2011-12 Budget Paper 3
Budget Statement

Government of South Australia

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2011–12 Budget Papers

Budget Paper 1 Budget Overview
Budget Paper 2 Budget Speech
Budget Paper 3 Budget Statement
Budget Paper 4 Agency Statements – Volumes 1, 2, 3, 4
Budget Paper 5 Capital Investment Statement
Budget Paper 6 Budget Measures Statement

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Budget Paper 3

2011–12
Budget Statement

Presented by
The Honourable J.J. Snelling M.P.
Treasurer of South Australia
on the Occasion of the Budget
for 2011–12

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Contents

Chapter 5: Government businesses

Chapter 6: Risk statement

Chapter 7: South Australian economy

Appendices

Chapter 1: Fiscal strategy and budget priorities

Overview

The 2011–12 Budget has been prepared in an environment of deteriorating revenues, with taxation and GST revenues remaining significantly below estimates made prior to the global financial crisis (GFC), and those estimated in the 2010–11 Budget.

Taxation, GST and royalty revenue over the period 2010–11 to 2011-12 is now estimated to be almost $650 million lower than estimates for the same period contained in the 2008–09 Budget, prior to the onset of the GFC.

The 2010–11 Budget provided for significant savings to ensure a sustainable financial future for South Australia, and gave some capacity for the 2011–12 Budget to absorb the unexpected additional deterioration in GST revenues.

This 2011–12 Budget continues the government's significant capital investment program and funds new initiatives in areas of need. Continued expenditure restraint across the forward estimates and the sound fiscal base provided by previous budgets puts the state in a position where net operating surpluses are forecast by 2012–13.

Notwithstanding this focus on restraint, the 2011–12 Budget continues the government's commitment to deliver core public services. The 2011–12 Budget sets out a number of measures to provide for additional future service delivery for those most in need. Those measures are summarised in the following table.

Table 1.1: Budget measures ($million)

	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Revenue — taxation	2.4	2.4	1.6	1.5
Revenue — other	24.3	32.7	49.3	39.4
Operating initiatives	- 145.6	- 114.3	- 58.9	- 111.6
Savings initiatives	- 2.2	- 1.0	20.7	20.9
Total operating initiatives	**- 121.1**	**- 80.1**	**12.7**	**- 49.8**
Total investing initiatives	**- 39.4**	**- 150.3**	**51.2**	**53.1**

Note: Totals may not add due to rounding.

New expenditure initiatives in the general government sector total $477.2 million over the next four years. This comprises operating and investing initiatives totalling $515.6 million and operating savings of $38.4 million. This represents the lowest net spending on new initiatives since 2003–04.

New initiatives include:

- support for children requiring alternative care arrangements
- accommodation and community support and access for disability clients
- additional concessions for water rates
- new concessions for those with medical conditions
- increases in hospital services
- more upgrades to city and country road and rail networks
- installation of a new train protection system on the Adelaide metropolitan rail network.

New measures are described in more detail in the 2011–12 Budget Measures Statement.

The government remains committed to delivering its significant capital investment program over the next decade in order to meet the infrastructure needs of the state, create employment opportunities and provide a solid basis for future economic prosperity. This budget continues the government's infrastructure investment program, totalling $6.3 billion for the general government sector and $9.1 billion for the non-financial public sector over four years.

This program will be delivered within manageable state debt levels. While levels of general government sector debt increase in the short-term, they trend down by the end of the forward estimates, with the forecast net financial liabilities to revenue ratio returning to below current levels by 30 June 2015.

Fiscal strategy

A key fiscal strategy of the 2011–12 Budget is to re-establish and maintain sustainable operating surpluses.

Table 1.2 sets out the expected budget outcomes for 2010–11 and across the forward estimates for a number of key fiscal indicators.

Table 1.2: General government sector budget estimates

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Net operating balance ($m)	- 427	- 263	114	80	655
Net lending ($m)	-1 821	-1 252	- 489	- 56	542
Net debt ($m)	3 217	3 825	4 098	4 213	3 615
Net financial liabilities to revenue (%)	94.4	95.6	95.8	96.3	88.5

Overall expenditure restraint returns the budget to a net operating surplus in 2012–13 and a net lending surplus by 2014–15, one year later than projected at the last budget. The slower return of the budget to operating surplus is the result of the impact of lower taxation and GST revenues, which are $147.6 million lower in 2011–12 than forecast at the time of the last budget, and 2010–11 expenditures being delayed into 2011–12.

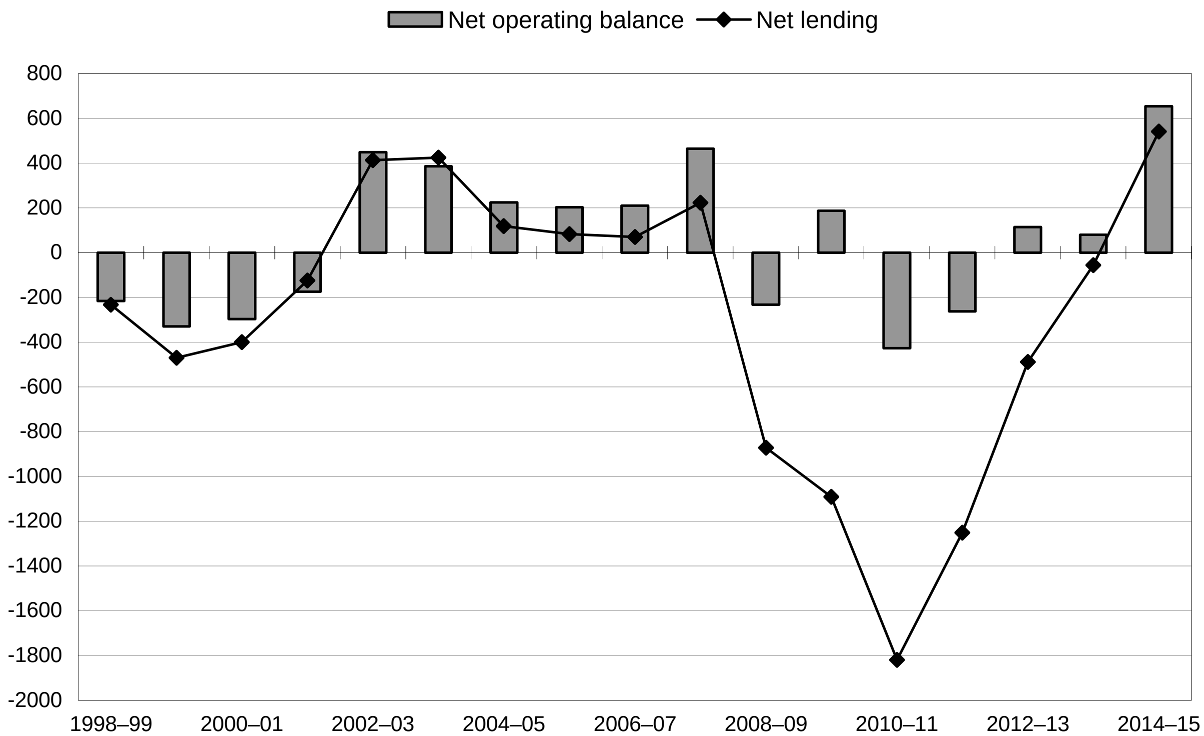
The significant operating surplus forecast for 2014–15 provides an essential buffer for the impact of the new Royal Adelaide Hospital lease liability which will appear on the general government balance sheet for the first time in 2015–16.

Net operating balance

The net operating balance is a measure of whether revenues are sufficient to meet the expenses incurred by the government in delivering current services to the public, including expenses for future obligations like long service leave for its workforce and the depreciation of assets used in delivering services.

Figure 1.1 illustrates that the general government sector net operating balance was in surplus from 2002–03 until the deficit in 2008–09. A net operating surplus was again achieved for 2009–10, primarily as a result of the nature and timing of Commonwealth grants and expenditure carryovers into 2010–11. A deficit is expected for 2010–11 and 2011–12, due largely to these timing impacts and downward revisions to GST receipts, before the budget returns to surplus across the remainder of the forward estimates.

Figure 1.1: General government sector net operating balance and net lending ($million)



Note: 1998–99 to 2009–10 are actual outcomes; 2010–11 to 2014–15 are forecasts.

Net lending

The net lending measure is an indication of whether revenues are sufficient to cover expenses and net capital investment. A net lending deficit means that revenues are less than operating and investment expenditure, resulting in increased liabilities.

A net lending deficit of $1.8 billion is expected in 2010–11, declining to $1.3 billion in 2011–12. These deficits reflect the government's significant capital expenditure, to both stimulate the economy and to rebuild the state's infrastructure assets. The net lending position is expected to improve over the forward estimates, reaching a surplus in 2014–15. The change in net lending from deficit to surplus reflects both improvement in the net operating balance and an easing of the level of infrastructure investment across the period.

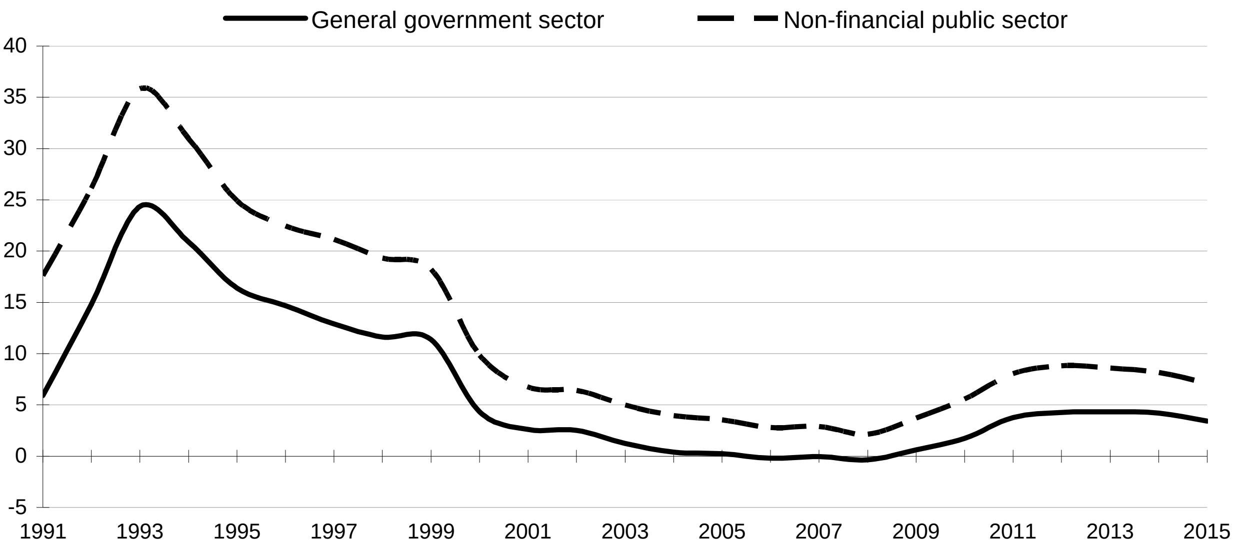
Net financial liabilities

Net financial liabilities include net debt and other significant liabilities, such as unfunded superannuation and provision for long service leave entitlements. The net financial liabilities to revenue ratio is expected to peak at 96.3 per cent at 30 June 2014 before declining to 88.5 per cent at 30 June 2015.

The net debt component of net financial liabilities is expected to increase over the period from $3.2 billion at 30 June 2011 to $4.2 billion at 30 June 2014, before declining to $3.6 billion at 30 June 2015. The increase in net debt largely reflects the government's significant capital investment program.

As a percentage of Gross State Product (GSP), net debt is expected to increase from 3.8 per cent at 30 June 2011 to 4.3 per cent at 30 June 2013, before declining to 3.4 per cent at 30 June 2015.

Figure 1.2: Net debt as a percentage of GSP



Note: 1991 to 2010 are actual outcomes; 2011 to 2015 are forecasts.

The unfunded superannuation liability is the major component of net financial liabilities and South Australia derives estimates of the unfunded superannuation liability using the Commonwealth long-term bond rate. For this budget a discount rate of 5.6 per cent has been used.

The ratio of general government sector net financial liabilities to revenue is forecast to peak in 2013–14, reflecting the growth in net debt associated with high levels of investment in capital projects and short-term net operating deficits. The ratio declines in 2014–15 as the net lending position moves back into surplus. Refer to Chapter 4 for further details.

Summary of Fiscal targets

The government's performance to date against its broader fiscal targets is summarised in Table 1.3.

Table 1.3: Progress in achieving the government's fiscal targets

Target	Progress in achieving target
To achieve at least a net operating balance in the general government sector in every year.	South Australia is forecasting a net operating deficit in 2010–11 and 2011–12 before returning to surplus in 2012–13.
To achieve net lending outcomes that ensure the ratio of net financial liabilities to revenue continues to decline towards that of other triple-A rated states.	The net financial liabilities to revenue ratio is forecast to peak in 2013–14 and decline to below current levels by 30 June 2015. Most other triple-A rated jurisdictions have been reporting short-term increases in their ratios.
To ensure the state has an effective tax regime having regard to the government's social and economic objectives.	Taxation revenue is forecast to grow broadly in line with household income over the forward estimates, providing funds to meet the cost of public services expected by the public. Tax reforms implemented by the government in recent years have promoted a harmonised approach with other jurisdictions and a competitive taxation regime for mobile business resources.
To provide value for money community services and economic infrastructure within available means.	The 2011–12 Budget maintains significant infrastructure spending over the forward estimates in accordance with the Strategic Infrastructure Plan for South Australia. It continues to provide the government opportunity to maintain good service levels for the public.
To fully fund accruing superannuation liabilities and progressively fund past service superannuation liabilities.	The government is on target to fully fund superannuation liabilities by 2034.
To ensure that risks to state finances are managed prudently to maintain a triple-A rating.	South Australia is rated triple-A by both Standard and Poor's and Moody's Investor Services.
To ensure public non-financial corporations (PNFCs) will only be able to borrow where they can demonstrate that investment programs are consistent with commercial returns (including budget funding).	The Department of Treasury and Finance advises on public non-financial corporations' (PNFC) compliance with the government's target as part of the Cabinet project approval process. It is the government's policy that projects approved by the relevant PNFC boards should also comply with this target.

Fiscal outlook

The full suite of accrual statements produced under the uniform presentation framework is provided in Appendix A. Table 1.4 provides operating statement details for the general government sector for 2010–11, the budget year and the following three forward years.

Table 1.4: General government sector operating statement—2010–11 to 2014–15 ($million)

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Revenue						
Taxation revenue	3 858	3 845	4 129	4 413	4 650	4 933
Grants	8 319	8 247	8 397	8 405	8 328	8 898
Sales of goods and services	1 877	1 885	2 054	2 123	2 167	2 243
Interest income	143	184	172	196	192	199
Dividend and income tax equivalent income	353	408	371	406	408	410
Other	536	518	605	635	647	695
Total revenue	**15 086**	**15 087**	**15 727**	**16 178**	**16 392**	**17 379**
less						
Expenses						
Employee expenses	6 379	6 417	6 606	6 699	6 829	7 041
Superannuation expenses						
Superannuation interest cost	427	427	412	410	407	403
Other superannuation expenses	676	684	701	707	715	729
Depreciation and amortisation	681	693	768	835	881	961
Interest expenses	255	307	366	420	441	444
Other property expenses	—	—	—	—	—	—
Other operating expenses	3 983	4 026	4 105	4 130	4 255	4 359
Grants	3 073	2 960	3 034	2 863	2 786	2 788
Total expenses	**15 475**	**15 514**	**15 990**	**16 064**	**16 313**	**16 724**
equals						
Net operating balance	- 389	- 427	- 263	114	80	655
plus						
Other economic flows	589	1 651	520	964	642	576
equals						
Comprehensive result — total change in net worth	200	1 225	257	1 078	722	1 231
Net operating balance	- 389	- 427	- 263	114	80	655
less						
Net acquisition of non-financial assets						
Purchases of non-financial assets	2 283	2 189	2 125	1 856	1 151	1 119
less Sales of non-financial assets	201	102	369	418	134	45
less Depreciation	681	693	768	835	881	961
plus Change in inventories	—	—	—	—	—	—
plus Other movements in non-financial assets	—	—	—	—	—	—
equals Total net acquisition of non-financial assets	1 402	1 394	988	603	136	113
equals						
Net lending/borrowing	-1 791	-1 821	-1 252	- 489	- 56	542

Note: Totals may not add due to rounding.

