

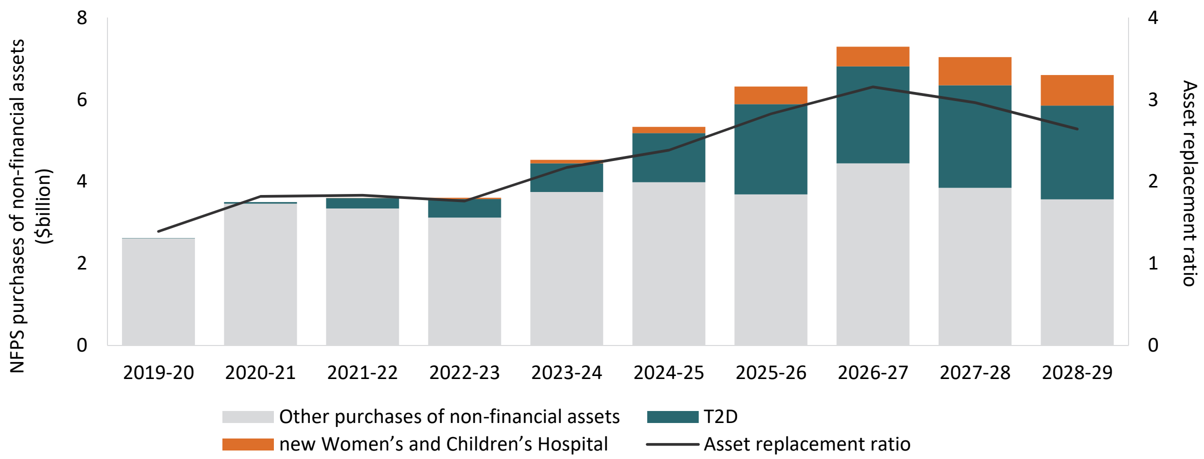


Figure 5.1 shows that purchases of non-financial assets for the NFPS over the four years of the 2025-26 Budget are substantially higher than previous years, mainly due to the T2D project and new Women's and Children's Hospital which form an increasingly significant component over the forward estimates period.

Figure 5.1 also highlights that since 2019-20 the asset replacement ratio is generally trending higher, rising to two or more from 2023-24 onwards. The ratio declines from 2027-28 reflecting a decrease in purchases of non-financial assets in those years. The ratio indicates that the SA Government has spent or expects to spend more on replacing and renewing assets each year than the consumption of assets through depreciation.

[u] The capital program is referred to as investing expenditure in the Budget papers and comprises the State's current and planned infrastructure projects.

[v] The asset replacement ratio compares capital expenditure to depreciation to assess whether assets are being consumed at a rate consistent with their replacement. Ratios higher than 1:1 indicate that assets are being replaced faster than they are consumed.

The NFPS capital program also includes $2.4 billion over the four years of the 2025-26 Budget (9% of the total NFPS capital budget) that was allocated to an 'other' category.[12] This includes contingency provisions that are allocated to specific capital projects and general contingencies.[w] The portion allocated to general contingencies provides the SA Government some flexibility over the nature and timing of its capital program.

5.1.2 Repairs and maintenance expenditure is projected to grow at a lower rate than the SA Government's fixed asset base

Infrastructure Australia states that there is evidence of a growing imbalance between capital expenditure and asset maintenance and renewals across jurisdictions, with capital expenditure becoming more prominent. It notes this as a significant concern for the long-term ability of governments to manage their existing asset bases and the continued ability of infrastructure assets to serve community needs.[13]

General government sector repairs and maintenance expense is projected to grow at an average of 1.2% per year over the four years of the 2025-26 Budget, which is significantly less than the average growth in fixed assets each year of 5.2%.

Infrastructure SA notes that it is important that the SA Government maximises the value of its existing infrastructure by maintaining assets strategically. It also reports:

- South Australia has an ageing infrastructure base that has experienced a lack of investment in maintenance and renewal and gaps in data collection
- maintenance planning is often reactive, short-term and insufficient.[14]

Risk insight

Infrastructure SA notes that research indicates two thirds of the total cost of an asset generally occurs after it is built or acquired.[15] Recent increases in capital expenditure for new infrastructure assets are likely to drive long-term growth in costs to maintain and optimise the SA Government's expanding asset base. Infrastructure Australia recommended that governments ensure a more sustainable investment mix by focusing on better use, maintenance and renewal of existing infrastructure alongside potential new investments.[16]

We noted that there are opportunities to improve asset condition data and information for large agency asset portfolios.[17] A lack of quality, accurate and consistent asset data and information creates challenges in understanding risks, determining the extent or cost of maintenance needs and allocating resources efficiently.[18]

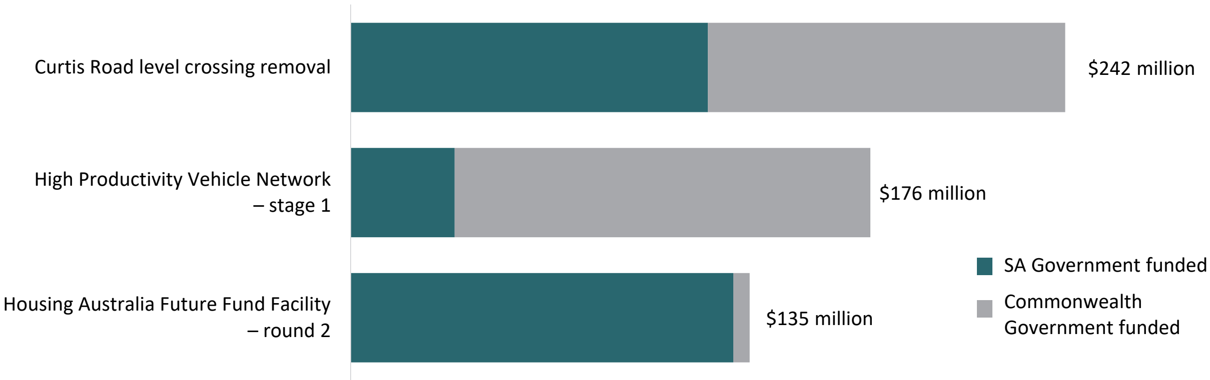
[w] This amount also includes capital programs for small agencies, a capital slippage provision and consolidation adjustments to eliminate inter-agency transactions and recognise contributed assets.

5.2 New capital expenditure initiatives

5.2.1 New capital expenditure initiatives are lower than the 2024-25 Budget

New capital expenditure initiatives in the 2025-26 Budget total $1.1 billion[x] (4% of the NFPS capital program) and are mainly for the Department for Infrastructure and Transport (48%). Figure 5.2 shows the largest new capital expenditure initiatives in the 2025-26 Budget.

Figure 5.2: Major new capital expenditure initiatives in the 2025-26 Budget from 2024-25 to 2028-29



New NFPS capital expenditure initiatives in the 2025-26 Budget are $593 million (35%) lower than in the 2024-25 Budget.

5.2.2 High productivity vehicle network project scope and funding currently under negotiation with the Commonwealth Government

Stage 1 of the High Productivity Vehicle Network project will deliver upgrades between the Swanport Bridge on the Princes Highway and Truro on the Sturt Highway to enable high productivity vehicles to bypass metropolitan Adelaide. The current budget for this initiative is $656 million, with $480 million allocated beyond the forward estimates. The 2025-26 Budget indicates that this initiative will be funded in partnership with the Commonwealth Government on an 80:20 basis.

DTF advised us that:

- the Commonwealth Government committed $525 million towards stage 1 of the High Productivity Vehicle Network project, being 50% of the project cost estimated at $1.1 billion

[x] New capital expenditure initiatives of $1.1 billion exclude expenditure for new initiatives allocated to the Urban Renewal Authority for Onkaparinga Heights ($10 million), Playford Alive East ($153 million) and Southwark Master Plan ($104 million), as this expenditure is classified as inventories and is not included in capital investment.

- consistent with the State's view, this project is nationally significant and should be funded by the Commonwealth Government on an 80:20 basis. The SA Government approved a contribution of 20% towards a scope of works with a reduced total project cost of $656 million as part of the 2025-26 Budget
- the exact scope of works to be delivered within the approved project budget of $656 million is still being developed by the Department for Infrastructure and Transport
- the SA Government will reconsider its contribution should the Commonwealth Government agree to fund the entire stage 1 scope on an 80:20 basis
- discussions with the Commonwealth Government seeking its agreement to fund the project on an 80:20 basis are continuing
- the total cost of the entire High Productivity Vehicle Network project scope outlined in the business case submitted to Infrastructure Australia is about $2 billion.

5.2.3 Commonwealth Government availability payments for 232 social housing outcomes to be received from 2028-29

The Housing Australia Future Fund Facility – Round 2 initiative involves the SA Government delivering 232 social housing outcomes. The SA Government will fund the construction of the new social housing with the Commonwealth Government providing availability payments of $4.2 million per annum (indexed) from 2028-29 to 2052-53.[y] DTF advised us that the only condition on the receipt of the availability payments is that the dwellings constructed remain owned by the South Australian Housing Trust for the life of the availability payments.

5.3 Major capital projects

5.3.1 The T2D project and new Women's and Children's Hospital make up over 40% of total capital expenditure

Figure 5.3 details the capital projects with the most investing expenditure over the four years of the 2025-26 Budget.

[y] Availability payments are made by the Commonwealth Government to help close the gap between the cost of developing, supplying and maintaining the social housing and the rent received from tenants.

Figure 5.3: Major capital project expenditure over the four years of the 2025-26 Budget[z] [aa]

$9.4 billion
North-South Corridor T2D project

$2.3 billion
New Women's and Children's Hospital

$1 billion
SA Water growth infrastructure

$367 million
Flinders Medical Centre upgrade and expansion

$330 million
New Mount Barker Hospital

$292 million
Marion Rd – ANZAC Highway to Cross Rd

$288 million
Public housing modernisation

$251 million
Tea Tree Gully sustainable sewers program

The T2D project and new Women's and Children's Hospital account for 43% of the total NFPS capital program in the 2025-26 Budget. There are no revisions to the estimated cost or time frames in the 2024-25 MYBR or 2025-26 Budget for these two projects.

The total estimated project cost for the T2D project in the 2025-26 Budget is $15.4 billion with an estimated completion date of December 2031. The new Women's and Children's Hospital is expected to be completed in June 2031 with an estimated total project cost of $3.2 billion.

DTF advised us that:

- costings for both projects are regularly reviewed throughout their project life
- there are no drawdowns from project contingency for the T2D project to date and the project is currently tracking on time and budget
- a new design team was appointed for the new Women's and Children's Hospital and it is currently in the concept design phase. Once complete, the concept design report will provide more detail upon which the project's scheduled program timing and cost estimates will again be assessed.

Both projects have significant capital expenditure allocated beyond the forward estimates. DTF advised us that the estimated expenditure beyond the forward estimates is $3.3 billion for the T2D project and $597 million for the new Women's and Children's Hospital.

---

[z] Includes amounts held in contingencies for these projects.

[aa] The SA Water growth infrastructure project involves building water and wastewater infrastructure to enable 11,000 new homes to be built in Virginia, Riverlea, Angle Vale, Roseworthy, Two Wells, Gawler East, Blakeview, Eyre and Onkaparinga Heights.

The project cost for the new Mount Barker Hospital was revised up

The 2025-26 Budget includes an additional $45 million to support the delivery of the new Mount Barker Hospital. The revised total project cost for the new Mount Barker Hospital is $366 million, $146 million (66%) more than the original project cost included in the 2022-23 Budget. DTF advised us that the increase in project costs is mainly driven by cost escalations.

The Eyre Peninsula Desalination Plant cost increased after the 2025-26 Budget

In July 2025 the SA Government announced a revised total project cost of $470 million for the Eyre Peninsula Desalination Plant, up from $330 million in the 2025-26 Budget. The project completion date was also revised from June 2027 to December 2026. With the update to the project cost, $346 million of investing expenditure is now expected to be incurred for this project over the four years of the 2025-26 Budget.

DTF advised us that the increase in the project cost was due to changes to its scope and design to satisfy regulatory requirements and external obligations for the marine infrastructure, construction cost inflation and cost escalations. DTF also advised us that the increased expenditure would be met from the South Australian Water Corporation's (SA Water's) approved capital expenditure for the current regulatory period, with no impact on net debt.

5.4 Key capital program risks

5.4.1 There continues to be a large pipeline of infrastructure projects across Australia and constraints on construction capacity

There is a large pipeline of infrastructure projects across Australia, including in South Australia. The Australian Bureau of Statistics data indicates that the value of building work in the pipeline and engineering construction work yet to be done in South Australia is at or near record levels at 30 June 2025.[19]

Infrastructure Australia reported that infrastructure demand remains high and several market capacity constraints are inhibiting the sector's ability to deliver projects on time and on budget, including skills shortages, material costs and stagnating productivity growth.[20] Infrastructure Australia notes the:

- demand for labour for public infrastructure projects continues to exceed supply
- industry reports that labour shortages have contributed to delays in project timelines, increased workloads for existing employees and increased costs.[21]

The 2025-26 Budget notes that labour shortages across different construction trade skills continue and are not expected to ease in the short term, resulting in longer project completion time frames and some increased costs.

5.4.2 Capacity constraints and inflationary pressures may drive significant cost escalations for South Australia's capital program

Supply chain disruptions, skilled labour shortages and increased activity driving demand for trades and materials have seen a substantial increase in construction costs over the last three years. Infrastructure Australia notes:

- the cost of construction materials continues to remain high, although the rate of growth appears to have eased over the past 12 months
- cost escalations on major infrastructure projects are largely driven by rising material cost pressures.[22]

Figure 5.4 highlights the increase in non-residential building and road and bridge construction costs currently experienced in South Australia.

Figure 5.4: Construction price indexes – South Australia – June 2015 to June 2025[23]

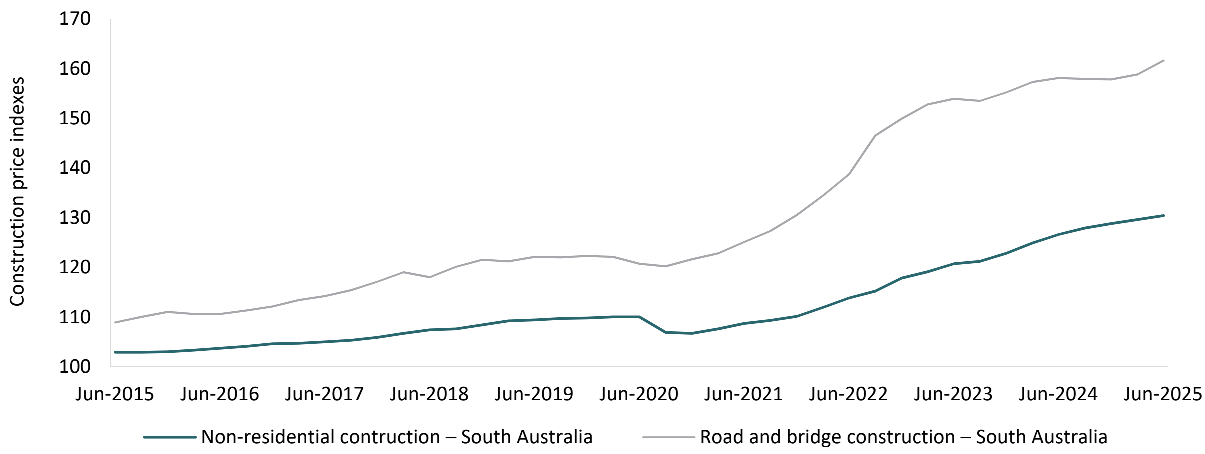


Figure 5.4 shows that in the 12 months to June 2025, construction costs have moderated compared to the last three years, with non-residential building construction costs increasing by 3% and road and bridge construction costs increasing by 2.2%. However, construction costs remain elevated compared to before the COVID-19 pandemic.