The attachment to this chapter summarises the variations to the general government net operating balance and net lending estimates since the 2010–11 Budget and 2010–11 Mid-Year Budget Review (MYBR).

Key budget aggregates and fiscal trends

Key budget indicators are summarised in Table 1.5.

Table 1.5: Summary of key general government sector budget indicators

	2009–10 Actual	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Budget balances						
Net operating balance ($m)	187	- 427	- 263	114	80	655
Net lending ($m)	-1 092	-1 821	-1 252	- 489	- 56	542
Cash surplus ($m)	-1 154	-1 840	-1 182	- 421	- 3	608
Revenue and expenses						
Revenue real growth (%)	12.4	-5.7	1.2	-0.1	-1.3	3.4
Expenses real growth (%)	9.1	-1.9	0.1	-2.4	-1.1	0.0
Interest ratios						
Net interest to revenue (%)(a)(b)	0.4	0.8	1.2	1.4	1.5	1.4
Net interest plus nominal superannuation interest to revenue (%)(b)	3.4	3.7	3.9	4.0	4.0	3.8
Balance sheet indicators						
Net debt ($m)	1 402	3 217	3 825	4 098	4 213	3 615
Net debt to revenue (%)	9.0	21.3	24.3	25.3	25.7	20.8
Unfunded superannuation ($m)	9 478	8 734	8 742	8 732	8 703	8 652
Net financial liabilities ($m)	13 182	14 237	15 029	15 492	15 784	15 379
Net financial liabilities to revenue (%)	84.9	94.4	95.6	95.8	96.3	88.5
Net worth ($m)	36 231	37 456	37 713	38 791	39 512	40 743

Note: Real-terms calculations use the Adelaide Consumer Price Index.

(a) Net interest does not include nominal superannuation interest cost.

(b) Revenue does not include interest income.

Net operating deficits are expected for 2010–11 and 2011–12 before a return to net operating surpluses across the forward estimates.

This, together with the strong levels of capital expenditure, mean that net lending deficits will continue into 2013–14. The budget is then projected to return to a net lending surplus in 2014–15.

Real general government sector revenue growth is impacted by a decline in Commonwealth National Partnership grants offsetting growth in taxation, GST and other revenue.

General government sector expenditure decreases in real terms from 2010–11 as the Commonwealth economic stimulus measures wind down and savings measures are implemented, reinforced by the restrained approach to new spending in this budget.

General government sector net debt and net financial liabilities are forecast to increase from 2010–11 until 2013–14 before declining in 2014–15. This primarily reflects the growth in net debt associated with strong levels of investment in capital projects and short-term operating deficits. The ratios of those indicators to revenue also decline in 2014–15.

The largest component of net financial liabilities is the unfunded superannuation liability. The unfunded superannuation liability is an obligation to current and former members of the defined benefit superannuation schemes that will need to be met in future years. At 30 June 2011 the unfunded superannuation liability is expected to be $8.7 billion. Chapter 4 provides more information on superannuation assets and liabilities.

Net financial liabilities also includes other liabilities of the general government sector such as long service leave entitlements, offset by financial assets (excluding equity held in public non-financial corporations and public financial corporations) of the sector.

Net worth is the total value of non-financial and financial assets, including the net assets of the public non-financial corporations (PNFCs) and public financial corporations (PFCs), less the value of liabilities.

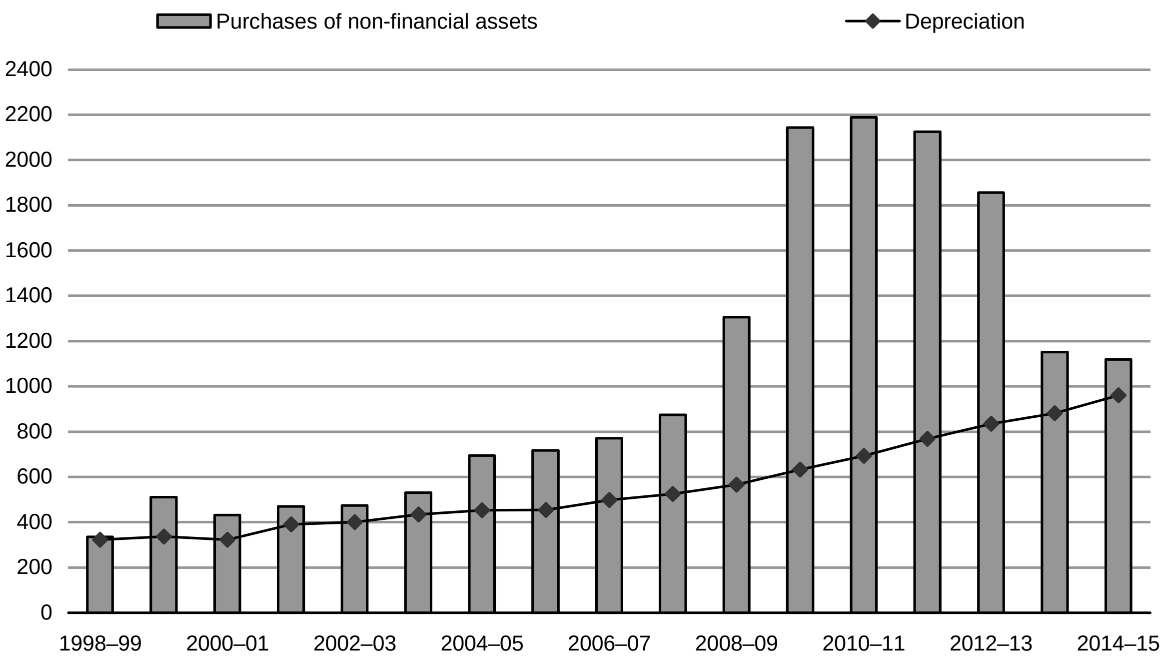
Table 1.5 shows a $3.3 billion improvement in the net worth of the general government sector from 30 June 2011 to 30 June 2015. The net assets of PNFCs and PFCs controlled by the government are also forecast to increase across the forward estimates, primarily due to the revaluation of assets. Chapter 4 provides further information on changes in net worth.

The above comments have highlighted the impact of the infrastructure investment over the budget period.

Figure 1.3 depicts the strong levels of capital investment over the forward estimates in the general government sector. Investment in this sector peaks at $2.2 billion in 2010–11.

General government sector net infrastructure investment is expected to significantly exceed depreciation over the budget period, providing a major boost to the state’s asset base.

Figure 1.3: General government sector purchases of non-financial assets ($million)



Note: 1998–99 to 2009–10 are actual outcomes; 2010–11 to 2014–15 are forecasts.

Chapter 2 and the 2011–12 Capital Investment Statement provide further information on the government’s capital investment program.

Attachment — Variations since the 2010–11 Budget and the 2010–11 MYBR

Table 1.6: Net operating balance — policy and parameter variations since the 2010–11 Budget ($million)

	2010–11	2011–12	2012–13	2013–14
Estimate at 2010–11 Budget	**-389**	**55**	**216**	**370**
Parameter and other variations				
Revenue — taxation	-12	3	22	30
Revenue — other	63	42	-97	-39
Operating expenses	-163	-30	-19	17
Net effect of parameter and other variations	-112	15	-95	8
Policy measures				
Revenue — taxation	—	—	—	—
Revenue — other	1	—	-2	-2
Operating expenses	-9	-4	-8	-9
Net effect of policy measures	-8	-4	-9	-10
Use of provisions set aside in the 2010–11 Budget				
Operating expenses	15	16	16	16
Estimate at 2010–11 Mid-Year Budget Review	**-493**	**81**	**127**	**382**
Parameter and other variations				
Revenue — taxation	-1	-64	-34	-38
Revenue — other	-39	186	219	97
Operating expenses	213	-361	-162	-392
Net effect of parameter and other variations	173	-239	22	-333
Policy measures up to the 2011–12 Budget				
Revenue — taxation	—	—	—	—
Revenue — other	-10	7	32	—
Operating expenses	-23	-10	-4	—
Net effect of policy measures up to the 2011–12 Budget	-33	-3	27	—
Policy measures in the 2011–12 Budget				
Revenue — taxation	—	2	2	2
Revenue — other	—	24	33	49
Operating expenses	-93	-148	-115	-38
Net effect of policy measures in the 2011–12 Budget	-93	-121	-80	13
Use of provisions set aside in the 2010–11 Budget and the 2010–11 Mid-Year Budget Review				
Operating expenses	19	19	18	18
Estimate at 2011–12 Budget	**-427**	**-263**	**114**	**80**

Note: Totals may not add due to rounding.

Table 1.7: Net lending — policy and parameter variations since the 2010–11 Budget ($million)

	2010–11	2011–12	2012–13	2013–14
Estimate at 2010–11 Budget	**-1 791**	**-841**	**-194**	**126**
Net effect of operating variations to 2010–11 MYBR	**-104**	**26**	**-89**	**13**
Investing variations(a)				
Parameter variations	26	-161	88	-89
Policy variations	-10	3	-13	—
Total investing variations	15	-158	75	-89
Estimate at 2010–11 MYBR	**-1 879**	**-973**	**-208**	**49**
Net effect of operating variations	66	-344	-13	-302
Investing variations(a)				
Parameter variations	-16	53	-83	103
Policy variations up to the 2011–12 Budget	14	-3	-60	-7
Policy variations in the 2011–12 Budget	-6	-39	-150	51
Total investing variations	-7	12	-293	147
Use of provisions set aside in the 2010–11 Budget and the 2010–11 Mid-Year Budget Review				
Net capital investment expenditure	—	54	25	50
Estimate at 2011–12 Budget	**-1 821**	**-1 252**	**-489**	**-56**

Note: Totals may not add due to rounding.

(a) Investing variations relate to movements in the net acquisition of non-financial assets.

Table 1.8: Revenue, expense and capital investment expenditure variations (parameter and other) since the 2010–11 MYBR ($million)

	2010–11	2011–12	2012–13	2013–14
Revenue — taxation				
Payroll tax	3	—	6	9
Conveyances	-5	-63	-67	-32
Land tax — private	-5	-4	-4	-4
Land tax — public	-1	6	4	2
Other property tax	4	2	3	4
Insurance taxes	9	9	9	10
Gambling tax	-9	-16	12	-30
Motor vehicle taxes	2	1	2	2
Total taxation revenue	**-1**	**-64**	**-34**	**-38**
Revenue — other				
GST revenue grants and transitional assistance	-131	-54	58	49
Commonwealth specific purpose and national partnership grants				
- Current grants	24	152	90	130
- Capital grants	-6	68	-13	-22
Other Commonwealth grants	5	3	3	3
Other contributions and grants	42	38	38	34
Dividends and income tax equivalents	35	-19	27	-97
Fines and penalties	-6	-2	-1	-1
Royalties	—	12	13	9
Commonwealth contributions	9	14	—	—
Sales of goods and services	-24	-34	-23	-24
Interest income	28	26	48	36
Other revenue	-17	-18	-19	-19
Total other revenue	**-39**	**186**	**219**	**97**
Operating expenses				
Nominal superannuation interest expense	—	1	-1	-2
Interest expense	-25	-21	-48	-45
Carryovers	247	-94	-21	-28
Depreciation	-25	-15	-15	-18
Other variations	16	-231	-77	-299
Total expenses	**213**	**-361**	**-162**	**-392**
Net capital investment expenditure				
Carryovers	205	-157	-45	-3
Provision for project slippage	-200	300	—	—
Depreciation	25	15	15	18
Asset sales — revised program	-78	76	44	30
Other variations	31	-181	-97	58
Total net capital investment expenditure	**-16**	**53**	**-83**	**103**

Note: Totals may not add due to rounding.

Variations in revenue estimates (parameter and other)

Since the 2010–11 Mid-Year Budget Review (MYBR) taxation revenues have been revised down across all years, largely due to downward revisions to revenues from conveyance duty and gambling tax revenues.

The property market has been softer than expected in 2010–11, with both residential and non-residential transactions well below expectations. Total property transfers are expected to return to long-term trend levels by 2014–15. Downward revisions to conveyance duty are larger in 2011–12 than in 2010–11 due to some very large transactions taking place during 2010–11.

Underlying growth in property values over the forward estimates is expected to be broadly in line with MYBR forecasts. However, with fewer first home buyers in the market during the year, compositional factors have contributed to higher than expected residential average duty. As first home buyers return to more normal levels, growth in residential average duty will be held down somewhat over the next few years.

Land tax revenue from private property owners has been revised down slightly in 2010–11. This flows through as a base effect across the forward estimates but is partially offset by higher than anticipated growth in land values during calendar year 2010, which will be reflected in updated land valuations used for 2011–12 land tax assessments. Public sector land tax estimates have been revised up from 2011–12 due to an expected increase in collections from the Land Management Corporation.

Stronger than expected growth in taxable payrolls in 2010–11 flows through as a base effect in the forward years. Growth in total employment and hours worked is expected to moderate in 2011–12 and over the forward estimates given the stronger than expected growth in the initial recovery from the global financial crisis. This fully offsets the flow through impacts in 2011–12.

Gambling tax revenue has been revised down in 2010–11 due to lower than expected growth in gaming machine net gambling revenue. Household consumption expenditure in 2011–12 has been revised down since the MYBR and this also impacts upon gaming machine taxation revenue from 2011–12. The government is now considering the creation of a new lotteries licence for SA Lotteries. Distributions from SA Lotteries, which impact on gambling tax revenue, are boosted in 2012–13 by the expected return of reserves in line with the creation of a new lotteries licence for SA Lotteries. From 2013–14, distributions from SA Lotteries are expected to cease in line with the creation of a new lotteries licence for SA Lotteries.

Revenue from insurance duty has been revised up mainly reflecting stronger than expected growth in premium revenue in 2010–11.

Downward revisions to the national GST pool available for distribution to the states have significantly affected GST revenue grants. This impact is partially offset in 2011–12 and fully offset in the forward years by a higher than expected share of the national GST pool from 2011–12 following the release of the Commonwealth Grants Commission’s 2011 Update and revised South Australian population estimates.

Current grants from the Commonwealth Government have been revised up significantly since MYBR mainly due to upwards revisions to specific purpose grants for non-government schools and National Partnership payments for aged care reforms, vocational education and training and universal access to early childhood education.

The upward revision to Commonwealth capital grants in 2011–12 mainly reflects the re-profiling of receipts for a range of projects including the Adelaide to Melbourne Road Corridor and the South

Road Superway. Downward revisions to receipts in 2012–13 and 2013–14 are largely due to the re-profiling of funding for the South Road Planning and South Road Superway projects.

A portion of budgeted schools revenue has been reclassified as other contributions and grants to more appropriately reflect expected arrangements. This reclassification impacts on both the other contributions and grants and other revenue lines across the forward estimates.

Revenue from dividends and income tax equivalents has been revised up in 2010–11 since MYBR mainly due to higher than expected distributions from SA Water. Higher than expected SA Water distributions reflects lower than expected operating and borrowing costs associated with the delay of the delivery of first water for the Adelaide Desalination Plant to the end of July 2011 and delays in a number of smaller infrastructure projects and water security initiatives. Revenue from dividends and income tax equivalents has been revised down in 2011–12 mainly due to increased SA Water operating costs associated with water security initiatives and the revised timing of the commencement of the Adelaide Desalination Plant. Distributions from SA Water in 2013–14 have been revised down since MYBR reflecting a change in the expected water price path and lower than previously projected overall price increases.

Downward revisions to revenue from sales of goods and services in 2010–11 and across the forward years mainly reflects the impact of a softer than anticipated property market on land service fee revenue.

Interest income in 2010–11 has been revised up since MYBR primarily reflecting higher than forecast deposits with the South Australian Government Financing Authority. Revisions over the forward years for interest income reflect the expected level of cash deposits.

Royalty revenue has been revised up over the forward years, primarily reflecting higher copper, uranium, crude oil and natural gas prices. The impact of the higher than expected commodity prices is partially offset by the stronger than expected Australian dollar.

Variations in expense and capital investment expenditure estimates (parameter and other)

The nominal superannuation interest expense in 2010–11 is expected to be $427 million, consistent with forecasts in the 2010–11 MYBR.

The ‘other variations’ category for operating expenses shows significant increases from 2011–12 mainly as a result of:

- expenditure associated with additional Commonwealth revenues for non-government schools
- expenditure associated with additional Commonwealth revenue for aged care reforms and other National Partnership arrangements as announced in the 2011–12 Australian Government Budget.

The expenditure reduction for ‘other variations’ in 2010–11 is due to timing adjustments that shift expenditure from 2010–11 into later years.

Carryover expenditure reflects under expenditure by agencies in 2010–11, which will now be incurred in later years.

The carryover of capital expenditure in 2010–11 reflects delays in project expenditure. Where appropriate, an estimate of expenditure by agencies for these projects has been carried forward into future years. Investing carryovers from 2010–11 to 2011–12 and future years are $205 million. A $300 million provision for capital slippage is included in 2011–12, based on the established tendency for projects to slip behind schedule.

Chapter 2: Expenditure

This chapter provides an overview of new expenditure initiatives in the 2011–12 Budget and describes the trends in aggregate general government expenditure over the forward estimates period. Full details of all budget initiatives are provided in the 2011–12 Budget Measures Statement.

New initiatives

The 2011–12 Budget contains new expenditure initiatives in the general government sector totalling $477.2 million (net of operating savings) over the next four years. This comprises new operating and investing initiatives totalling $515.6 million over the next four years and operating savings of $38.4 million.

Table 2.1 shows the value of operating and investing initiatives across the forward estimates.

Table 2.1: General government expenditure initiatives ($million)

	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Operating initiatives[(a)(b)]	- 145.6	- 114.3	- 58.9	- 111.6
Operating savings	- 2.2	- 1.0	20.7	20.9
Revenue offsets	22.0	22.8	39.3	27.7
Total operating expenditure initiatives	**- 125.8**	**- 92.4**	**1.1**	**- 62.9**
Total investing expenditure initiatives	**- 39.4**	**- 150.3**	**51.2**	**53.1**

Note: Totals may not add due to rounding.

(a) Excludes depreciation on investing initiatives.

(b) Includes expenditure associated with implementing savings initiatives.

The 2011–12 Budget continues the government's commitment to deliver core public services. It sets out several measures to provide additional service delivery for those most in need. New expenditure initiatives are concentrated in Families and Communities, Health and Transport, Energy and Infrastructure.

The Families and Communities budget contains additional new operating initiatives of $140.7 million and investing initiatives of $8.4 million over the next four years. Major initiatives include:

- $41.7 million over four years (along with $8.4 million capital expenditure) for children requiring alternative care arrangements
- $19.0 million over four years for services to increase the level of reunification of children in state care with their families
- $37.5 million over four years to help disability clients with accommodation support, community support, community access, and respite services for carers
- additional resources for concessions
  - $22.1 million over four years to increase water rate concessions, providing further support to pensioners and other eligible low income earners to help manage increases in the cost of essential services
  - $1.8 million over four years to introduce new concessions on energy costs for people who, for medical purposes, require the regulation of temperature to control the symptoms of their disease

- $10.8 million over four years for the provision of disability equipment and to reduce waiting lists
- $7.7 million over four years to enable about half of the residents currently accommodated at the Strathmont Centre to move into community living arrangements, with plans being developed to address the remainder.

The Health budget contains additional new operating initiatives of $152.6 million (in addition to $85.9 million in 2010–11) and investing initiatives of $62.7 million over the next four years. These have been partially offset by a decision to reprofile projects which have reduced expenditure by $54.4 million over the next four years. Major initiatives include:

- $82.5 million over four years (in addition to $19.2 million in 2010–11) to meet additional costs associated with increases in hospital activity in 2010–11
- $50.8 million over four years (in addition to $66.7 million in 2010–11) to meet increases in the cost of service delivery. As cost containment initiatives are progressively implemented, the department expects the associated costs to reduce over time
- $33.3 million for the redevelopment of the Port Lincoln Country General Hospital in conjunction with the Commonwealth Government
- $22.6 million for the redevelopment of health services at the Mount Gambier Hospital also in conjunction with the Commonwealth Government
- $19.3 million over four years to increase and support digital screening services at BreastScreen SA. In conjunction with this initiative the Commonwealth Government is providing $17.4 million over three years to purchase digital mammography equipment, replace the BreastScreen SA client information system and replace a mobile unit.

The Transport, Energy and Infrastructure budget contains additional new operating initiatives of $26.7 million (in addition to $0.6 million in 2010–11) and investing initiatives of $238.3 million (in addition to $5.5 million in 2010–11) over the next four years. These have been offset by a decision to reprofile projects which has reduced operating expenditure by $50.1 million and investing expenditure by $184.2 million over the next four years. Major initiatives include:

- $100.2 million over four years for rail revitalisation.
  - As the delivery of the rail revitalisation program continues, detailed planning and development processes have resulted in annual variations across the range of projects within the rail revitalisation works program, including the reprioritisation of funding across projects such as railcar procurement, electrification works and the rail network track standardisation.
  - Additional funding has been provided for the delivery of:
    - the construction of a turn back for metropolitan railcars at Elizabeth Station to allow for increased frequency of rail services between Adelaide and Elizabeth
    - additional works on the track infrastructure upgrade that were identified during the detailed planning and design phase.
  - Expenditure profiles for the electrification infrastructure on the Gawler, Noarlunga and Outer Harbor lines have also been revised to allow capacity to meet an increase in the extent of work and market conditions, at the time of delivery. The additional funding has been offset within the forward estimates period by the postponement of works to the value of $192.7 million relating to standardisation across the rail network, which will now commence in 2015-16, and the delivery of the Outer Harbor Electrification infrastructure being one year later.
- $35.0 million over four years towards the installation of a new $50.0 million train protection system on the Adelaide metropolitan rail network. The system will be delivered by 2015−16 in parallel with the rail electrification projects and the introduction of new electric railcars
- $25.3 million over three years for the continuation of a program of sealing road shoulders on high priority rural roads based on traffic volumes, the nature of the road and crash rate histories. An amount of $1.2 million over three years has also been allocated for the ongoing maintenance of new road shoulders constructed under the program

- $21.4 million over three years for the continuation of the existing rural freight improvement program from 2012–13 to further improve efficiency on the state's main freight routes
- $17.1 million over two years to upgrade interchanges along the O-Bahn bus corridor which will include extending Park‘n’Ride facilities at Klemzig and Modbury.

A summary of the total operating and investing initiatives by agency is shown in tables 2.2 and 2.3 respectively.

Table 2.2: Operating initiatives by agency ($million)

Agency	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Attorney-General	- 4.1	- 5.2	- 5.2	- 5.1
Auditor-General	—	—	—	—
Correctional Services	- 0.4	- 0.4	- 0.4	- 0.4
Courts	- 0.4	- 0.4	- 0.4	- 0.5
Defence SA	—	—	—	—
Education and Children's Services	- 5.6	- 6.5	- 6.5	- 4.3
Electoral Commission	—	—	—	—
Emergency Services — CFS	- 0.5	- 0.5	- 0.5	- 0.5
Emergency Services — MFS	—	—	—	—
Emergency Services — SAFECOM	- 0.7	- 0.5	- 0.6	- 0.6
Emergency Services — SES	—	—	—	—
Environment and Natural Resources	- 3.0	- 3.7	- 5.0	- 6.3
Environment Protection Authority	- 1.0	- 1.0	- 0.9	- 0.9
Families and Communities	- 24.0	- 33.0	- 38.8	- 44.9
Further Education, Employment, Science and Technology	—	0.4	0.4	0.5
Health	- 59.2	- 29.9	- 31.6	- 32.0
Planning and Local Government	—	—	—	—
Police	—	—	—	—
Premier and Cabinet	- 8.3	- 6.2	- 3.6	- 1.9
Primary Industries and Resources	- 10.8	- 0.5	—	—
Tourism	—	—	—	—
Trade and Economic Development	- 1.4	- 1.1	- 0.3	—
Transport, Energy and Infrastructure	- 7.6	- 3.4	44.6	- 10.3
Treasury and Finance	- 3.0	- 2.9	- 2.2	- 0.1
Water	- 4.3	- 4.3	- 4.1	- 4.2
Zero Waste	—	—	—	—
Across Government				
TVSP scheme — for additional across government FTE reduction	- 11.2	- 15.0	- 3.7	—
Total operating initiatives	**- 145.6**	**- 114.3**	**- 58.9**	**- 111.6**

Note: Totals may not add due to rounding.

Table 2.3: Investing initiatives by agency ($million)

Agency	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Attorney-General	- 0.9	- 1.0	—	—
Auditor-General	—	—	—	—
Correctional Services	- 3.8	—	—	—
Courts	- 1.7	- 2.9	- 0.2	—
Defence SA	—	—	—	—
Education and Children's Services	—	—	4.0	11.0
Electoral Commission	—	—	—	—
Emergency Services — CFS	—	—	—	—
Emergency Services — MFS	—	—	—	—
Emergency Services — SAFECOM	- 0.1	—	—	—
Emergency Services — SES	—	—	—	—
Environment and Natural Resources	- 1.9	- 1.0	- 1.1	- 1.0
Environment Protection Authority	—	—	—	—
Families and Communities	- 2.0	- 2.0	- 2.2	- 2.2
Further Education, Employment, Science and Technology	- 4.5	—	—	—
Health	- 8.8	4.1	- 0.2	- 3.5
Planning and Local Government	—	—	—	—
Police	—	—	—	—
Premier and Cabinet	- 1.3	—	—	—
Primary Industries and Resources	—	—	—	—
Tourism	—	—	—	—
Trade and Economic Development	—	—	—	—
Transport, Energy and Infrastructure	- 13.3	- 143.6	52.4	50.5
Treasury and Finance	—	—	—	—
Water	- 1.1	- 3.8	- 1.6	- 1.6
Zero Waste	—	—	—	—
Total investing initiatives	**- 39.4**	**- 150.3**	**51.2**	**53.1**

Note: Totals may not add due to rounding.

Savings

The 2010–11 Budget included new operating savings totalling $1525.9 million over four years. These were additional to cost recovery and revenue measures ($478.6 million) and the continuation of some savings included in agencies from previous budgets (for example, ongoing efficiency dividend of 0.25 per cent per annum announced in the 2006–07 Budget). Savings are regularly monitored and the overwhelming majority are on track to be delivered as announced.

Some savings measures have been reprofiled compared to their original implementation date or are no longer progressing.

The following savings and revenue measures have changed:

- biosecurity animal health (cost recovery) — the introduction of a levy has been postponed by one year to 1 January 2012. This has resulted in a shortfall of revenue of $500 000 in 2010–11, $240 000 in 2011–12, $980 000 in 2012–13 and $1.3 million in 2013–14
- court-awarded costs against police — a delay in the 2010–11 Budget measure to limit court-awarded costs against police will result in a reduction of savings of $1.6 million in 2011–12
- court enforcement fee — a delay in the 2010–11 Budget measure to introduce the fee will result in a reduction in revenue of $2.6 million in 2011–12
- disability client trust management — postponed the transfer of disability client trust management services from the Department for Families and Communities to the Public Trustee resulting in a reduction in savings of $728 000 in 2011–12. The transfer is now to occur by 1 July 2012 to better allow for transition.

In addition two savings measures are no longer progressing that were included in the 2010–11 Mid-Year Budget Review (MYBR). They are:

- closure of The Parks Community Centre — subsequent to the 2010–11 announcement, the government reversed the decision to close the centre, and appointed Monsignor David Cappo to conduct a review and make recommendations on the centre's future. Funding has been provided to continue operations of The Parks Community Centre until a decision is made on the report
- procurement efficiencies — in response to the Sustainable Budget Commission report, the government asked the Department of Treasury and Finance to consider ways to achieve a saving in the centralised procurement function. That review did not identify any further savings in this area.

The 2011–12 Budget also provides for a reversal of the public sector employee recreation leave loading savings measure. The government has decided not to proceed with the 2010–11 Budget measure that was to replace the recreation leave loading provision for specified public sector employees with an additional recreation leave entitlement of two days per annum. As a consequence there is an adverse impact on the budget of around $22 million per annum commencing from 2012–13.

Four new operating savings measures are included in the 2011–12 Budget. These are:

- $15.2 million in 2012–13, $31.1 million in 2013–14 and $31.7 million in 2014–15 by extending the public sector workforce reduction strategy introduced in the 2008–09 MYBR to require a reduction of 200 FTEs in 2012–13 and a further reduction of 200 FTEs in 2013–14. The allocation of savings to agencies is consistent with the 2008–09 MYBR measure
- $3.8 million in 2012–13, $9.6 million in 2013–14 and $9.5 million in 2014–15 by reducing the $8000 first home bonus grant to $4000 from 1 July 2012 and abolishing the grant from 1 July 2013. An additional $1.6 million is provided in 2011–12 reflecting an expected increase in first home buyers purchasing or building new homes during the year. The $7000 First Home Owner's Grant will continue to be available for eligible first home buyers.
- $1.0 million in 2011–12 and $2.0 million in 2012–13 (indexed) as a result of further streamlining the South Australian Fire and Emergency Commission's (SAFECOM) focus to the provision of services to the SAFECOM Board and corporate services to emergency services agencies. Core support activities to the emergency services agencies, including volunteer support and health, safety and welfare, will continue to be provided by SAFECOM
- $120 000 in 2013–14 and $245 000 in 2014–15 in the Office of Consumer and Business Affairs by developing an online payment and management system for residential tenancy bonds.

An additional provision for targeted voluntary separation package (TVSP) payments of $29.9 million over the period 2011–12 to 2013–14 has been established to support the extension of the public sector workforce reduction strategy.

In addition, the investing budget of Education and Children's Services has been reduced by $15.0 million over the two years of 2013–14 and 2014–15. This reduction has been made against unallocated budget provisions and not specific projects.