Risk insight

Infrastructure SA notes that the high level of infrastructure investment across Australia is testing the limits of the infrastructure sector's existing capabilities and capacity, challenging project time frames and driving up costs.[24] It also notes that, given the significant infrastructure pipeline and constrained market, it is important to prioritise key projects and carefully sequence them to reduce market pressure and risk.[25]

The 2025-26 Budget recognises that the current high demand for infrastructure-related labour and materials increases the risks of cost escalations for the capital program. It also notes that agency capital project estimates include prudent allowances for cost escalations. Significant increases in construction costs above the allowances provided in agency capital project estimates pose the risk of project costs exceeding budget forecasts.

Infrastructure SA notes:

- managing the increasing costs of critical construction inputs is a risk given the extended period of high government investment ahead
- delivery agencies must apply robust risk and value management approaches to maintain budgets within allocated limits, including strict contingency control and management.[26]

5.4.3 The T2D project and new Women's and Children's Hospital have greater risk exposure due to their scale and complexity

Infrastructure Australia describes projects that cost over $1 billion as megaprojects. It observed that projects across Australia are growing in scope, scale, complexity and cost, and that the number of megaprojects as a proportion of state infrastructure pipelines is also increasing.[27] This trend is also seen in South Australia, with megaprojects like the T2D project ($15.4 billion) and the new Women's and Children's Hospital ($3.2 billion) making up a significant part of the State's capital program in the 2025-26 Budget.

These major and complex infrastructure projects lead to increased risks for the SA Government's capital program. Infrastructure SA notes that big projects often have greater complexity and risk with implications for scheduling and costs. Further, their long planning horizons and complex interfaces further add to risk.[28]

Given the very large size of these projects, even small percentage budget overruns could have a significant impact on the State's overall financial position, including increased net lending deficits and net debt. Based on past experience with transport infrastructure projects in South Australia, 10% is a relatively small budget overrun. This would amount to a $1.5 billion cost increase for the T2D project.[29]

Risk insight

Infrastructure Australia notes that:

- megaprojects are inherently more complex and riskier[30]
- there is clear evidence that megaprojects often experience cost increases and delivery delays and do so to a greater degree than lower-value projects that experience overruns[31]
- increasing project scopes also drives cost in an overheated market and increases project complexity and delivery risk.[32]

These risks are already evident in the T2D project and the new Women's and Children's Hospital, with significant cost and timing revisions made to both projects in the 2022-23 MYBR.[33]

The SA Government has limited experience in managing and delivering projects of the scale and complexity of the T2D project and new Women's and Children's Hospital. These projects are more likely to face increased risks due to their size, higher complexity, longer time frames and unique characteristics.

Infrastructure Australia notes that inadequate public sector procurement expertise, including oversight of projects during delivery, can result in taxpayers being exposed to inappropriate risks or costs and compromise the achievement of intended user outcomes.[34] Proper planning, management and control of these and other large capital projects, including engaging appropriate expertise, will be critical to achieving budgeted outcomes.

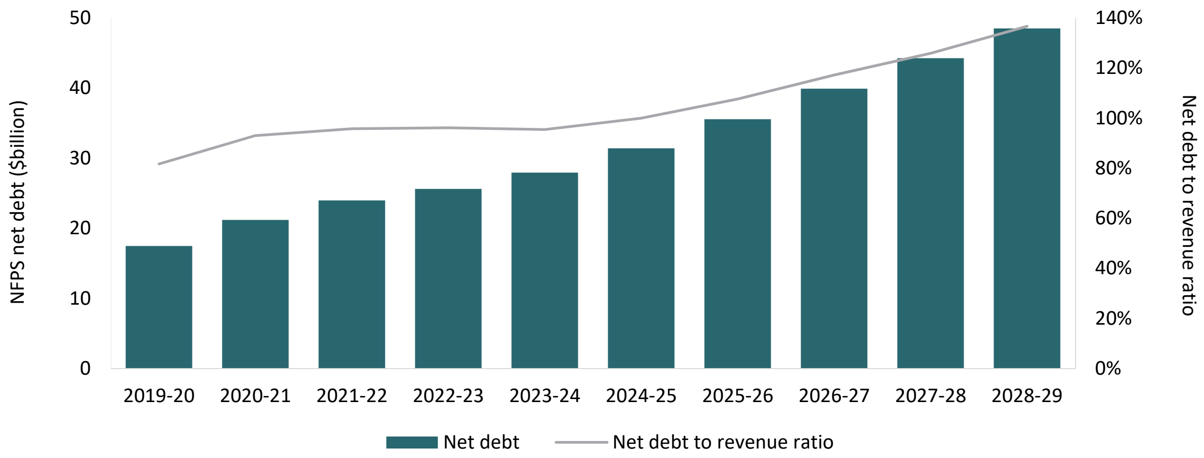
6 Net debt and interest expenses

6.1 Net debt

6.1.1 Net debt continues to rise and is forecast to reach $48.5 billion by 2029

NFPS net debt is forecast to rise by $17.1 billion over the four years of the 2025-26 Budget, reaching $48.5 billion or 137% of NFPS revenue by 30 June 2029. Figure 6.1 shows the NFPS net debt and net debt to revenue ratio over the ten years to 2028-29.

Figure 6.1: NFPS net debt and net debt to revenue ratio from 2019-20 to 2028-29



The increase in net debt over the four years of the 2025-26 Budget is due to increased borrowing to fund the SA Government's significant capital program, which includes the T2D project and new Women's and Children's Hospital.

Net debt as a percentage of revenue is the key debt affordability metric used by the SA Government to assess debt sustainability. Figure 6.1 shows South Australia's net debt is expected to increase from 82% of revenue in June 2020 to 137% by June 2029, as net debt grows faster than revenue.

6.1.2 SA Government aims to achieve sustainable net debt levels over the forward estimates

Governments access debt to fund key initiatives over the longer term that cannot be immediately funded through current revenue streams. However, if debt is not managed at a sustainable level it can pose a risk to future economic stability and prosperity.

The SA Government has set a fiscal target in the 2025-26 Budget to achieve a level of net debt that is sustainable over the forward estimates, but it has not set a quantifiable measure to assess its performance against this target. It has also not specified a time frame in which it aims to stabilise and reduce net debt, which some other states have done.[bb]

[bb] Victoria has a target to stabilise and reduce its general government net debt to GSP ratio in the medium term. Queensland has a target of stabilising its NFPS and general government sector net debt to revenue ratios in the medium term and reducing the ratios in the long term.

The Commonwealth Parliamentary Budget Office notes that there is no single agreed measure of fiscal sustainability. Judgements about fiscal sustainability relate to the longer term and are dependent on past, current and future government activity.[35] The Office views fiscal sustainability as the government's ability to maintain its long-term fiscal policy arrangements indefinitely, without the need for major remedial policy changes. This includes:

- borrowing and repaying debt while keeping taxation and spending within reasonable and expected bounds
- providing key goods and services without the need for rapid cuts to spending
- having sufficient capacity to meet investment priorities and provide support when an economic downturn occurs.[36]

Having a clear strategy for how and when projected rising levels of net debt are to be stabilised and then reduced can help governments to:

- ensure the ongoing delivery of essential services over the longer term
- prevent the need for sudden adjustments to the level of government spending
- reduce the risk of interest costs crowding out higher priorities
- ensure there is capacity to provide economic support during economic downturns and crises.

DTF advised us that:

- comparing net debt to revenue is the SA Government's key debt affordability metric and the SA Government has not publicly specified an upper limit for this measure where net debt is no longer considered sustainable
- the SA Government assesses the sustainability of its net debt levels annually through the Budget process, considering the views of credit rating agencies, benchmarking against interstate peers and the level of interest cost burden
- it performed medium-term modelling of net debt to 2035-36 as part of preparing the 2025-26 Budget.[cc]

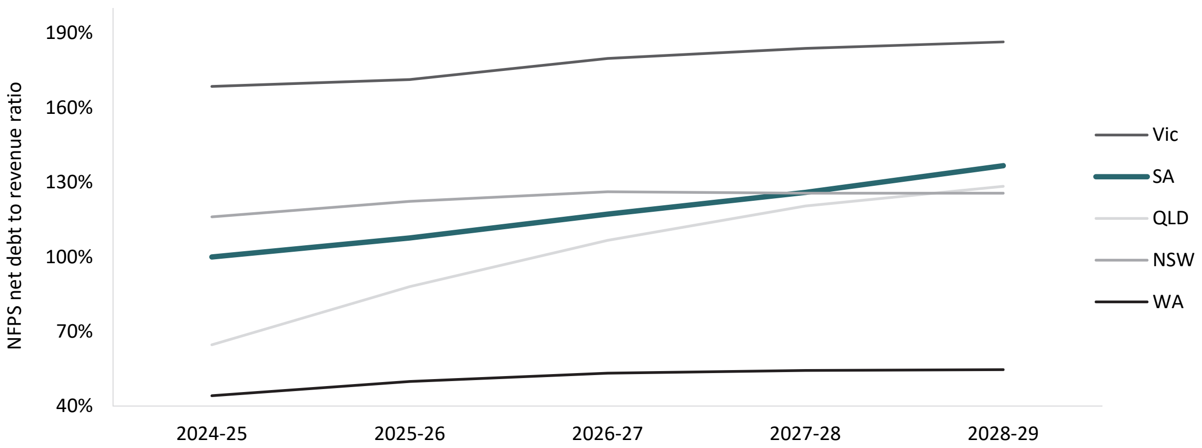
6.1.3 South Australia's net debt to revenue ratio is the second highest of all states

Figure 6.2 compares South Australia's NFPS net debt to revenue ratio to other Australian states[dd] from 2024-25 to 2028-29. It shows that the net debt to revenue ratio is expected to increase for all states from 2024-25 to 2028-29, with significant increases in the ratio expected for Queensland and South Australia.

[cc] This modelling was based on broad assumptions of a policy-neutral setting, economic indicators returning to long-term average growth rates and the capital program returning to lower levels once commitments to the T2D and new Women's and Children's Hospital projects are completed.

[dd] Figure 6.2 does not include Tasmania as the 2025-26 Budget for this state was not available at the time this report was prepared.

Figure 6.2: NFPS net debt to revenue ratio for Australian states from 2024-25 to 2028-29



Source: South Australian and interstate budget papers.

While South Australia's net debt to revenue ratio is expected to be higher than all other states except Victoria at 30 June 2029, it will be only marginally higher than New South Wales and Queensland.

The increase in the NFPS net debt to revenue ratio across Australian states mainly reflects increased borrowings by each state to implement significant capital investment programs. The net debt to revenue ratio can be influenced by the significant variability in Commonwealth Government grant revenue for capital projects, which is often one-off for specific capital projects and is not for operational purposes. See section 2.4.1 for more information.

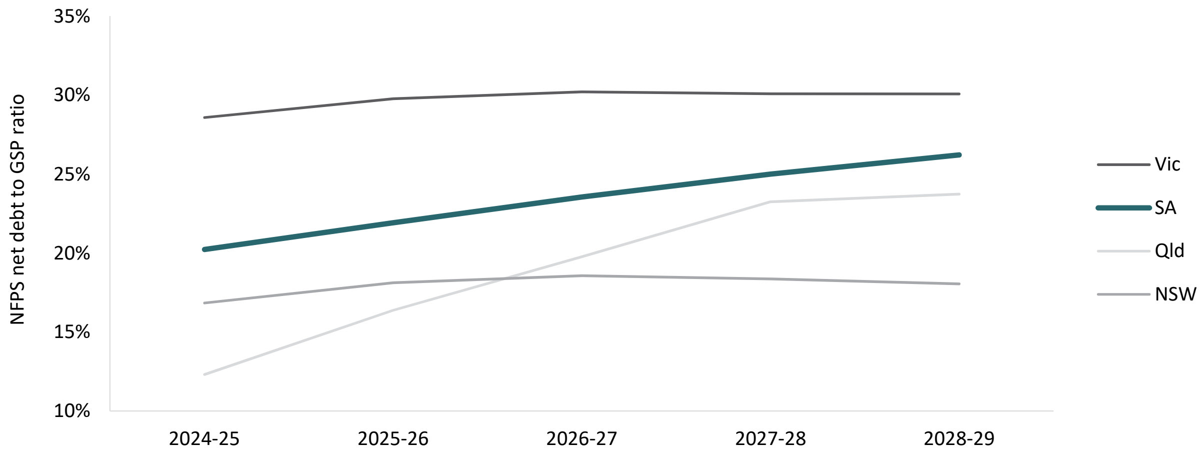
6.1.4 Net debt is projected to rise to 26% of gross state product by 2029

Net debt as a proportion of GSP is another common measure used by state governments to assess fiscal sustainability. It measures the size of the state's net debt in relation to the size of its economy and is an indicator of the government's ability to service its debt.

The Commonwealth Parliamentary Budget Office considers a sustainable fiscal position to be where net debt as a proportion of GSP is expected to be stable or trend down over the long term. It notes that this provides governments with the fiscal space to pursue their long-term policy objectives and flexibility to respond to changes in economic conditions, including large, unforeseen economic shocks.[37] Figure 6.3 shows that the NFPS net debt to GSP ratios for South Australia and Queensland[ee] are expected to trend upwards from 2024-25 to 2028-29.

[ee] Western Australia is not included in figure 6.3 as data for its projected GSP is not publicly available. Tasmania is not included in figure 6.3 as the 2025-26 Budget for this state was not available at the time this report was prepared.

Figure 6.3: NFPS net debt to GSP ratio for Australian states from 2024-25 to 2028-29



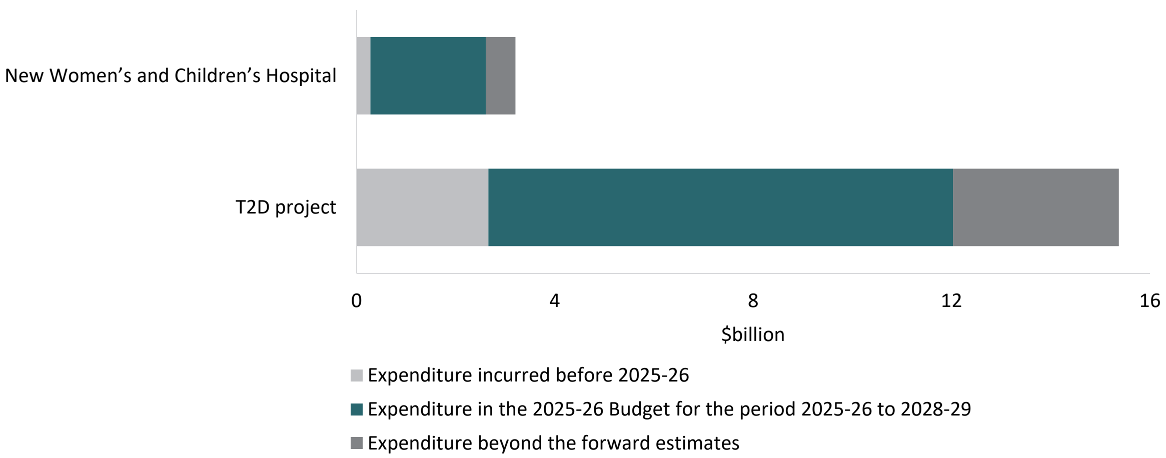
Source: South Australian and interstate budget papers and our own analysis.

South Australia's NFPS net debt to GSP ratio is expected to increase from 20% at 30 June 2025 to 26% at 30 June 2029. Only Victoria has a higher net debt to GSP ratio than South Australia. The higher the net debt to GSP ratio the more difficult it is for governments to repay their debt. The increasing ratio means South Australia's net debt is projected to grow faster than its economy.

6.1.5 Net debt is expected to rise further beyond the forward estimates due to planned expenditure on major infrastructure projects

Major capital expenditure commitments exist beyond the forward estimates. Figure 6.4 shows that 22% of expenditure for the T2D project ($3.3 billion of which $1.7 billion will be funded by the SA Government) and 19% of expenditure for the new Women's and Children's Hospital ($597 million funded entirely by the SA Government) is expected to be incurred after the forward estimates.