The government is also considering the creation of a new lotteries licence for SA Lotteries. This new licence, along with the SA Lotteries' corporate product brands, will continue to be owned by the state government with a sub-licence giving the right to operate the SA Lotteries' brands and business for a defined period of time.

Project changes and reprofiling

As part of the 2011–12 Budget a number of projects have either been delayed compared to their original implementation date or have been deferred. This has resulted in lower expenditure in the forward estimates period for the general government sector of $288.6 million. The projects affected are:

- Rail Revitalisation — additional funding provided to the rail revitalisation project of $100.2 million has been offset by delays and deferrals of $192.7 million ($50.0 million operating and $142.7 million investing)
- Oaklands Park road capacity improvements — the upgrade of the junctions of Diagonal Road, Prunus Street and Morphett Road at Oaklands Park has been deferred to enable the project to be re-scoped. This has resulted in lower expenditure in the forward estimates period of $41.6 million (including $72 000 operating). An additional $2.0 million (including $600 000 in 2010–11) has been provided to undertake planning and design activities associated with re-scoping the project
- The Queen Elizabeth Hospital Redevelopment — Stage 3A — commencement of the construction of The Queen Elizabeth Hospital Stage 3A redevelopment has been delayed by one year from 2012–13 to 2013–14. This has resulted in lower expenditure in the forward estimates period of $30.0 million
- Noarlunga Health Service Redevelopment — Stage 2 — commencement of the construction of the Noarlunga Hospital Stage 2 redevelopment has been postponed until 2013–14. This has resulted in lower expenditure in the forward estimates period of $24.4 million.

While not included in the general government expenditure aggregates, Stage 2 of the Riverbank Precinct development, which was to commence in 2013–14, has also been postponed to commence in 2015–16. This only effects the timing of the replacement of the existing Plenary Building. No other parts of the project are affected. This has resulted in lower expenditure in the forward estimates period for public non-financial corporations of $107.8 million.

Full-time equivalent impact

A summary of changes to the number of full-time equivalents (FTEs) in the general government sector as a result of initiatives included in the 2011–12 Budget is shown in Table 2.4.

Table 2.4: Full-time equivalent impacts of 2011–12 Budget measures as at 30 June each year

	2010–11	2011–12	2012–13	2013–14	2014–15
Total FTE impact of budget measures	287	399	175	4	-5

Increases to FTE levels evident in 2010–11 and 2011–12 primarily reflect additional FTEs provided to Health associated with increases in hospital services in 2010–11 and increases in the cost of service delivery. These increases are expected to reduce in later years as cost containment initiatives in Health are progressively implemented. Additional FTEs are also provided to Families and Communities to support disability services and to increase the level of reunification of children in state care with their families. By 2014–15 reductions associated with new savings measures across government broadly offset the increase in FTEs associated with new initiatives.

The net effect on each agency as at 30 June 2015 of the new expenditure measures and savings initiatives in the 2011–12 Budget is detailed in Table 2.5.

Table 2.5: Full-time equivalent impacts of new initiatives as at 30 June 2015

Agency	Expenditure initiatives	FTE Savings measures	Other Savings	Total
Attorney-General	20	-22	-4	- 6
Correctional Services	3	-8	—	- 5
Courts	20	-14	—	7
Defence SA	—	—	—	—
Education and Children's Services	—	-36	—	- 36
Electoral Commission	—	—	—	—
Emergency Services — CFS	—	—	—	—
Emergency Services — MFS	—	—	—	—
Emergency Services — SAFECOM	1	-2	-26	- 27
Emergency Services — SES	—	—	—	—
Environment and Natural Resources	38	-20	—	18
Environment Protection Authority	8	-4	—	4
Families and Communities	129	-20	—	109
Further Education, Employment, Science and Technology	—	-32	—	- 32
Health	158	-106	—	51
Planning and Local Government	—	-4	—	- 4
Police	16	—	—	16
Premier and Cabinet	1	-22	—	- 21
Primary Industries and Resources	—	-26	—	- 26
Tourism	—	-4	—	- 4
Trade and Economic Development	—	-4	—	- 4
Transport, Energy and Infrastructure	16	-53	—	- 38
Treasury and Finance	—	-14	—	- 14
Treasury and Finance Administered Items	—	—	—	—
Water	16	-10	—	6
Zero Waste	—	—	—	—
Total 2014–15 initiative FTEs	**423**	**-400**	**-30**	**-5**

Note: Totals may not add due to rounding.

Measures approved after the 2010–11 Mid-Year Budget Review

In addition to measures approved in the 2011–12 Budget, several initiatives were approved in the period following the 2010–11 Mid-Year Budget Review (MYBR). These initiatives are shown as memorandum items in the 2011–12 Budget Measures Statement and include:

- $69.8 million over four years for the expansion of regional cancer services — the investing expenditure is offset by additional revenue from the Commonwealth as part of the Regional Cancer Centres initiative
- $17.4 million over three years to purchase digital mammography equipment to replace the current analogue technology — the investing expenditure is offset by additional revenue from the Commonwealth
- $12.2 million over five years for projects including medical and information technology equipment purchases and a redevelopment partly funded by additional revenue of $5.9 million from donations
- $12.0 million over five years to support the transition of the existing Land Services Division database to a new information technology system for land administration functions — this initiative is to be funded by the introduction of a $15 transaction levy on existing lodgement fees collected under the *Real Property Act 1886*

- $10.5 million over four years for the transition of agency information communication technology services to Shared Services SA — the transition will result in additional savings of $1.0 million in 2013–14, $3.0 million in 2014–15 and $6.0 million per annum from 2015–16
- $5.3 million over five years to refurbish and upgrade Technology Park Adelaide assets.

General government operating expenditure

Forward estimates of general government expenses by type are shown in Table 2.6.

In 2010–11, general government expenses are estimated to be $39 million (0.3 per cent) higher than estimated at the 2010–11 Budget. Expenses are estimated to be $476 million (3.1 per cent) higher in 2011–12 than the 2010–11 Estimated Result. These movements reflect the net impact of decisions made to increase spending in priority areas including Health and Families and Communities.

Table 2.6: General government expenditure — forward estimates ($million)

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Employee expenses	6 379	6 417	6 606	6 699	6 829	7 041
Superannuation expenses						
Superannuation interest cost	427	427	412	410	407	403
Other superannuation expenses	676	684	701	707	715	729
Depreciation and amortisation	681	693	768	835	881	961
Interest expenses	255	307	366	420	441	444
Other property expenses	—	—	—	—	—	—
Other operating expenses	3 983	4 026	4 105	4 130	4 255	4 359
Grants	3 073	2 960	3 034	2 863	2 786	2 788
Total expenses	**15 475**	**15 514**	**15 990**	**16 064**	**16 313**	**16 724**
Total expenses % change on previous year						
Total expenses nominal growth (%)			3.1%	0.5%	1.5%	2.5%
Total expenses real growth (%)			0.1%	-2.4%	-1.1%	0.0%

Note: Totals may not add due to rounding.

Real growth in operating expenses is projected to decline by 3.4 per cent across the forward estimates. This is predominantly a result of a 1.7 per cent real-terms decline in employee expenses and a 16.4 per cent real-terms decline in grants. Increases in employee expenses as a result of new expenditure initiatives are more than offset by the reduction in full-time equivalents (FTEs) associated with savings measures across the general government sector by 2014–15, whilst the reduction in grants largely reflects the end of the Commonwealth Nation Building — Economic Stimulus Plan.

Table 2.7 shows operating expenses across the forward estimates for selected agencies. For further detail refer to the 2011–12 Agency Statements.

Table 2.7: Operating expenses — selected agencies[(a)]

Agency[(b)]	2010–11 Budget $m	2010–11 Estimated Result $m	2011–12 Budget $m	2012 –13 Estimate $m	2013 –14 Estimate $m	2014–15 Estimate $m
Attorney-General	259	257	260	244	245	250
Auditor-General	14	14	14	14	14	15
Correctional Services	198	204	209	209	214	218
Courts	94	94	97	98	100	103
Defence SA	25	32	31	30	28	29
Education and Children's Services	2 533	2 604	2 660	2 637	2 625	2 647
Electoral Commission	8	8	4	4	14	8
Emergency Services — CFS	63	63	65	65	66	66
Emergency Services — MFS	114	115	116	118	119	121
Emergency Services — SAFECOM	25	18	27	16	12	12
Emergency Services — SES	12	12	12	12	12	12
Environment and Natural Resources	194	222	177	168	161	165
Environment Protection Authority	39	39	43	44	45	45
Families and Communities	1 528	1 537	1 541	1 550	1 580	1 623
Further Education, Employment, Science and Technology	574	543	562	556	551	522
Health	4 460	4 517	4 635	4 715	4 809	4 942
Planning and Local Government	25	28	25	23	23	23
Police	693	691	723	741	769	790
Premier and Cabinet	296	288	293	275	259	261
Primary Industries and Resources	265	253	225	197	196	200
Tourism	62	66	63	61	61	63
Trade and Economic Development	62	63	53	50	43	34
Transport, Energy and Infrastructure[(c)]	1 317	1 396	1 418	1 366	1 403	1 478
Treasury and Finance	218	212	216	207	198	199
Water	184	186	185	148	121	122
Zero Waste	9	9	8	8	9	9
Total operating expenses — selected agencies	**13 272**	**13 469**	**13 662**	**13 556**	**13 677**	**13 956**

Note: Totals may not add due to rounding.

(a) Table will not add to total expenses in the tables in Appendix A as only agencies presented in 2011–12 Agency Statements are included as well as the impact of interagency transactions.

(b) Excludes administered items of agencies.

(c) Includes South Australian Government Employee Residential Properties.

The major changes in operating expenses across the forward estimates are in the following agencies:

- Environment and Natural Resources — projected to decline from $222 million in 2010–11 to $165 million in 2014–15, primarily due to reduced expenditure on projects completed in conjunction with the Commonwealth for Murray Futures Coorong, Lower Lakes and Murray Mouth
- Families and Communities — projected to increase from $1537 million in 2010–11 to $1623 million in 2014–15, primarily due to ongoing growth in disability services and children in alternative care
- Health — projected to increase from $4517 million in 2010–11 to $4942 million in 2014–15, primarily due to increases in the costs and volume of hospital services
- Police — projected to increase from $691 million in 2010–11 to $790 million in 2014–15, due in part to the recruit 300 initiative

- Primary Industries and Resources — projected to decline from $253 million in 2010–11 to $200 million in 2014–15, primarily due to the reduction of expenditure on the exceptional circumstances program (predominantly Commonwealth funded), state drought support program, the plague locust emergency response program and the effect of savings measures (primarily from the 2010–11 Budget)
- Trade and Economic Development — projected to decline from $63 million in 2010–11 to $34 million in 2014–15, primarily due to downsizing of the department following the 2010–11 Budget
- Water — projected to decline from $186 million in 2010–11 to $122 million in 2014–15, primarily due to reduced expenditure relating to projects completed in conjunction with the Commonwealth under the Murray Futures program and stormwater management initiatives.

The following section provides further details on the key components of expenses.

Employee expenses

Table 2.8: General government employee expenses — forward estimates

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Employee expenses ($m)	6 417	6 606	6 699	6 829	7 041
Nominal growth (%)		3.0%	1.4%	1.9%	3.1%
Real growth (%)		0.0%	-1.5%	-0.7%	0.6%

Across the forward estimates period employee expenses decline by 1.7 per cent in real terms reflecting the net effect of expenditure and savings initiatives announced in the 2011–12 Budget and previous years, in particular the reduction in full-time equivalents (FTEs). The net impact of 2011–12 Budget initiatives on FTE numbers over the forward estimates period is shown in Table 2.4.

FTE employee number estimates for general government sector agencies are based on their FTE caps. The caps are consistent with the salaries and wages budget for each agency and are adjusted in line with changes to their budgets. Actual FTEs are monitored on a regular basis with agencies required to explain any significant variations from their FTE cap.

The estimated aggregate workforce levels in the general government sector across the forward estimates are shown in Table 2.9.

Table 2.9: General government sector employment numbers

	Full-time equivalent employees as at 30 June					
	2011 Estimate at 2010–11 Budget	2011 Estimate	2012 Estimate	2013 Estimate	2014 Estimate	2015 Estimate
General government sector	79 879	80 254	79 859	79 352	78 749	78 816

The estimate of FTEs at 30 June 2011 in the general government sector is 375 higher than estimated at the time of the 2010–11 Budget. The increase is mainly due to additional employees in:

- Health (267 FTEs) as a result of increases in hospital services and additional costs associated with the provision of health services
- Environment and Natural Resources (75 FTEs), primarily due to additional resources provided by the Commonwealth for the Coorong, Lower Lakes and Murray Mouth Early Works program
- Primary Industries and Resources (27 FTEs), predominantly as a result of increased fee for service activity in Rural Solutions SA.

Overall, there is an estimated decrease of 395 FTEs in the general government sector from 30 June 2011 to 30 June 2012 as growth associated with new initiatives is more than offset by savings measures. FTEs in the general government sector are estimated to decrease by 1438 between 30 June 2011 and 30 June 2015. This is due primarily to savings measures announced in past budgets.

A targeted voluntary separation package (TVSP) scheme has been open since November 2010 to assist agencies in the delivery of their FTE reduction requirements. TVSPs are available (at the discretion of chief executives) to persons whose positions are abolished as part of savings measures and organisational restructures. It is noted that FTE reductions can also be achieved in other ways (for example, natural attrition). The government will also honour its pledge of a ‘no forced redundancy’ policy for the remainder of this electoral term. Commencing in 2014, a process will be introduced whereby a public sector employee who has been a long-term redeployee would be able to be separated with appropriate financial severance and in accordance with the *Public Sector Act 2009*.

In 2010–11 enterprise agreements were finalised for wages parity weekly-paid employees, police, nurses and midwives and assistants to members of parliament.

Enterprise bargaining negotiations are progressing concerning SA Ambulance Service employees and wages parity (building, metal & plumbing trades) employees and have commenced in relation to the South Australian Metropolitan Fire Service (firefighters) and salaried medical officers.

During 2011–12, enterprise bargaining negotiations are expected to commence in relation to clinical academics, visiting medical specialists, wages parity salaried group, school and preschool employees and TAFE lecturers.

The government will continue to negotiate wage outcomes consistent with ensuring the sustainability of the state’s finances.

Superannuation expenses

Table 2.10: General government superannuation expenses—forward estimates

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Superannuation expenses ($m)					
Superannuation interest cost	427	412	410	407	403
Other superannuation expenses	684	701	707	715	729
Nominal growth (%)		0.1%	0.4%	0.4%	0.9%
Real growth (%)		-2.7%	-2.5%	-2.2%	-1.6%

The estimated nominal superannuation interest expense represents the increase during the year in the defined benefit superannuation obligations due to them being one year closer to settlement, less the expected earnings on superannuation assets. The nominal superannuation interest expense for each year is calculated based on the unfunded superannuation liability at the end of the preceding financial year. Further discussion on that liability can be found in Chapter 4.

The nominal superannuation interest expense for 2010–11 is $427 million, consistent with estimates in the 2010–11 Mid-Year Budget Review.

Other superannuation expenses represent the employer contribution made for the employees’ accruing superannuation entitlement associated with their service during the year. In real terms other superannuation expenses decline at a higher rate than salary and wages expenditure as a consequence of a reduction in the number of active contributors to the closed defined benefit schemes as they leave the public service.

Depreciation and amortisation

Table 2.11: General government depreciation and amortisation expenses—forward estimates

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Depreciation expenses ($m)					
Buildings and improvements	260	294	343	370	396
Plant, equipment and vehicles	181	213	230	244	255
Road network	178	180	181	181	218
Rail and bus tracks	36	39	41	46	53
Water, sewer and drainage	5	4	4	4	5
Harbour and port facilities	6	6	6	6	6
Other	27	31	30	29	28
Total depreciation	693	768	835	881	961
Nominal growth (%)		10.8%	8.8%	5.5%	9.1%
Real growth (%)		7.6%	5.6%	2.7%	6.4%

The main asset types comprising general government depreciation across the forward estimates are building and improvements, plant, equipment and vehicles and road network.

General government sector depreciation and amortisation expenses are estimated to be $75 million higher in 2011–12 than the 2010–11 Estimated Result. Significant growth in depreciation is projected over the forward estimates as projects are completed in line with the extensive investment in the state's infrastructure program.

The completion of a number of building projects in 2011–12 such as the Modbury and Noarlunga GP Plus super clinics, the Ceduna Health Service redevelopment as well as the new cancer centre at the Women's and Children's Hospital contribute to a rise in depreciation expenses up to 2012–13.

A rise in the 2014–15 depreciation expense relating to the road network is due to the completion of a range of large projects which conclude in 2013–14, the most notable of which are the South Road Superway and the duplication of the Southern Expressway.

Interest expenses

Table 2.12: General government interest expenses—forward estimates

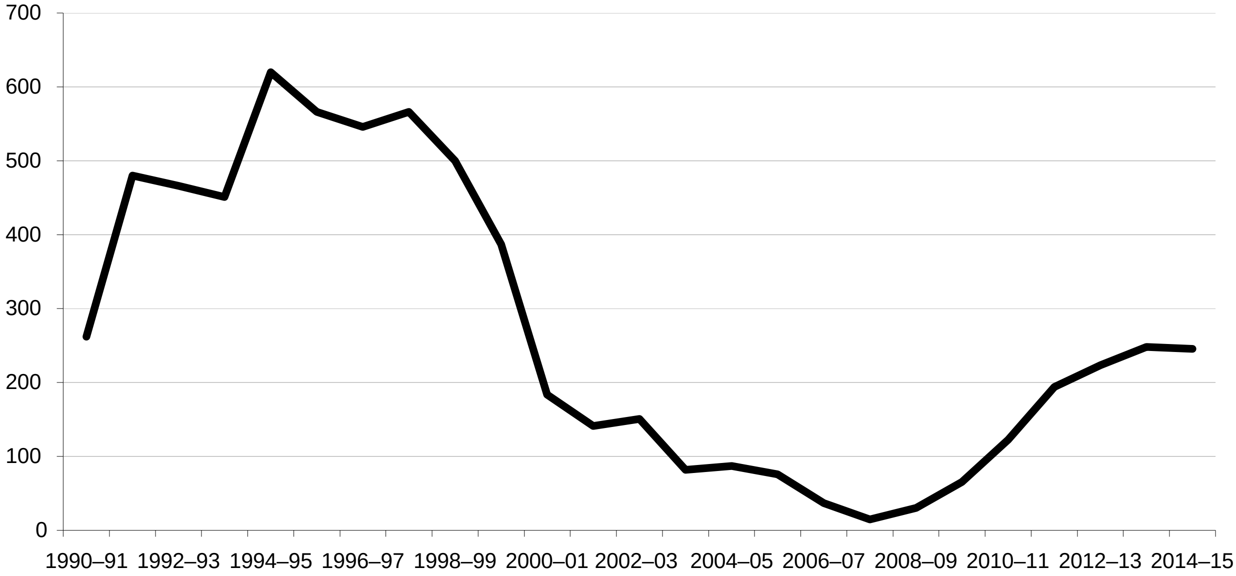
	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Interest expenses ($m)	307	366	420	441	444
Nominal growth (%)		19.0%	14.7%	5.0%	0.9%
Real growth (%)		15.6%	11.4%	2.3%	-1.6%

Interest expenses comprise interest paid by the Treasurer to the South Australian Government Financing Authority (SAFA) on government borrowings and interest expenses of agencies related to finance leases.

Interest expenses are expected to rise over the forward estimates reflecting a higher level of borrowings up to 2013–14, as a consequence of the net lending deficits that support the government's significant capital expenditure program. Interest rates applicable to government debt are expected to rise moderately across the forward estimates.

The following graph shows net interest expense (interest expenses less interest income) from 1990–91.

Figure 2.1: General government sector net interest expense: 2001–02 to 2014–15 ($m)[(a)]



(a) Data for the years before 1999−2000 is sourced from budget results publications and are consistent with ABS Government Finance Statistics reporting requirements on a cash basis. Data from 1999−2000 is prepared on an accrual basis consistent with the uniform presentation framework.

Other operating (non-employee) expenses

Table 2.13: General government other operating (non-employee) expenses—forward estimates

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Other operating (non-employee) expenses ($m)	4 026	4 105	4 130	4 255	4 359
Nominal growth (%)		2.0%	0.6%	3.0%	2.4%
Real growth (%)		-1.0%	-2.3%	0.3%	-0.1%

General government other operating (non-employee) expenses for 2010–11 are estimated to be $4026 million. This is predominantly made up of:

- supplies and services ($2712 million)
- computer and communications charges ($267 million)
- consultancies and contractors ($221 million)
- repairs and maintenance expenses ($171 million)
- rail contracts ($100 million).

The estimated nominal growth in other operating (non-employee) expenses in 2011–12 ($79 million) is mainly due to the carryover of expenditure from 2010–11 into 2011–12 and the net effect of other parameter variations impacting other operating (non-employee) expenses.

Over the forward estimates other operating (non-employee) expenses are contained in real terms as a result of the implementation of savings measures and the restrained approach to new spending in this budget.

Grants

Table 2.14: General government grant expenses — forward estimates

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Grants ($m)	2 960	3 034	2 863	2 786	2 788
Nominal growth (%)		2.5%	-5.6%	-2.7%	0.1%
Real growth (%)		-0.5%	-8.4%	-5.2%	-2.4%

General government sector grant payments for 2011–12 are forecast to be $3034 million ($74 million higher than the estimated result for 2010–11 of $2960 million). These include grants to non-government schools, local government, industry, the South Australian Housing Trust and community service obligation payments to SA Water and ForestrySA.

The increase in 2011–12 is a result of:

- a $97 million increase in payments to SA Water associated with on-passing Commonwealth Government grants for the Adelaide Desalination Plant
- the profile of grant payments for the redevelopment of Adelaide Oval being higher in 2011–12 than in 2010–11.

These increases are partially offset by a reduction in payments in 2010–11 as Commonwealth programs under the Nation Building — Economic Stimulus Plan are either finalised or near completion.

Grant expenses are projected to decline to $2863 million in 2012–13 and $2786 million in 2013–14 largely reflecting:

- the completion of payments to SA Water in 2012–13 associated with on-passing of Commonwealth Government grants for the Adelaide Desalination Plant, coinciding with the completion of the Adelaide Desalination Plant in December 2012
- completion of Nation Building — Economic Stimulus Plan expenditure in 2011–12
- lower payments for stormwater management projects of $25.6 million in 2012–13, reducing to $1.6 million in 2013–14 as projects are completed.

General government investing expenditure

Purchases of property, plant and equipment

Table 2.15: General government investing expenditure ($ million)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
General government investing expenditure ($m)	-2 189	-2 125	-1 856	-1 151	-1 119

Purchases of property, plant and equipment are expected to be $2125 million in 2011–12 (compared with the estimated result for 2010–11 of $2189 million). The forward estimates contain a major infrastructure investment program of $6.3 billion in the general government sector over four years that will rebuild and expand the state’s strategic economic and social infrastructure to accommodate future needs. For further detail on the capital program refer to the 2011–12 Capital Investment Statement.

Significant capital investments being undertaken in the general government sector include:

- $2.1 billion ($1.2 billion of which will be spent over the next four years) for major rail projects including the upgrade and electrification of the Noarlunga and Gawler lines, electrification of the Outer Harbor line, construction of the Seaford extension from Noarlunga, and installation of a new train protection system
- $1.4 billion ($1.1 billion of which will be spent over the next four years), in partnership with the Commonwealth, for road projects to improve traffic flow along the north–south road corridor between Gawler and Old Noarlunga. Major projects include the South Road Superway, duplication of the Southern Expressway and planning studies to explore options for the section of South Road between the Superway and Gallipoli Underpass
- $1.2 billion ($668.6 million of which will be spent over the next four years) for redevelopment of major metropolitan and regional hospitals.

In addition to the site works associated with the new Royal Adelaide Hospital that are reflected in the government's capital works program, there will also be significant private sector expenditure associated with the construction of the facilities. The private sector expenditure is not reflected in Table 2.15. The recognition of the assets and other obligations associated with the new Royal Adelaide Hospital will occur in 2015–16 when the government takes control of the facilities.

The government has also committed $535 million to redevelop the Adelaide Oval. This expenditure is reflected as a grant in the government's accounts and is additional to the investing expenditure reflected in Table 2.15.

While there is a decline in general government investing expenditure over the forward estimates as expenditure under the Commonwealth Nation Building—Economic Stimulus Plan finishes, and significant major projects including the Northern Expressway and South Road Superway are completed, expenditure remains at historically high levels, reflecting continued investment by the government in transport, health and education infrastructure. Across the forward estimates, the general government capital program is almost double the budgeted level of depreciation, which will continue to provide significant growth in the state's asset base.

Expenses by function (ABS Government Purpose Classifications)

Expenses by function are shown in Table 2.16 according to the Australian Bureau of Statistics' (ABS) Government Purpose Classification.

Health (29 per cent) and education (25 per cent) each account for a significant component of general government sector expenses and together represent over half of all expenses.

Expenditure in 2011–12 is estimated to be higher than the 2010–11 Estimated Result in the government's priority areas of social security and welfare (9.4 per cent), public order and safety (4.6 per cent) and health (2.2 per cent).

Some large transactions for specific projects account for movements between years in a number of categories:

- growth in the education and housing and community amenities categories are forecast to be flat in 2011–12 — this is largely due to grants on-passed to non-government schools and the South Australian Housing Trust under the Commonwealth fiscal stimulus measures in 2010–11
- forecast expenditure on the Adelaide Oval redevelopment results in an increase in the recreation and culture category in 2011–12.

Table 2.16: Estimate of expenses by function[(a)]

	2009–10 Outcome	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget	2011–12 change on 2010–11 Estimate
	$m	$m	$m	$m	%
General public services	313	405	402	413	2.6
Defence[(b)]	—	—	—	—	—
Public order and safety	1 391	1 457	1 448	1 515	4.6
Education	3 862	3 919	3 952	3 947	-0.1
Health	4 374	4 534	4 615	4 715	2.2
Social security and welfare	954	1 100	1 048	1 146	9.4
Housing and community amenities	1 870	1 389	1 349	1 349	0.0
Recreation and culture	289	414	325	483	48.5
Fuel and energy	50	45	53	43	-17.7
Agriculture, forestry, fishing and hunting	211	188	190	180	-5.3
Mining and mineral resources (other than fuels), manufacturing and construction	70	82	74	84	14.5
Transport and communications	829	817	892	894	0.3
Other economic affairs	259	288	300	274	-8.7
Other purposes	875	835	866	948	9.4
Total expenses	**15 347**	**15 475**	**15 514**	**15 990**	**3.1**

Note: Totals may not add due to rounding.

(a) Expenses by function data is derived from information submitted by government departments and agencies. The processes for deriving this data are subject to ongoing refinements. Consequently the data may be subject to future revisions.

(b) The ABS defines 'defence' as expenditure on military and civil defence affairs, foreign military aid and defence research. The expenditure of Defence SA is included in other economic affairs.

Chapter 3: Revenue

Overview

This chapter provides an overview of new revenue measures and summarises factors that impact on key government revenues over the forward estimates.

While Australia has weathered the global financial crisis (GFC) relatively well, growth throughout the economy has been mixed, with strong growth in the mining sector along with weakness in other sectors such as retail trade. The weakness in some parts of the economy continues to affect government revenues.

Taxation and Goods and Services Tax (GST) revenues in 2010–11 have been revised down since the 2010–11 Budget, mainly due to a softer property market and a weaker outlook for consumption and dwelling investment.

The downward revision to these revenues since the 2010–11 Budget has added to the estimated loss in taxation and GST revenue since the GFC, with estimates of these revenues still significantly below projections made as part of the 2008–09 Budget. It is estimated that total taxation, GST and royalty revenue over the period 2010–11 to 2011–12 will be almost $650 million lower than the projections made for the same period before the GFC.

Taxation and GST revenues are estimated to be below their trend level in 2010–11 and 2011–12, largely reflecting weakness in the property market and the impact of more cautious household spending on consumer goods and dwelling investment.

Over the forward estimates, it is anticipated that economic conditions in these sectors will improve, providing a more supportive environment for growth in own-source revenues and GST grant revenues.

Estimates of taxation revenue assume a return to long-term trend levels by the end of the forward estimates period. GST revenue grant estimates are based on the Commonwealth Government’s estimate of the total GST pool available for distribution to the states, adjusted for expected changes in South Australia’s relativity weighted population share.

Taxation and GST grant revenues are expected to grow modestly over the forward estimates, reflecting the improved outlook for the property market and consumption spending and the return to trend level methodology for state taxation revenue.

Total operating revenues are projected to be fairly flat in real terms, growing by an annual average real-growth rate of just 0.8 per cent over the four years to 2014–15. This is mainly due to a decline in Commonwealth National Partnership grants largely offsetting growth in taxation, GST and other revenue items.

While the outlook for the domestic economy, including the property market, appears positive, it is recognised that a range of factors could adversely affect domestic growth and consequently revenue estimates. These factors include recent national and international natural disasters, instability and ongoing financial concerns in some overseas regions, rising oil prices and other potential inflationary pressures in some overseas economies.

New initiatives

The 2011–12 Budget contains one new taxation initiative in the general government sector, totalling around $2 million per annum. Light motor vehicle registration fees will increase by around one percentage point more than the standard 2.9 per cent indexation factor for 2011–12 to fund a four-year program of road resurfacing and rehabilitation works to improve the condition of regional road networks in South Australia.

Table 3.1 shows the value of taxation and other agency revenue measures announced in the budget across the forward estimates. Further details on all revenue measures included in this budget are provided in the 2011–12 Budget Measures Statement.

Table 3.1: Revenue measures announced in the 2011–12 Budget ($million)

	2010–11 Estimate	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Revenue — taxation	—	2.4	2.4	1.6	1.5
Revenue — other	- 0.5	2.3	9.9	10.0	11.6
Total revenue measures	- 0.5	4.7	12.3	11.6	13.1

General government sector revenue

Total general government sector operating revenues are projected to increase in real-terms by 1.2 per cent in 2011–12, following a real-terms decline of 5.7 per cent in 2010–11.

The decline in revenues in 2010–11 is primarily due to a fall in National Partnership grants as a result of various factors. These include the discontinuation of the temporary First Home Owner Boost scheme and the winding back of funding provided under the Commonwealth's Nation Building — Economic Stimulus Plan, which provided significant infrastructure funding for schools and social housing in 2009–10.

Total growth in operating revenues over the forward estimates is expected to be small in real terms with a decline in National Partnership funding for capital projects largely offsetting growth in other revenue items.