Figure 6.4: Major capital expenditure commitments beyond the forward estimates



DTF advised us that other major projects with significant expenditure commitments beyond the forward estimates include:

- stage 1 of High Productivity Vehicle Network project – $480 million ($96 million funded by the SA Government)[ff]
- the Freight Highway Upgrade Program – $273 million ($55 million funded by the SA Government)
- the South Australian Forensic Science Centre – $246 million (entirely funded by the SA Government).

DTF advised us that its modelling shows that net debt is expected to continue to rise immediately after the forward estimates, mainly due to the T2D project and new Women's and Children's Hospital. Net debt levels are then expected to moderate over time as these projects are completed and the SA Government's capital program reduces.

6.1.6 SA Government seeking private financing for a small pipeline of infrastructure projects

South Australia's 20-Year State Infrastructure Strategy notes that the SA Government's investment in infrastructure is at record levels and the funding needed to support the forward pipeline is placing pressure on State debt.[38] It also notes that considering alternative funding and financing options for infrastructure will help ensure community access to key services, while maintaining government finances in a sustainable way.[39] The 20-Year State Infrastructure Strategy notes:

- models to support infrastructure investments such as public private partnerships (PPPs) offer opportunities to attract private financing
- opportunities for private sector engagement and innovation and attracting private financing, including through PPPs, should be pursued where appropriate and consider budget implications, debt and market interest.[40]

The 2025-26 Budget indicates that the SA Government will approach the market with a pipeline of potential projects to be delivered by a PPP including a:

- Northern preschool and primary school
- Northern high school
- Mount Barker preschool and primary school
- Northern South Australia Police property store
- police station at Two Wells.

DTF advised us that the estimated total cost of these projects is about $400 million. DTF also indicated the overall net debt impact of the projects would not be expected to be materially different than under a traditional design and construct project. The 2025-26 Budget notes that further infrastructure projects may be identified and added to the program over time, where delivery by a PPP is considered beneficial. This includes projects where there is opportunity for innovation, scope for whole-of-life efficiencies and significant risks that can be transferred to the private sector.

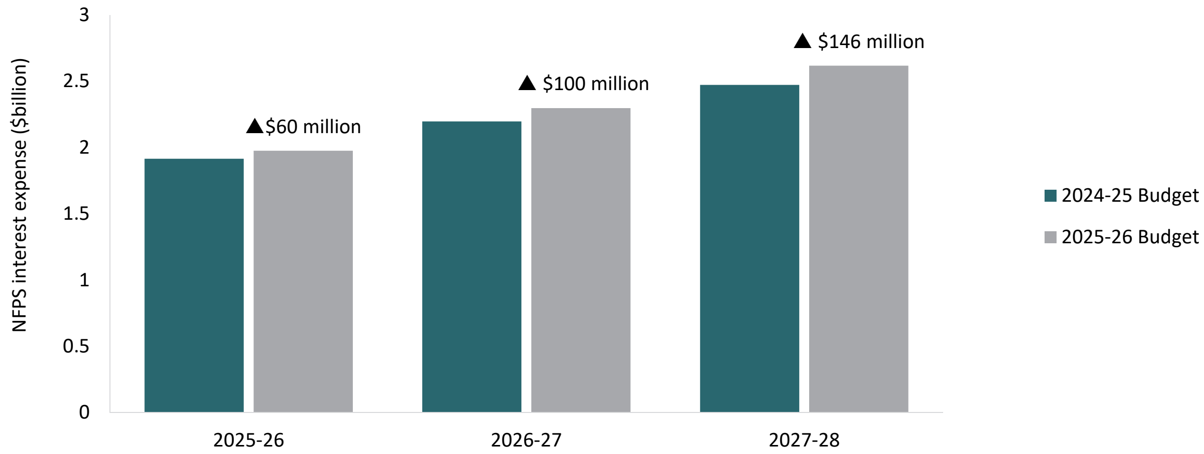
[ff] The 2025-26 Budget indicates that the High Productivity Vehicle Network – Stage 1 will be funded in partnership with the Commonwealth Government on an 80:20 basis. As noted in section 5.2.2 DTF advised us that discussions with the Commonwealth Government are continuing to seek agreement for the Commonwealth to fund the project on an 80:20 basis.

6.2 Interest expenses

6.2.1 Interest expenses projected to increase significantly mainly due to rising net debt

Annual NFPS interest expenses are estimated to increase by $1.2 billion to $2.9 billion between 2025-26 and 2028-29. Interest payments are the fastest growing operating expenditure category, increasing by an average of 14.8% per annum in this period. The 2025-26 Budget notes that the increase is the result of higher government borrowing to fund the significant capital program and increasing interest rates. Figure 6.5 shows that interest expense projections in the 2025-26 Budget for 2025-26 to 2027-28 have increased by $306 million from those in the 2024-25 Budget.

Figure 6.5: NFPS interest expense in the 2024-25 and 2025-26 Budgets



DTF advised us that:

- between preparing the 2024-25 Budget and the 2025-26 Budget, the South Australian Government Financing Authority's (SAFA's) borrowing rates lowered modestly, influenced by the Reserve Bank of Australia (RBA) decreasing its cash rate target from 4.35% in February 2025 to 3.85% by May 2025
- from 2025-26 the lower SAFA borrowing rates were counterbalanced by an increased portion of debt being refinanced from the ultra-low rates of the COVID-19 pandemic.

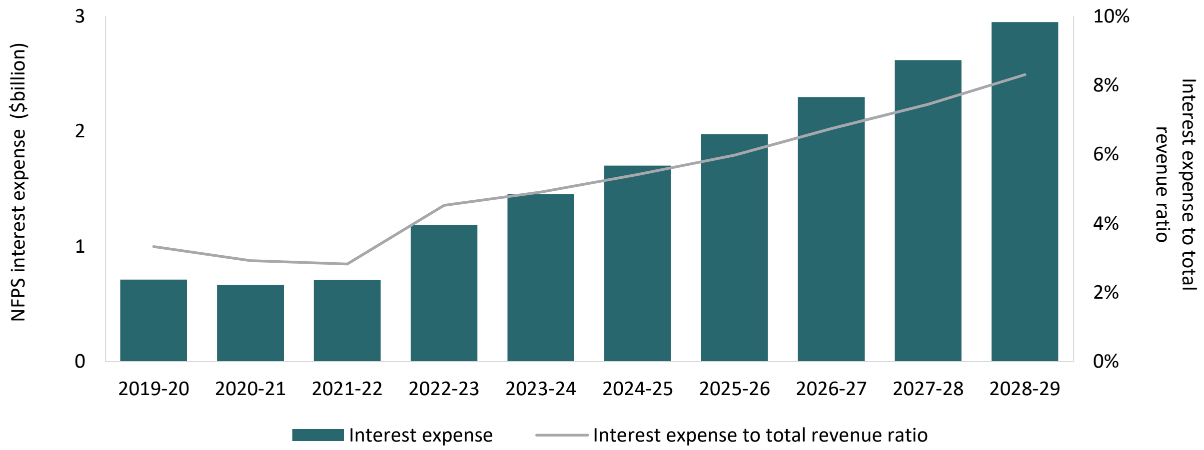
As a result, despite SAFA's borrowing rates decreasing, the interest rates used to forecast interest expenses in the 2025-26 Budget are marginally higher than the interest rates used to forecast interest expenses in the 2024-25 Budget.

6.2.2 Interest expenses as a percentage of total revenue projected to rise to 8.3% by 2028-29

Interest expenses as a percentage of total revenue (interest expense to total revenue ratio) is an indicator of a state's capacity to fund its borrowing costs from operating revenues. A lower percentage indicates the state's greater ability to repay debt.

The increase in borrowings has seen interest expenses increase significantly. As shown in figure 6.6, 3.3% of revenue was needed to service interest expenses of $712 million in 2019-20. By 2028-29 it is expected that 8.3% of revenue will be needed to service interest expenses of $2.9 billion.

Figure 6.6: NFPS interest expense and interest expense to total revenue ratio for 2019-20 to 2028-29



The NFPS interest expense to total revenue ratio is forecast to average 7.1% over the four years of the 2025-26 Budget, compared to 6.5% over the four years of the 2024-25 Budget.

Risk insight

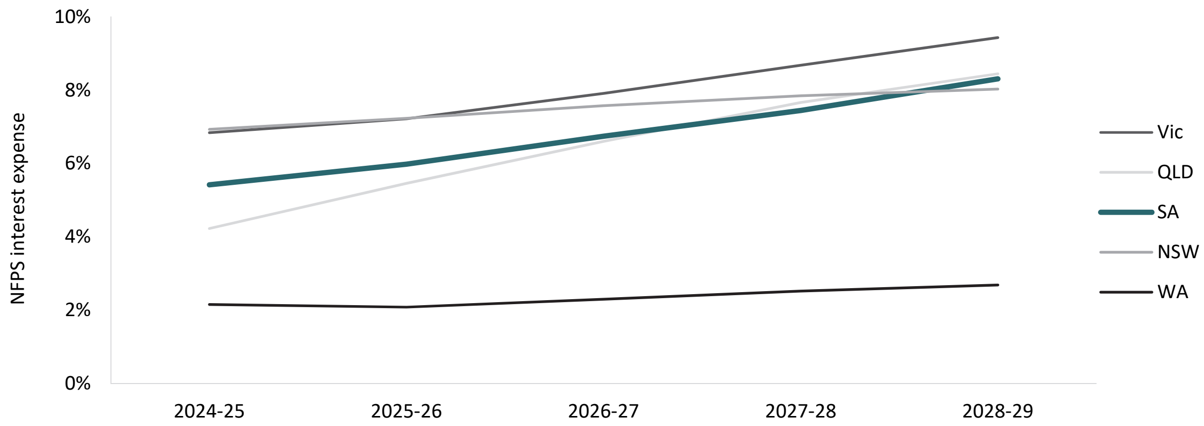
As the ratio of interest expenses to total revenue increases and interest expenses place more pressure on the SA Government's operating position, there is a risk that the SA Government will have less budget flexibility to fund service delivery needs and respond to future economic challenges.

6.2.3 South Australia's interest expense as a percentage of revenue is the third highest of all states

Figure 6.7 compares South Australia's NFPS interest expense to total revenue ratio to other Australian states[gg] from 2024-25 to 2028-29. It shows that the interest expense to total revenue ratio is expected to increase for all states over the period 2024-25 to 2028-29.

[gg] Figure 6.7 does not include Tasmania as its 2025-26 Budget was not available at the time of preparing this report.

Figure 6.7: NFPS interest expense to total revenue ratio for Australian states from 2024-25 to 2028-29



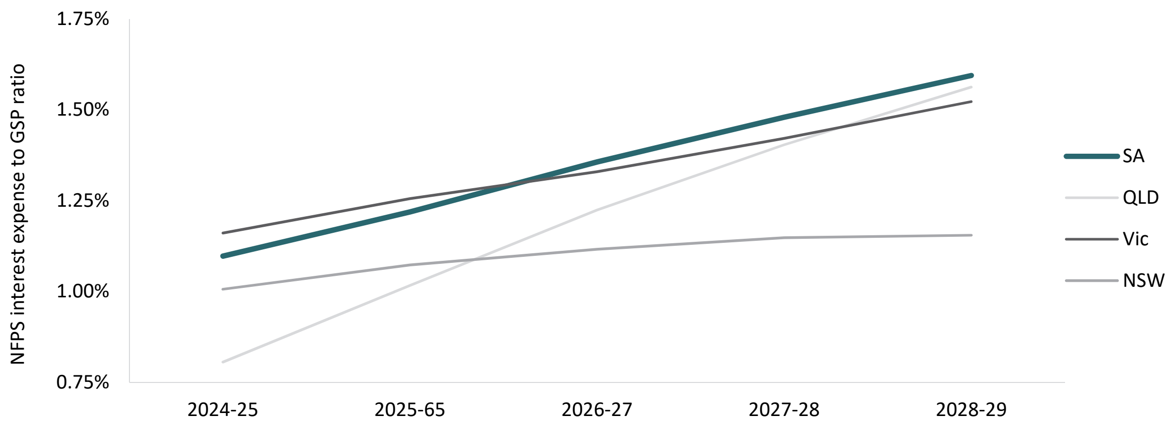
Source: South Australian and interstate budget papers.

South Australia's interest expense to total revenue ratio is projected to be higher than Western Australia, similar to New South Wales and Queensland, and more favourable than Victoria, by 2028-29.

6.2.4 South Australia's interest expense as a percentage of GSP is forecast to be higher than other states by 2028-29

Interest expenses as a percentage of GSP (interest expense to GSP ratio) is another indicator of a state's capacity to service its debt. Figure 6.8 compares South Australia's NFPS interest expense to GSP ratio to other Australian states[hh] from 2024-25 to 2028-29.

Figure 6.8: NFPS interest expense to GSP ratio for Australian states from 2024-25 to 2028-29



Source: South Australian and interstate budget papers and our own analysis.

South Australia's interest expense to GSP ratio is forecast to increase from 1.1% in 2024-25 to 1.6% in 2028-29. By that time, South Australia's ratio will be higher than all the other states. South Australia generally compares less favourably to other states on this ratio, reflecting the differences in the size of each state's economy and revenue base.

[hh] Western Australia is not included in figure 6.8 as data for its projected GSP is not publicly available. Tasmania is not included in figure 6.8 as its 2025-26 Budget was not available at the time of preparing this report.

6.2.5 South Australia's risk exposure to interest rate rises is significantly increased by its higher level of net debt

The interest rates used to estimate interest expenses in the 2025-26 Budget are influenced by expectations of the cash rate in the future. The RBA noted:

- underlying inflation is expected to stay around the midpoint of the 2-3% target range to December 2027, assuming the cash rate goes down as expected
- market participants expect some further easing in the cash rate over the year ahead
- the outlook remains uncertain, and it will be attentive to the data and the evolving assessment of risks.[41]

Risk insight

The SA Government's projected rising level of net debt significantly increases its exposure to increases in interest rates. There is a risk that the RBA reduce its cash rate target at a slower rate or by not as much as expected, resulting in higher interest rates for new and refinanced debt than budgeted.

DTF advised us that a 1% increase in the average interest rate applying to NFPS net debt in the 2025-26 Budget would increase NFPS interest expenses by a total of $1.7 billion (17%) over the four years of the 2025-26 Budget. A 2% increase would increase them by $3.4 billion (34%).

6.2.6 Interest expense is likely to be impacted if existing debt needs to be refinanced at higher rates

The 2025-26 Budget notes that the SA Government's debt management objective is to minimise the long-term average interest expense to acceptable levels of refinancing and interest rate risk.

SAFA is the State's central borrowing authority and is responsible for managing most of the State's debt.[ii] A significant amount of the debt borrowed by SAFA (86% at 30 June 2025) is long-term debt that is held under a fixed interest rate. DTF advised us that SAFA manages its borrowings by targeting the spread of its long-term debt maturities over time. This includes targeting less than 10% of total debt being refinanced each year to reduce refinancing risk to a manageable level.

[ii] SAFA lends funds raised from financial markets to various South Australian public sector clients, including the Treasurer (who borrows on behalf of public sector agencies to support their operational requirements) and SA Water.

Risk insight

Long-term fixed-rate debt of $16.1 billion was issued prior to 2022, before market rates started to significantly increase. This is 45% of the $35.6 billion total long-term fixed-rate debt as at 30 June 2025. The State needs to refinance a significant proportion ($13.1 billion) of its long-term fixed-rate debt by 30 June 2029. This includes $2.3 billion issued in 2020 and 2021 in a historically low-interest-rate environment.

As this fixed-rate debt begins to mature, it is likely that refinancing will be at a significantly higher interest rate, which will increase interest payments and the State's cost to service the debt.