Table 3.2: General government sector revenues ($million)

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Taxation revenue	3 857.9	3 844.8	4 128.6	4 413.5	4 649.9	4 933.5
Grant revenue	8 319.4	8 247.5	8 396.6	8 405.0	8 327.7	8 898.0
Sales of goods and services	1 876.8	1 884.6	2 054.3	2 122.7	2 166.9	2 243.3
Interest income	142.6	184.4	171.6	196.0	192.2	198.6
Dividend and ITE[(a)] revenue	353.1	407.8	371.3	405.8	408.3	410.0
Other revenue	536.0	518.1	604.7	635.0	647.3	695.4
Total revenue	**15 085.8**	**15 087.1**	**15 727.0**	**16 178.1**	**16 392.4**	**17 378.8**
% change on previous year						
Nominal-terms growth %		- 2.9	4.2	2.9	1.3	6.0
Real-terms growth %		-5.7	1.2	-0.1	-1.3	3.4

Note: Totals may not add due to rounding.

(a) Income tax equivalent (ITE).

Taxation

Taxation revenues have been revised down in 2010–11 since the release of the 2010–11 Budget, largely due to softer than expected property market conditions and lower than expected revenue from gaming machines.

The outlook for taxation revenue is for moderate real growth, with taxation revenue forecast to grow at an annual average real rate of 3.3 per cent from 2011–12 over the forward estimates.

In policy adjusted terms, taxation revenues are projected to grow by 3.8 per cent in real terms in 2011–12 and by an average annual real growth rate of 3.9 per cent over the three years to 2014–15. The policy adjusted series presented in the tables shows the underlying growth in taxation revenues by adjusting taxation estimates to be consistent with 2011–12 policy settings.

Tax estimates are provided in Table 3.3.

Table 3.3: Taxation ($million)

	2009–10 Outcome	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Payroll tax	**900**	**930**	**958**	**1 049**	**1 116**	**1 185**	**1 258**
Property taxes							
Conveyance duty[(a)]	790	894	830	893	1 000	1 124	1 241
Land tax — private	357	355	350	369	391	407	425
Land tax — public	196	218	221	234	242	250	259
Emergency services levy on fixed property	93	97	100	102	105	109	112
Mortgage duty	2	—	—	—	—	—	—
Natural resources management levies	31	34	36	37	37	37	37
Save the River Murray Levy	24	25	25	26	27	28	29
Guarantee fees	29	54	67	89	89	87	88
Rental duty	1	—	1	—	—	—	—
Share duty	5	6	5	6	1	—	—
Gaming machine surcharge	2	2	2	2	—	—	—
All other[(b)]	6	6	6	6	7	7	7
	1 536	**1 689**	**1 641**	**1 763**	**1 897**	**2 049**	**2 198**
Gambling taxes							
Gaming machines	284	305	296	312	335	359	386
SA Lotteries[(c)]	86	74	76	79	108	67	68
Casino	22	23	21	22	23	24	26
SA TAB	6	5	5	4	4	3	3
Other[(d)]	3	3	3	3	3	4	4
	402	**411**	**402**	**420**	**473**	**458**	**487**
Insurance taxes							
General insurance	226	226	230	251	260	270	280
CTP renewal certificate	61	62	65	66	66	67	69
CTP insurance	52	56	58	60	64	67	69
Life insurance	8	8	10	10	11	11	11
	347	**352**	**362**	**387**	**401**	**415**	**429**
Motor vehicle taxes							
Motor vehicle registration fees	290	296	301	323	336	347	361
Stamp duty on registration transfers	145	149	149	154	158	163	168
Emergency services levy on mobile property	29	31	31	32	32	33	33
	464	**476**	**482**	**509**	**526**	**543**	**562**
Total taxation	**3 649**	**3 858**	**3 845**	**4 129**	**4 413**	**4 650**	**4 933**
Policy adjusted[(e)]	**3 596**	**n.a.**	**3 877**	**4 143**	**4 466**	**4 736**	**5 041**
% change on previous year							
Total taxation							
Nominal growth			5.4	7.4	6.9	5.4	6.1
Real growth			2.3	4.3	3.8	2.6	3.5
Policy adjusted							
Nominal growth			7.8	6.8	7.8	6.1	6.4
Real growth			4.6	3.8	4.7	3.3	3.8

Note: Totals may not add due to rounding.

(a) Includes voluntary conveyances.

(b) Includes Agents Indemnity Fund and Hindmarsh Island Levy.

(c) The government is now considering the creation of a new lotteries licence for SA Lotteries. Distributions net of income tax equivalents from SA Lotteries are expected to cease from 2013–14 in line with the creation of a new lotteries licence for SA Lotteries. This new licence along with the SA Lotteries' corporate product brands will continue to be owned by the state government with a sub-licence giving the right to operate the SA Lotteries' brands and business for a defined period of time. It is anticipated that tax on lottery net gambling revenue will be received by the government from the holder of the lotteries sub-licence.

(d) Includes revenue from small lotteries and soccer pools.

(e) The policy adjusted series shows the underlying growth in tax revenues by adjusting tax estimates to be consistent with 2011–12 policy settings. For comparability with future years, the policy adjusted figure for 2011–12 assumes a full-year impact of 2011–12 policy measures.

Payroll tax

The outlook for payroll tax revenue is provided in Table 3.4.

Table 3.4: Payroll tax

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Total payroll tax ($m)	**958.4**	**1 049.3**	**1 116.4**	**1 185.3**	**1 258.0**
Nominal growth (%)	6.5	9.5	6.4	6.2	6.1
Real growth (%)	3.3	6.3	3.3	3.4	3.5
Policy adjusted underlying revenue ($m)	**976.3**	**1 048.2**	**1 117.3**	**1 184.4**	**1 255.3**
Nominal growth (%)	10.5	7.4	6.6	6.0	6.0
Real growth (%)	7.3	4.3	3.5	3.2	3.4

Payroll tax receipts in 2010–11 have been revised up since the 2010–11 Budget which reflects the impact of stronger than expected employment conditions, particularly in the second half of 2010. Both employment and wages growth have been slightly stronger than expected at the time of the 2010–11 Budget. The upward revision to payroll tax has been partially offset by higher than expected costs associated with the payroll tax exporters rebate scheme. Growth in taxable payrolls in 2010–11 is partially impacted by the government’s decision to exempt the wages of eligible trainees and apprentices from payroll tax from 1 July 2010.

While solid employment growth is expected to continue in 2011–12 and 2012–13, growth in overall hours worked is expected to moderate from the pace experienced in the initial recovery phase from the global financial crisis resulting in slower underlying growth in taxable payrolls compared with 2010–11. Growth in taxable payrolls is affected in 2011–12 and 2013–14 by the phased abolition of the payroll tax exporters rebate.

In policy adjusted terms, payroll tax revenues are expected to grow moderately from 2011–12, with real growth of between 3.2 per cent and 3.5 per cent per annum across the forward estimates.

Property taxes

Property taxes include stamp duties (including on the conveyance of property and transfers of non-quoted marketable securities), land tax, the emergency services levy on fixed property, the Save the River Murray Levy, regional natural resources management levies, guarantee fees and other minor taxes.

The revenue outlook for all property taxes is provided in Table 3.5.

Table 3.5: Property taxes

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Total property taxes ($m)	**1 641.3**	**1 763.2**	**1 896.6**	**2 048.6**	**2 198.3**
Nominal growth (%)	6.9	7.4	7.6	8.0	7.3
Real growth (%)	3.7	4.3	4.5	5.2	4.7
Policy adjusted underlying revenue ($m)	**1 648.2**	**1 778.5**	**1 947.4**	**2 115.2**	**2 286.8**
Nominal growth (%)	10.3	7.9	9.5	8.6	8.1
Real growth (%)	7.1	4.8	6.3	5.8	5.5

Property market conditions have been softer than expected in 2010–11. This has affected conveyance duty revenue, with the number of residential and non-residential property transfers at historically low levels. The impact of the softer property market on conveyance duty revenue in 2010–11 has been largely offset by revenue from large-value property transactions. Strong growth in revenue from guarantee fees and land tax receipts from public sector entities also contributes to growth in 2010–11.

Conveyance duty transactions are expected to return to their long-term trend level by the end of the forward estimates period as property market conditions improve. Growth in transactions from the low level recorded in 2010–11, combined with annual real growth in property prices, contribute to the solid growth in property tax revenues over the forward estimates.

Property tax revenues are affected by tax reforms agreed under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA) and other tax measures that commence over the forward estimates. IGA reforms affect property tax growth in 2012–13 when stamp duty on non-quoted marketable securities and non-real property transfers is abolished. The introduction of a landholder model from 1 July 2011 and the introduction of land tax relief measures in 2010–11, including the indexation of land tax thresholds in line with site value growth from 2011–12 also affect revenue levels.

The policy adjusted series, on the other hand, assumes a continuation of 2011–12 tax policy settings across the forward estimates period in order to measure the expected underlying growth in tax revenues.

Conveyance duty

The 2010–11 Budget assumed solid growth in both residential and non-residential property transfers, as first home buyers returned to the market and consumer and business confidence improved following the effects of the global financial crisis. However, both residential and non-residential property transfers have been well below expectations, with significantly lower levels compared to 2009–10.

First home buyer transactions have been at low levels in 2010–11. It is likely that the pull forward effect of the Commonwealth Government's temporary first home buyer stimulus measures was more significant than initially expected. Uncertainty associated with potential increases to interest rates over the short to medium term has also impacted on first home buyer demand for residential properties during the year.

Residential average duty has remained resilient in 2010–11 despite lower transaction levels, with growth in residential average duty stronger than assumed in the 2010–11 Budget. Over the year to date, average duty has been affected by compositional changes, as sales in 2010–11 have comprised a higher proportion of higher valued properties, consistent with the fall in first home buyer activity.

The non-residential sector has been softer than expected, with both average duty and transaction levels below original budget expectations.

The decline in conveyance duty revenue during 2010–11 has been offset to a large extent by higher than forecast revenue from large value transactions.

Conveyance duty revenue is expected to improve over the forward estimates as first home buyer transactions return to more normal levels and consumer and business confidence continues to improve.

The forward estimates assume solid growth in both residential and non-residential property transfers, with transactions to return to long-term trend levels by 2014–15. While real-terms price growth is assumed for both the residential and non-residential sectors, residential average duty is expected to be held down over the next few years as first home buyers return to the market.

The first home bonus grant will be phased out from 1 July 2012, with the grant halved from $8000 to $4000 from 1 July 2012 and fully abolished from 1 July 2013. While this is expected to result in a small pull forward effect for first home buyer activity into 2011–12 and 2012–13, it is not expected to have a significant impact on overall conveyance duty levels.

Conveyance duty revenue is affected by the introduction of the landholder model from 1 July 2011 and the abolition of stamp duty on non-real property transfers from 1 July 2012.

Land tax

In 2011–12, private land owners are expected to contribute around 61 per cent of total land tax revenue. Government entities, mainly the South Australian Housing Trust and the Land Management Corporation, contribute the remainder.

Consistent with the land tax relief measures announced by the government in 2009–10, land tax thresholds will be indexed in 2011–12 in line with average site value increases as determined by the Valuer-General. This will avoid increases in land tax revenue from ‘bracket creep’ and will keep land tax revenue growth more in line with land value growth.

Land tax assessments are based on land valuations undertaken by the Valuer-General, which have regard to recent market experience.

Estimated site value increases of 4.9 per cent for residential land and 4.8 per cent for commercial and industrial land in calendar year 2010 drive growth in land tax receipts in 2011–12.

Residential and non-residential land values are expected to grow in real terms over the forward estimates.

Emergency services levy—fixed property

The emergency services levy (ESL) is levied on the capital value of land and buildings. Growth in levy collections reflects growth in property values and the number of taxable properties.

There will be no increase in 2011–12 in the effective ESL rates paid by property owners. Effective ESL rates for fixed property (land and buildings) are summarised in the final column of Table 3.6.

As in previous years, tax relief is provided to fixed property owners through ESL remissions, reducing the effective ESL rates paid by private property owners. The Community Emergency Services Fund is compensated for the loss of this revenue by the government paying into the fund amounts equivalent to the cost of remissions and pensioner concessions further to the government’s ESL liability on its own property. It is estimated that private fixed property owners will be relieved of 45 per cent of their fixed property ESL liability through remissions and pensioner concessions in 2011–12.

The only factor causing ESL bills to rise in 2011–12 is underlying capital value growth impacting on the value of land and buildings. Capital valuations for 2011–12 ESL assessments are estimated to have increased by 5.6 per cent for residential property, 5.0 per cent for commercial property and 3.7 per cent for industrial property from the capital values used in 2010–11 ESL assessments.

The increase in the ESL bill for a residential property in metropolitan Adelaide with a median capital value of $410 000 is estimated to be $2.49.

The forward estimates assume modest real-terms growth in capital values.

Table 3.6: Emergency services levy rates for 2011–12

Fixed property	Prescribed rate[a]	Remission rate	Post-remission rate	Effective levy rate paid in Regional Area 4[b]
	cents per $ (applied to capital values discounted by land use and area factors)			$50 plus cents per $ of non-discounted capital value
Residential	0.0964	0.0704	0.0260	0.0104
Commercial	0.0964	0.0000	0.0964	0.1006
Industrial	0.0964	0.0000	0.0964	0.1750
Rural and vacant land	0.0964	0.0704	0.0260[c]	0.0078
Special community use	0.0964	0.0539	0.0425	0.0043
Other	0.0964	0.0704	0.0260	0.0130

(a) The prescribed rate, which is the rate that would apply in the absence of remissions, will be 0.0964 cents in the dollar.

(b) Incorporates the effect of land use weightings applied to capital values. Effective levy rates for each land use category differ depending on the regional location of the property. For ease of exposition, effective levy rates have been calculated only for Regional Area 4.

Regional Area 4: metropolitan Adelaide

Regional Area 1: major country towns

Regional Area 2: incorporated areas outside Regional Areas 1 and 4

Regional Area 3: unincorporated areas of the state

(c) This is the rate that applies in Regional Area 4. In Regional Areas 1, 2 and 3 the remission rate for rural and vacant land is 0.0869 cents in the dollar and the post remission rate is 0.0095 cents in the dollar.

Mortgage and rental duty

Consistent with the government's commitment to IGA tax reforms, rental duty and remaining mortgage duty were progressively phased out over a three-year period, which commenced on 1 July 2007. These stamp duty rates, which were reduced by one-third from 1 July 2007 and a further one-third on 1 July 2008, were fully abolished on 1 July 2009.

The small mortgage and rental duty revenues recorded in 2009–10 and 2010–11 relate to transactions undertaken in prior years.

Share duty

Share duty applies to transfers of non-quoted marketable securities but will be abolished in 2012–13 as part of the IGA tax reform commitments.

Share duty receipts in 2010–11 were slightly lower than originally budgeted reflecting lower than expected transfers of non-quoted marketable securities.

Natural resources management levies

Natural resources management (NRM) levies are collected by councils on behalf of eight regional NRM boards in existence in South Australia. The levies are paid by landholders and water users to fund the activities of the boards that are responsible for managing and protecting each region's natural resources.

Revenue from NRM levies in 2010–11 is expected to be broadly in line with original budget estimates and will remain relatively flat over the forward estimates period.

Save the River Murray Levy

Funds raised from the Save the River Murray Levy are used to fund specific measures aimed at improving the long-term security and quality of South Australia's water supply.

Levy rates are indexed annually to movements in the Adelaide Consumer Price Index. SA Water collects the levy.