See 'South Australian Government Financing Authority' in the Auditor-General's Report 8 of 2025 *Annual report for the year ended 30 June 2025: Part C Agency audits – October 2025* for more about SAFA and its debt and interest rate risk management approach.

6.3 Unfunded superannuation liability

6.3.1 Payments to fully fund superannuation liability increase net debt

The SA Government has a long-term strategy to fully fund its liabilities from defined benefit superannuation schemes by 2034. To achieve this the SA Government makes past service superannuation liability cash payments.

DTF advised us that these payments increase net debt. It also advised us that to achieve the SA Government's target of fully funding its defined benefit superannuation liabilities by 2034, it will need to make past service superannuation liability cash payments totalling $6.3 billion over 9 years from 2025-26 ($3.8 billion beyond the forward estimates).

The past service superannuation liability cash payments needed to fully fund the SA Government's defined benefit superannuation liabilities by 2034 are affected by several factors including the long-term earnings rate on superannuation assets. The 2025-26 Budget assumes an earnings rate of 7% on superannuation assets per annum. If earnings of 7% are not achieved additional past service superannuation liability cash payments will be needed to meet the SA Government's target to fully fund superannuation liabilities by 2034.

Other factors impacting the past service superannuation liability cash payments needed to fully fund the liability include salary and consumer price inflation and discount rates.

Risk insight

As the NFPS runs a cash deficit in each year of the 2025-26 Budget, any additional past service superannuation liability cash payments needed to meet the SA Government's target to fully funded superannuation liabilities by 2034 will increase net debt further.

6.4 Credit ratings

6.4.1 Standard and Poor's and Moody's credit opinion reports have maintained South Australia's credit rating following the 2025-26 Budget

Following the release of the 2025-26 Budget, both Standard and Poor's (S&P's) and Moody's credit opinion reports confirmed they have maintained the SA Government's credit rating and outlook (S&P: AA+ stable, Moody's: Aa1 stable), as shown in figure 6.9.

Figure 6.9: S&P and Moody's credit ratings for Australian states (October 2025)

S&P credit ratings

AAA	AA+	AA
Stable outlook:	**Stable outlook:**	**Stable outlook:**
Western Australia	**South Australia**	Victoria
	Negative outlook:	
	New South Wales	
	Queensland	
	Tasmania	

Moody's credit ratings

Aaa	Aa1	Aa2
Stable outlook:	**Stable outlook:**	**Stable outlook:**
New South Wales	Queensland	Victoria
Western Australia	**South Australia**	**Negative outlook:**
		Tasmania

Source: Reports and information published by S&P and Moody's and information provided by DTF.

Risk insight

Credit ratings can impact the SA Government's cost of borrowing and help it to access financial markets. A higher credit rating may lower the cost of borrowing, while a lower credit rating may increase borrowing costs and result in higher interest expenses. S&P noted that it could:

- lower its credit rating for South Australia if deficits after capital accounts[jj] increase to more than 10% of total revenue, or if its operating margins revert to deficits, on a sustained basis
- raise its credit rating for South Australia if the State's financial management materially strengthens fiscal outcomes, resulting in a substantial reduction in debt burdens.

S&P's estimated deficit after capital accounts for 2024-25 is 10.6% of total revenue. Its analysis has deficits after capital accounts averaging 8% of revenue from 2025-26 to 2027-28. This assumes that only 85% of forecast capital expenditure will actually be spent, based on the state's recent capital spend profile. If the forecast capital expenditure is fully spent, the deficit after capital accounts would average 10.8% of revenue from 2025-26 to 2027-28.

[jj] Balance after capital accounts refers to the NFPS cash surplus/(deficit). The cash surplus/(deficit) is the net cash flows from operating activities plus net cash flows from the acquisition and disposal of non-financial assets less dividends paid for the public non-financial and public financial corporations sectors.

Appendix 1 – Review mandate, objective and scope

Our mandate

The Auditor-General has authority to conduct this review under section 36(1)(b) of the *Public Finance and Audit Act 1987*. This section allows the Auditor-General to report on matters that, in their opinion, should be brought to the attention of Parliament and the SA Government.

Our objective

The objective of this report is to provide independent commentary and analysis on the 2025-26 Budget to highlight key trends and risks for the State's public finances.

What we reviewed and how

We reviewed the 2025-26 Budget Papers to identify key trends and risks for the State's public finances. This involved:

- reviewing the Budget against the SA Government's stated fiscal strategy
- analysing new budget measures and initiatives
- examining Budget estimates and forecasts
- analysing major assets and liabilities
- analysing South Australia's key fiscal measures compared to other Australian states
- reviewing credit rating agency reports on South Australia.

Our analysis is based on data provided in the 2025-26 Budget Papers, supplemented by information provided to us by DTF.

What we did not review

This report primarily comments on Budget information. The data and assumptions underlying this information are not subject to audit and no audit opinion is provided on the accuracy of historical or forecast figures presented in the 2025-26 Budget. We also have not performed work to provide an opinion on the effectiveness of the SA Government's budgetary control.

Appendix 2 – Budget presentation framework

By agreement between the Commonwealth, states and territories, each jurisdiction presents its Budget Papers and mid-year budget update on a Uniform Presentation Framework (UPF) basis.

The main objective of the UPF 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.

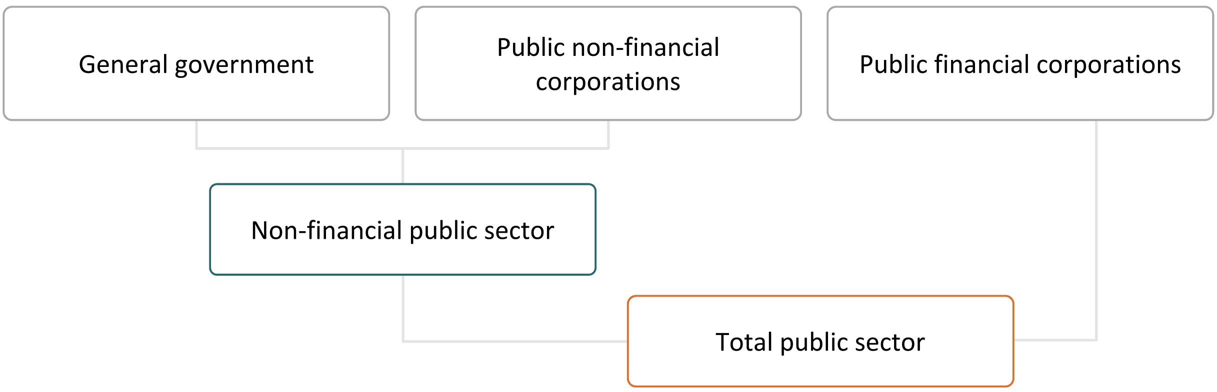
Institutional sectors

Budget reporting is prepared for the following institutional sectors:

- **General government sector** – 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.
- **Public non-financial corporations (PNFC) sector** – 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 this sector includes SA Water and the South Australian Housing Trust.
- **Public financial corporations (PFC) sector** – bodies primarily engaged in providing financial services. This includes financial institutions such as SAFA, HomeStart Finance and the Superannuation Funds Management Corporation of South Australia.
- **Non-financial public sector (NFPS)** – the consolidation of the general government and PNFC sectors.

Figure A1 shows the structure of the sectors, which when consolidated form the total public sector (whole of government).

Figure A1: Sectors of government activity



PFC sector data is not published in the Budget Papers.

Appendix 3 – Abbreviations used in this report

Abbreviation	Description
DTF	Department of Treasury and Finance
FTE	Full-time equivalent
GGS	General government sector
GSP	Gross State Product
GST	Goods and services tax
MYBR	Mid-year budget review
NEP	National efficient price
NFPS	Non-financial public sector
PFC	Public financial corporations
PNFC	Public non-financial corporations
RBA	Reserve Bank of Australia
S&P	Standard & Poor's
SAFA	South Australian Government Financing Authority
SA Water	South Australian Water Corporation
T2D	North–South Corridor River Torrens to Darlington
UPF	Uniform Presentation Framework

References

[1] Commonwealth Grants Commission, *Glossary*, viewed 21 August 2025, <https://www.cgc.gov.au/publications/glossary>.