Modest revenue growth in the levy reflects expected inflation and growth in SA Water's customer base.

Guarantee fees

Government guarantees on borrowed funds reduce borrowing costs for government authorities. Guarantee fees are charged for this funding cost advantage.

Guarantee fees are determined each year based on estimated credit margins (spreads) between the cost at which lower rated entities or entities that have no assigned credit rating could borrow at on a stand-alone basis and the cost at which they can borrow through the Government of South Australia. That is, the guarantee fee is designed to offset the competitive advantage the organisation gains from access to cheaper financing.

Revenue from guarantee fees is expected to be above original budget estimates in 2010–11 mainly due to an increase in the guarantee fee for HomeStart Finance and an increase in HomeStart's expected debt levels over the forward estimates.

In 2011–12, revenue from guarantee fees is expected to increase substantially reflecting a significant increase in SA Water's debt levels to fund capital projects, including the Adelaide Desalination Plant and the North–South Interconnection System Project.

Gambling taxes

Gambling taxes include taxes on gaming machines in hotels and clubs, distributions from SA Lotteries (comprising a tax on net gambling revenue together with distributions net of income tax equivalents), casino duty and tax on net wagering revenue of the SA TAB.

The outlook for gambling tax revenue is provided in Table 3.7.

Table 3.7: Gambling taxes

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Total gambling taxes ($m)	**401.6**	**420.5**	**472.7**	**457.6**	**487.1**
Nominal growth (%)	0.0	4.7	12.4	- 3.2	6.4
Real growth (%)	- 3.0	1.7	9.2	- 5.7	3.8
Policy adjusted underlying revenue ($m)	**400.3**	**420.4**	**473.6**	**478.5**	**508.4**
Nominal growth (%)	0.3	5.0	12.7	1.0	6.3
Real growth (%)	- 2.7	2.0	9.4	- 1.6	3.6

Total gambling tax revenue is expected to be $9.3 million below estimates made at the time of the 2010–11 Budget due to lower expenditure on gaming machines in hotels and clubs and lower than expected tax revenue from the Casino. Consumers appear to be more cautious in their spending following the global financial crisis, increasing their savings and reducing debt. This trend has affected discretionary spending levels, including on activities such as gambling.

Overall, revenue from gambling taxes in 2010–11 is expected to be broadly in line with 2009–10 levels. A decline in distributions from SA Lotteries, following strong sales in 2009–10 associated with exceptionally high jackpots, is offset by growth in revenues from gaming machines.

Over the forward estimates period, gaming machine net gambling revenue is expected to grow broadly in line with household consumption.

The government is now considering the creation of a new lotteries licence for SA Lotteries. Distributions from SA Lotteries are boosted in 2012–13 by the expected return of reserves in line with the creation of a new lotteries licence. From 2013–14, distributions from SA Lotteries are expected to cease in line with the creation of a new lotteries licence for SA Lotteries. This new licence and the SA Lotteries' corporate product brands will continue to be owned by the state government, with a sub-licence giving the right to operate the SA Lotteries' brands and business for a defined period of time. It is anticipated that tax on lottery net gambling revenue will be received by the government from the holder of the lotteries sub-licence.

Gambling tax revenues from SA TAB are forecast to fall across the forward estimates period, reflecting the government's decision to further assist the South Australian racing codes by abolishing the wagering tax on SA TAB race betting operations with a corresponding higher distribution from the SA TAB to the racing codes. The phasing-out of SA TAB wagering tax on racing commenced in 2008–09 with the tax to be eliminated from 1 July 2012. The wagering tax will be retained on SA TAB sports betting.

Insurance taxes

Taxes on insurance comprise stamp duty on insurance premiums (including life insurance, general insurance and compulsory third party (CTP) insurance) and a flat stamp duty charge on renewal notices for motor vehicle registration and CTP insurance.

Projected growth rates for insurance tax revenues are provided in Table 3.8.

Table 3.8: Insurance taxes

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Total insurance taxes ($m)	**361.8**	**386.7**	**401.3**	**414.9**	**428.5**
Nominal growth (%)	4.2	6.9	3.8	3.4	3.3
Real growth (%)	1.2	3.8	0.8	0.7	0.7

Revenue from insurance taxes in 2010–11 has been revised up by $10.1 million since the 2010–11 Budget reflecting stronger than anticipated growth in premium revenue. It is possible that recent natural disasters within Australia and overseas have impacted upon the overall level of insurance held as consumers review their insurance requirements to ensure they have adequate cover.

The forecast growth in stamp duty on insurance in 2011–12 reflects industry projections of increases in household and commercial insurance premiums of up to 7.0 per cent and an average CTP premium increase of 2.4 per cent.

Beyond 2011–12, underlying revenue from general insurance and life insurance is expected to grow modestly reflecting expected growth in premiums.

The insurance tax line, consistent with Australian Bureau of Statistics' classifications, also includes stamp duty on CTP renewal certificates, which is a flat charge of $60 per vehicle. Revenue growth in this fee reflects growth in the total stock of registered vehicles.

Motor vehicle taxes

Motor vehicle taxes include registration fees, stamp duty on new registrations and ownership transfers, and the ESL on mobile property.

The growth rates for motor vehicle tax revenues are provided in Table 3.9.

Table 3.9: Motor vehicle taxes

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Total motor vehicle taxes ($m)	**481.7**	**508.9**	**526.4**	**543.5**	**561.6**
Nominal growth (%)	3.8	5.7	3.4	3.2	3.3
Real growth (%)	0.7	2.6	0.4	0.5	0.8
Policy adjusted underlying revenue ($m)	**490.9**	**508.9**	**526.4**	**543.5**	**561.6**
Nominal growth (%)	3.7	3.7	3.4	3.2	3.3
Real growth (%)	0.7	0.7	0.4	0.5	0.8

Registration fee revenue growth reflects the annual indexation of motor vehicle fees and growth in the stock of registered vehicles. Various policy measures taken in this budget and the previous budget, including an increase in the light vehicle registration fee above the standard annual indexation, an increase in the motor vehicle registration administration fee and the reform of registration renewal periods, take effect from 1 July 2011 and will affect revenue growth in 2011–12.

Projections of stamp duty for motor vehicle registrations assume modest growth in revenue from new motor vehicle registrations and transfers of secondhand vehicles.

Relatively low growth in revenue raised from the ESL on mobile property is expected, reflecting the growth in the stock of registered vehicles. ESL charges on motor vehicles are flat dollar amounts that have not been altered since 2000–01. Tax relief is provided to private mobile property owners through government funded remissions on prescribed mobile property ESL rates.

South Australia's relative tax effort

Each year the Commonwealth Grants Commission (CGC) releases an assessment of relative tax effort for all states and territories as part of its annual relativity update. In February 2011, the CGC published its *Report on GST Revenue Sharing Relativities — 2011 Update*. Based on the information published by the CGC, South Australia's total tax effort has decreased from 12.5 per cent above average in 2008–09 to 11.6 per cent above average in 2009–10.

Details of tax effort assessments are provided in Table 3.10.

Table 3.10: Tax effort ratios by jurisdiction

	2008–09 CGC[(a)]	2009–10 CGC[(a)]
New South Wales	108.0	107.3
Victoria	100.9	100.9
Queensland	86.3	87.2
Western Australia	93.7	94.8
South Australia[(b)]	**112.5**	**111.6**
Tasmania	90.5	92.2
Australian Capital Territory	111.4	107.7
Northern Territory	88.2	84.6

(a) Tax effort ratios as published from the CGC's *Report on GST Revenue Sharing Relativities—2011 Update* publication.

(b) Excludes land tax paid by the South Australian Housing Trust.

Tax effort measured by the CGC reflects the use made of available tax bases not their size. South Australia has a small tax base relative to other states. As a result, in terms of tax revenue per capita, South Australia is a relatively low tax jurisdiction (fourth lowest in 2010–11 based on state and territory estimates published in 2010–11 mid-year budget publications).

Details are provided in Table 3.11.

Table 3.11: Per capita taxation by jurisdiction ($)

	2009–10[(b)(c)]	2010–11 MYBR[(c)(d)]	Latest Est [(c)(e)]
Australian Capital Territory	3 167	3 460	3 474
Western Australia	2 778	2 783	2 876
New South Wales	2 658	2 738	n.a.
Victoria	2 493	2 639	2 663
South Australia[(a)]	**2 128**	**2 216**	**2 216**
Queensland	2 091	2 145	n.a.
Northern Territory	1 815	1 605	2 091
Tasmania	1 723	1 719	n.a.
All states and territories	**2 454**	**2 537**	**n.a.**

(a) Taxation revenues for South Australia have been adjusted to remove land tax paid by the South Australian Housing Trust.

(b) Based on published outcomes for all states and territories.

(c) Population figures for 2009–10 have been sourced from Australian Bureau of Statistics' publications and 2010–11 population estimates have been sourced from Commonwealth Treasury estimates.

(d) Based on taxation revenue estimates published in 2010–11 mid-year budget publications.

(e) Based on 2010–11 taxation revenue estimates published in 2011–12 budget publications where available. Not all states had bought down their budget prior to the preparation of this table.

Grant revenue

Table 3.12: Grant revenue ($million)

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Current grant revenue						
Current grants from the Commonwealth						
GST revenue grants	4 458.1	4 296.1	4 492.6	4 814.2	5 050.5	5 438.2
National Partnership grants	606.5	571.8	793.2	643.0	537.3	493.1
Specific purpose grants	1 404.6	1 407.7	1 439.6	1 487.4	1 513.2	1 584.2
Specific purpose grants for on-passing	673.5	735.8	782.5	802.1	822.1	842.7
Total current grants from the Commonwealth	7 142.7	7 011.4	7 507.9	7 746.7	7 923.2	8 358.3
Other contributions and grants	114.1	164.4	158.5	158.1	156.3	156.6
Total current grant revenue	**7 256.7**	**7 175.8**	**7 666.4**	**7 904.9**	**8 079.5**	**8 514.9**
Capital grant revenue						
Capital grants from the Commonwealth						
National Partnership grants	742.2	734.7	574.3	345.7	95.3	228.8
National Partnership grants for on-passing	139.1	139.1	—	—	—	—
Specific purpose grants	115.3	115.7	117.4	119.5	117.7	119.2
Specific purpose grants for on-passing	13.1	13.1	13.4	13.8	14.1	14.5
Other Commonwealth grants	12.4	26.9	6.5	5.0	4.9	4.4
Total capital grants from the Commonwealth	1 022.1	1 029.5	711.6	484.0	232.0	366.8
Other capital contributions and grants	40.5	42.1	18.6	16.1	16.3	16.3
Total capital grant revenue	**1 062.6**	**1 071.6**	**730.2**	**500.1**	**248.3**	**383.1**
Total grant revenue	**8 319.4**	**8 247.5**	**8 396.6**	**8 405.0**	**8 327.7**	**8 898.0**
% change on previous year						
GST revenue grants						
Nominal growth %		6.0	4.6	7.2	4.9	7.7
Real growth		2.9	1.6	4.1	2.2	5.0
Current revenue grants (excl GST) from the Commonwealth						
Nominal growth %		- 2.8	11.0	- 2.7	- 2.0	1.6
Real growth		- 5.6	7.9	- 5.6	- 4.6	- 0.9
Capital revenue grants from the Commonwealth						
Nominal growth %		- 43.9	- 30.9	- 32.0	- 52.1	58.1
Real growth		- 45.5	- 32.9	- 34.0	- 53.3	54.2

Note: Totals may not add due to rounding.

GST revenue grants

Estimates of the total GST pool are significantly below the forecasts made before the global financial crisis (GFC). Increased savings by consumers, an increase in the proportion of expenditure on items that are GST free (including staple food items, education and health) and lower than anticipated levels of dwelling investment have impacted on projections for GST revenues.

The Commonwealth Government's latest estimate of the total GST pool available for distribution to the states in 2010–11 is over $5 billion below the comparable estimate contained in their 2008–09 Budget. Table 3.13 below outlines the revisions to estimates of the total GST pool since the GFC.

Table 3.13: Change in Commonwealth estimates of the total GST pool since the GFC ($million)

	2008–09	2009–10	2010–11	2011–12
2008-09 Australian Government Budget	45 280.0	48 260.0	50 880.0	53 670.0
2011-12 Australian Government Budget[(a)]	41 158.5	44 021.9	45 450.0	48 350.0
Change since GFC	-4 121.5	-4 238.1	-5 430.0	-5 320.0

Note: Totals may not add due to rounding.

(a) Collections in 2008–09 and 2009–10 are actual collection figures.

GST revenue grants to South Australia in 2010–11 are estimated to be $162.0 million lower than the 2010–11 Budget projection, reflecting softer growth in consumption and dwelling investment than originally forecast by the Commonwealth Treasury. The total GST pool growth estimates have been revised to around 3.2 per cent in 2010–11, compared to the Commonwealth's estimates in its *Pre-Election Economic and Fiscal Outlook* of 7.5 per cent.

Estimated GST revenue grants to South Australia for 2011–12 are around $88.1 million lower than estimated at the time of the 2010–11 Budget. A higher than anticipated relativity adjusted population share for South Australia has been more than offset by softer than expected growth in the GST pool. Latest Commonwealth budget estimates of the total GST pool forecast growth of 6.4 per cent in 2011–12.

The Commonwealth Government is estimating that the total GST pool will grow by 7.0 per cent in 2012–13, 5.7 per cent in 2013–14 and 4.9 per cent in 2014–15.

South Australia's GST revenue grants are expected to increase by 7.2 per cent in 2012–13, 4.9 per cent in 2013–14 and 7.7 per cent in 2014–15.

Over the forward estimates period, South Australia's GST revenue grants are expected to grow at rates that vary from estimated growth in the GST pool reflecting changes in South Australia's projected share of the GST pool. Factors contributing to changes to South Australia's share of the GST pool include a declining population share and movements in South Australia's projected relativities.

South Australia's projected relativities are particularly impacted by the timing of Commonwealth specific purpose and National Partnership grant funding to the state over the period 2009–10 to 2012–13 as well as revised assessment methods relating to the treatment of jurisdictions' capital needs.

Commonwealth Grants Commission 2011 update

The Intergovernmental Agreement on Federal Financial Relations (the new IGA) includes a specific provision that GST revenue grants will be distributed in accordance with the principles of horizontal fiscal equalisation (HFE). The principle of HFE is to ensure that each state has the capacity to provide public services at a similar standard and level of efficiency as the other states for a comparable revenue raising effort.

It is the responsibility of the Commonwealth Grants Commission (CGC), an independent Commonwealth statutory authority, to recommend an appropriate distribution of GST revenue to achieve this outcome.

The CGC provides an annual recommendation to the Commonwealth Treasurer on the shares of GST revenue to be distributed to each state. This recommendation is based on a detailed assessment of the economic, social and demographic factors influencing each jurisdiction's relative ability to raise revenue and the impact of such factors on service delivery costs.

In February 2011, the CGC released its *Report on GST Revenue Sharing Relativities — 2011 Update* of per capita relativities for the distribution of Commonwealth GST revenue grants to the states in 2011–12.

Overall, the *2011 Update* relativities redistributes $521 million among the states when compared to the previous year's relativities. New South Wales, Queensland, Western Australia and the Northern Territory improved their positions while the other four jurisdictions experienced lower relativities. This outcome was largely driven by new and revised data. The major changes were as a result of continued growth in the mining sector and its impact on royalties, differing property market conditions between jurisdictions, the differential impact of increased levels of Commonwealth payments, interstate wage cost assessments and increased levels of expenditure on services used by Indigenous Australians.