[2] Commonwealth Grants Commission 2025*, Revenues and expense ratios*, Table S6-4 Ratio of actual to assessed expenses, Total expenses, viewed 21 August 2025, <https://www.cgc.gov.au/reports-for-government/2025-methodology-review/gst-relativities-2025-26/tables-charts-and-supporting-data>.

[3] Government of South Australia, SA Health, *Winter Demand Plan*, <https://www.sahealth.sa.gov.au/wps/wcm/connect/public+content/sa+health+internet/about+us/strategy+and+planning/winter+demand/winter+demand+management+strategy#:~:text=The%20Winter%20Demand%20Plan%202025%20%28PDF%203MB%29%20sets,the%20community%20-%20Promoting%20preventative%20health%20and%20wellbeing>.

[4] Government of South Australia, SA Health, *SA Health Aged Care Strategy 2021 – 2025*, <https://www.sahealth.sa.gov.au/wps/wcm/connect/public+content/sa+health+internet/about+us/strategy+and+planning/sa+health+regional+aged+care+strategy/sa+health+regional+aged+care+strategy+2021-2025>.

[5] Government of South Australia, 2025-26 Budget Paper 3 Budget Statement, p. 93.

[6] Government of South Australia, 2025-26 Budget Paper 5 *Budget Measures Statement*, p. 17.

[7] Government of South Australia, 2024-25 Budget Paper 3 *Budget Statement* and 2025-26 Budget Paper 3 *Budget Statement*, table 7.1, p. 95.

[8] Auditor-General's Report 7 of 2025 *Aboriginal Education Strategy 2019-2029*, Auditor-General's Report 8 of 2024 *Managing Homelessness Services*, Auditor-General's Report 3 of 2023 *Gambling Harm Minimisation* and Auditor-General's Report 6 of 2022 *Access to Mental Health Services*.

[9] Government of South Australia, 2025-26 Budget Paper 3 *Budget Statement*, table 3.16, p. 44.

[10] Australian Government, Commonwealth Grants Commission, *New arrangements for distributing GST*, <https://www.cgc.gov.au/new-arrangements-distributing-gst>.

[11] Government of South Australia, 2025-26 Budget Paper 3 *Budget Statement,* table 7.1, p. 95.

[12] Government of South Australia, 2025-26 Budget Paper 3 *Budget Statement*, table 2.16, p. 31.

[13] Infrastructure Australia 2024, *Annual Budget Statement* 2024, p. 15, viewed 29 August 2025, <https://www.infrastructureaustralia.gov.au/reports/annual-budget-statement-2024>.

[14] Infrastructure SA 2025, *South Australia's 20-Year State Infrastructure Strategy*, pp. 152–153, viewed 30 July 2025, <https://www.infrastructure.sa.gov.au/20-year-strategy/2025-Strategy>.

[15] Ibid, p. 152.

[16] Infrastructure Australia 2024, *Annual Budget Statement* 2024, p. 15, viewed 29 August 2025, <https://www.infrastructureaustralia.gov.au/reports/annual-budget-statement-2024>.

[17] Auditor-General's Report 8 of 2025, *Annual report for the year ended 30 June 2025: Part B Controls opinion,* p. 12.

[18] Infrastructure Australia 2024, *Annual Budget Statement* 2024, p. 18, viewed 29 August 2025, <https://www.infrastructureaustralia.gov.au/reports/annual-budget-statement-2024>.

[19] Australian Bureau of Statistics 2025, Building Activity, Australia, June, cat. no. 8752.0, table 79. Value of Work in the Pipeline, States and Territories, Current Prices, Original, Series ID: A2285131V and A2285239W, Engineering Construction Activity, Australia, June, cat. no 8762.0, table 23. Value of Work Yet To Be Done, by Sector, South Australia, Original, Series ID: A1840881K, accessed 20 October 2025.

[20] Infrastructure Australia 2024, *2024 Infrastructure market capacity report*, viewed 18 July 2025, <https://www.infrastructureaustralia.gov.au/2024-infrastructure-market-capacity-report>.

[21] Ibid, pp. 51, 58.

[22] Infrastructure Australia 2025, *Annual Budget Statement 2025*, p. 17, viewed 22 August 2025, <https://www.infrastructureaustralia.gov.au/reports/annual-budget-statement-2025>.

[23] Australian Bureau of Statistics 2025, *Producer Price Indexes*, June, cat. no. 6427.0, table 17. Output of the construction industries, subdivision and class index numbers, Index No 3020: Non-residential building construction South Australia, Series ID: A2333742K, Index No 3101: Road and bridge construction South Australia, Series ID: A2333748X, accessed 22 August 2025.

[24] Infrastructure SA 2025, South Australia's 20-Year State Infrastructure Strategy, p. 150, viewed 30 July 2025, <https://www.infrastructure.sa.gov.au/20-year-strategy/2025-Strategy>.

[25] Ibid, p. 158.

[26] Infrastructure SA 2025, *Capital Intentions Statement 2024*, p. 6, viewed 11 July 2025, <https://www.infrastructure.sa.gov.au/capital-intentions>.

[27] Infrastructure Australia 2024, *Annual Performance Statement 2024*, p. 13, viewed 29 August 2025, <https://www.infrastructureaustralia.gov.au/reports/annual-performance-statement-2024>.

[28] Infrastructure SA 2025*, South Australia's 20-Year State Infrastructure Strategy*, p. 163, viewed 30 July 2025, <https://www.infrastructure.sa.gov.au/20-year-strategy/2025-Strategy>.

[29] Auditor-General's Report 11 of 2019 *Darlington Upgrade Project* provides an example of a South Australian major transport infrastructure project that exceeded its original project budget.

[30] Infrastructure Australia 2024, *Annual Performance Statement 2024*, p. 13, viewed 29 August 2025, <https://www.infrastructureaustralia.gov.au/reports/annual-performance-statement-2024>.

[31] Infrastructure Australia 2024, *Annual Budget Statement* 2024, pp. 11-12, viewed 29 August 2025, <https://www.infrastructureaustralia.gov.au/reports/annual-budget-statement-2024>.

[32] Infrastructure Australia 2024, *Annual Performance Statement 2024*, p. 12, viewed 29 August 2025, <https://www.infrastructureaustralia.gov.au/reports/annual-performance-statement-2024>.

[33] Auditor-General's Report 10 of 2023 *State finances and related matters, pp. 46-47,* provides further details of cost and timing revisions made to the T2D project and the new Women's and Children's Hospital.

[34] Infrastructure Australia 2019, *An Assessment of Australia's Future Infrastructure Needs: The Australian Infrastructure Audit 2019*, p. 236, viewed 29 August 2025, <https://www.infrastructureaustralia.gov.au/publications/australian-infrastructure-audit-2019>.

[35] Parliamentary Budget Office 2021, *Fiscal sustainability: Long-term budget scenarios*, p. 4, viewed 21 August 2025*,* <https://www.pbo.gov.au/publications-and-data/publications/fiscal-projections-and-sustainability/fiscal-sustainability>*.*

[36] Parliamentary Budget Office 2023, *Online Budget Glossary,* p. 34, viewed 21 August 2025*,* <https://www.pbo.gov.au/about-budgets/online-budget-glossary>*.*

[37] Parliamentary Budget Office 2024, *Beyond the Budget 2024-25: Fiscal Outlook and Sustainability*, p. 10, viewed 25 July 2025, <https://www.pbo.gov.au/publications-and-data/publications/fiscal-projections-and-sustainability/beyond-budget-2024-25>.

[38] Government of South Australia, Infrastructure SA 2025, *South Australia's 20 Year State Infrastructure Strategy*, p. 166, viewed 30 July 2025, <https://www.infrastructure.sa.gov.au/20-year-strategy/2025-Strategy>.

[39] Ibid, p. 151.

[40] Ibid, p. 168.

[41] Reserve Bank of Australia 2025, *Statement on Monetary Policy – August 2025*, p. 1, 2 and 47, viewed 26 August 2025, <https://www.rba.gov.au/publications/smp/2025/aug/>.