South Australia's relativity fell to 1.27070 in the *2011 Update* compared with 1.28497 in the 2010 Review. In 2011–12, South Australia will receive 9.3 per cent of the GST pool compared with 9.5 per cent in 2010–11. This equates to a decrease in GST revenue grants of $52 million compared with payments received under the previous relativity. For South Australia, the factors influencing the decrease in the relativity were an above average proportion of Commonwealth payments for specific purposes, above average growth in property taxes, lower than average population growth and an Indigenous population below the national per capita average (coupled with higher national expenditure on Indigenous services). This was partially offset by a positive impact from new data used to determine differences in state government wage costs and below average growth in revenue from mining.

While South Australia's relativity declined in the latest update, the state will still receive approximately $1 billion more than it would if funding were distributed on a simple population share basis without consideration to the fiscal needs and capacities of each state.

Table 3.14: Commonwealth Grants Commission 2011 Update

	2010 Review relativity[(a)]	2011 Update relativity[(a)]	Implied effect on grant share[(b)] ($m)
New South Wales	0.95205	0.95776	78.5
Victoria	0.93995	0.90476	-417.1
Queensland	0.91322	0.92861	141.7
Western Australia	0.68298	0.71729	164.4
South Australia	**1.28497**	**1.27070**	**-51.7**
Tasmania	1.62091	1.59942	-23.8
Australian Capital Territory	1.15295	1.11647	-28.0
Northern Territory	5.07383	5.35708	136.0
Total redistributed among states			**520.6**

(a) The relativities show the per capita funding relative to an Australian average of 1.

(b) Estimated impact of change in relativities on the 2010–11 GST pool included in the CGC's *2011 Update* report released in February 2011.

Commonwealth payments for specific purposes

From 1 January 2009, the new IGA came into operation providing an overarching framework that covers all financial transfers from the Commonwealth to the states and territories (with the exception of Commonwealth own-purpose expenditures) with an emphasis on payments for specific purposes.

Payments for specific purposes have been reformed to improve the quality and effectiveness of government services by reducing Commonwealth prescriptions on service delivery and providing increased flexibility in the way services are delivered by the states and territories.

Under the new IGA there are two types of payments for specific purposes:

- national specific purpose payments (SPPs) that provide ongoing funding to the states for service delivery in the core areas of health, education, housing, skills and workforce development and disability services
- National Partnerships (NPs) that fall into two broad categories — to support the delivery of specific projects (including infrastructure) and to facilitate the implementation or reward the delivery of national reforms.

Table 3.15 summarises expected national SPP and NP grants to South Australia by category.

Table 3.15: Commonwealth payments for specific purposes by category ($million)[(a)]

Agreement	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Health					
National Healthcare SPP[(b)]	958.3	997.5	—	—	—
National Health Reform funding[(b)]	—	—	1 039.9	1 054.6	1 117.7
National Partnerships	137.3	154.8	153.9	142.6	98.0
Education and Early Childhood					
National Schools SPP (government schools)	268.4	280.7	294.1	308.4	323.0
National Schools SPP (non-government schools)	620.8	636.3	652.3	668.6	685.3
National Partnerships	597.6	157.2	126.3	100.0	81.9
Skills and Workforce Development					
National Skills and Workforce Development SPP	100.3	101.4	102.5	103.2	103.9
National Partnerships	39.0	37.7	19.4	19.8	19.6
Community Services					
Disability Services SPP[(c)]	101.2	82.2	75.3	69.8	64.3
National Partnerships	140.3	203.0	209.6	216.7	223.9
Housing					
National Affordable Housing SPP	95.1	95.1	95.2	94.8	94.5
National Partnerships	113.8	64.0	39.8	36.4	27.8
Infrastructure					
National Partnerships	258.4	512.6	327.1	99.6	252.9
Environment					
National Partnerships	109.9	191.7	76.1	1.5	1.6
Other					
National Partnerships	49.3	46.7	36.6	16.0	16.4
Local government financial assistance	128.1	159.6	163.6	167.7	171.9
Total Commonwealth payments for specific purposes	**3 717.9**	**3 720.5**	**3 411.6**	**3 099.8**	**3 282.5**

Note: Totals may not add due to rounding.

(a) NP amounts are the maximum amount of funding available thereby assuming that all necessary performance requirements are met in each agreement.

(b) From 1 July 2012, the National Healthcare SPP will be replaced by National Health Reform funding which will comprise base funding equivalent to the National Healthcare SPP and, from 1 July 2014, efficient growth funding.

(c) Amounts under the Disability Services SPP have been adjusted from 2011–12 to reflect changes in responsibility for the provision of basic community care and support services for older Australians in accordance with the National Health Reform agenda. The changed roles and responsibilities of the Commonwealth and states and territories under the Heads of Agreement on National Health Reform are to occur on a budget neutral basis. The mechanism to achieve this is yet to be formally agreed. Pending such agreement, the adjustment is assumed to be made to payments under the Disability Services SPP.

National specific purpose payments (current)

In 2011–12, South Australia will receive an estimated $2222.1 million of funding in national SPPs for recurrent purposes (including on-passed funding for non-government schools and local government). This is an increase of 3.7 per cent from the $2143.5 million estimated for 2010–11. Excluding grants on-passed to non-government schools and local government, national SPPs for recurrent purposes are estimated to increase by 2.3 per cent in 2011–12 to $1439.6 million.

States and territories are required to spend the funding received under each national SPP in the relevant sector but have the flexibility to allocate funds within that sector to meet agreed objectives.

Previously, the allocation of Commonwealth payments for specific purposes among the states was based on many approaches including Commonwealth discretion, historical allocation and formula based allocation. Under the new IGA arrangements, national SPPs will eventually be distributed between the states on a purely per capita basis based on Australian Bureau of Statistics' population estimates. This is being phased in over a five-year period that commenced in 2009–10. In the case of the government schools component of the National Schools SPP, the relevant population is each state's share of full-time equivalent student enrolments in government schools. The change in the distribution for SPPs will, over time, result in broadly offsetting changes to GST revenue grants.

On 13 February 2011, the Council of Australian Governments (COAG) reached a Heads of Agreement on National Health Reform which will form the basis of negotiations for a new National Health Reform Agreement to be signed in July 2011. The Heads of Agreement combines reforms to the financing of the Australian health and hospital system with major changes to the governance arrangements between the Commonwealth and the states. From 1 July 2012, the National Healthcare SPP will be replaced by National Health Reform funding which will comprise base funding equivalent to the National Healthcare SPP and, from 1 July 2014, efficient growth funding. A more detailed explanation of National Health Reform is provided later in this chapter.

The Disability Services SPP has been adjusted to reflect the change in responsibility for the provision of aged care and disability services between the states and the Commonwealth under the National Health Reform agenda. This change in roles and responsibilities is intended to be budget neutral. The mechanism to deliver the budget neutral adjustment has not yet been agreed between the Commonwealth and the states. In Table 3.15, it is assumed that the adjustment will be made to the Disability Services SPP.

Over the forward estimates, growth in national SPPs reflects indexation arrangements specified in the IGA partially offset by the phasing-in of per capita distribution.

Grants provided to the states for on-passing mainly comprise funding for non-government schools and local government. The consistent growth pattern for non-government school funding reflects indexation arrangements determined in accordance with the *Schools Assistance Act 2008 (Cwth)*.

National Partnerships (current)

NPs are time-limited agreements to fund specific projects and to facilitate and/or reward states that deliver nationally significant reforms. SPPs in existence prior to 1 January 2009, and not incorporated into national SPPs or discontinued, have generally been converted into new NP agreements with funding levels and performance requirements determined between the Commonwealth and the states.

In 2011–12, South Australia will receive an estimated $793.2 million of funding in NPs for recurrent purposes. This is an increase of 38.7 per cent compared to the $571.8 million estimated for 2010–11. This includes increased funding for several education programs (universal access to early education, funding to schools in low socioeconomic communities and funding to improve teacher quality), increased funding under the National Health Reform agenda for basic community care and specialist disability services for older people (partially offset by the adjustment to the Disability Services SPP) and the aggregated impact of a range of other Commonwealth funded initiatives (for example, reward funding under the Seamless National Economy).

Over the forward estimates, NP funding amounts decline reflecting payment profiles agreed with the Commonwealth including the cessation of some agreements.

Other contributions and grants (current)

Other contributions and grants mainly take the form of donations, bequests, industrial research and sponsorship grants. In 2010–11, revenue from other contributions and grants is expected to be higher than estimated in the 2010–11 Budget mainly due to a reclassification of school revenue. A portion of budgeted schools revenue has been reclassified as other contributions and grants to more appropriately reflect expected arrangements. This adjustment flows through across the forward estimates.

Revenue from other contributions and grants is expected to be broadly in line with 2010–11 levels across the forward estimates.

Capital grants

Capital grants include national SPPs and NPs from the Commonwealth. Consistent with current grants, capital grants from the Commonwealth are also categorised as either direct grants or on-passed grants. Smaller amounts of capital funding are sourced from the private sector including the revenue recognition of assets donated or transferred to the government free of charge.

Total NP funding for capital purposes will be $574.3 million in 2011–12, a decrease of 34.3 per cent from the $873.8 million estimated for 2010–11. This large decrease reflects the winding back of schools and social housing funding under the Commonwealth's Nation Building—Economic Stimulus Plan in 2010–11, partially offset by increased funding levels for rail and road projects. Over the forward estimates, NP funding for capital initiatives declines through to 2013–14 largely reflecting the timing of Commonwealth funding for road and rail projects.

National SPP funding for capital initiatives will be $130.8 million in 2011–12, an increase of 1.6 per cent from the $128.8 million estimated for 2010–11. This includes $13.4 million of on-passed grants which are mainly Commonwealth capital funding for non-government schools.

Other Commonwealth capital grants take the form of revenue that is provided directly to agencies from the Commonwealth. The 2010–11 Estimated Result largely reflects Commonwealth funding for the Modbury and Noarlunga GP Plus super clinics and the recognition of road funding grants received in a prior year.

Other capital contributions and grants are expected to decrease in 2011–12. The 2010–11 Estimated Result reflects the receipt of Commonwealth funding for the SA Aquatic & Leisure Centre and donations/bequests used to support the funding of capital equipment for hospitals.

Sales of goods and services

Sales of goods and services by the general government sector include government fees and charges that are adjusted annually based on the average increase in the cost of services. Most government fees and charges will be increased by 2.9 per cent from 1 July 2011.

Table 3.16: Sales of goods and services ($million)

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Regulatory fees	402.4	399.8	474.5	521.5	556.4	598.8
Health unit fees	324.9	318.8	333.1	329.3	338.6	347.2
Commonwealth contributions	324.7	343.5	343.5	325.7	304.2	309.3
TAFE fees	95.9	94.2	100.5	106.0	110.2	114.0
Schools revenue	80.0	80.0	82.5	85.1	87.7	90.4
Metroticket sales	80.4	80.4	83.3	86.7	89.6	92.4
Drivers' licence fees	42.4	35.3	64.8	72.5	65.9	63.7
Other user charges	526.1	532.6	572.2	595.9	614.3	627.5
Total sales of goods and services	**1 876.8**	**1 884.6**	**2 054.3**	**2 122.7**	**2 166.9**	**2 243.3**

Note: Totals may not add due to rounding.

Sales revenue in 2010–11 is expected to be broadly in line with the original budget estimate. This is still 5.5 per cent below revenue received from sales of good and services in real terms in 2009–10, largely as a result of once-off payments received in 2009–10 relating to the Jervois to Langhorne Creek and Currency Creek irrigation pipeline.

Total growth rates for sales of goods and services are affected by the variability in revenue from Commonwealth contributions and drivers' licence fees. In addition revenue from sales of goods and services is impacted by a range of fee increases that were introduced as part of the previous budget, including increases to certain regulatory fees and a move to cost recovery for some user charges.

Revenue from Commonwealth contributions is expected to decline across the forward estimates mainly reflecting the pattern of funding for stormwater recycling projects. Revenue from drivers' licence fees increases significantly in 2011–12 reflecting the 2010–11 Budget measure to increase annual fees from 1 July 2011. The expected pattern for drivers' licence fee revenue across the forward estimates reflects the renewal cycle of drivers' licences.

Revenue from regulatory fees increases in 2011–12 primarily reflecting the full impact of increases to a number of regulatory fees introduced as part of the 2010–11 Budget, including a doubling of the Victims of Crime Levy and an increase in the solid waste levy.

Over the forward estimates period, revenue from the sales of goods and services, excluding Commonwealth contributions and drivers' licence fee revenue, is projected to grow in real terms by 1.7 per cent in 2012–13, and by 1.5 per cent in 2013–14 and 2014–15 reflecting the annual indexation of fees and underlying revenue growth.

Interest income

Interest income is estimated using projections of interest rates applicable to government financial assets. The estimates for interest income are higher than budgeted for 2010–11, primarily due to higher than forecast deposits with the South Australian Government Financing Authority.

Interest income is projected to decrease in 2011–12 and then rise across the forward estimates, mainly due to the expected level of cash deposits.

Dividend and income tax equivalent income

Dividend and income tax equivalent (ITE) revenue is received from public non-financial corporations (PNFCs) and public financial corporations (PFCs).

Table 3.17: Dividend and income tax equivalent (ITE) income ($million)

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Dividend and ITE income from PNFCs	274.5	327.9	331.5	386.3	389.7	392.4
Dividend and ITE income from PFCs	78.5	79.9	39.8	19.5	18.5	17.6
Other dividend income	0.1	—	—	—	—	—
Total Dividend and ITE revenue	**353.1**	**407.8**	**371.3**	**405.8**	**408.3**	**410.0**
Dividend and ITE from PNFCs comprise						
SA Water	154.2	246.0	200.6	324.8	319.7	356.9
Land Management Corporation	64.6	28.2	77.4	48.8	64.8	28.4
Other	55.7	53.6	53.5	12.8	5.2	7.1
Total	**274.5**	**327.9**	**331.5**	**386.3**	**389.7**	**392.4**
Dividend and ITE from PFCs comprise						
SAAMC	4.0	4.0	20.1	—	—	—
HomeStart Finance	12.5	7.8	7.4	6.8	5.5	4.6
SAFA	61.9	68.1	12.3	12.7	13.0	13.0
Total	**78.5**	**79.9**	**39.8**	**19.5**	**18.5**	**17.6**

Note: Totals may not add due to rounding.

Dividend and ITE income is expected to be higher than the original budget estimate by $54.7 million in 2010–11 largely due to upward revisions to distributions from SA Water, partially offset by downwards revisions to distributions from the Land Management Corporation and HomeStart Finance.

In 2010–11, distributions from SA Water have been revised up since the original budget estimate, mainly due to decreased operating expenses and borrowing costs associated with the delay of the delivery of first water for the Adelaide Desalination Plant to the end of July 2011 and delays in a number of smaller infrastructure projects and water security initiatives. Distributions from SA Water are forecast to decline in 2011–12 before recovering in 2012–13 and 2014–15, mainly due to additional sales revenue from the increase in water charges and the completion of a number of major infrastructure projects.

Distributions from the Land Management Corporation have been revised down in 2010–11 mainly due to lower than forecast sales revenue and the deferral of commercial property sales from 2010–11 to 2011–12. Distributions from the Land Management Corporation fluctuate across the forward estimates reflecting the forecast timing of land sales.

Distributions from ForestrySA are assumed to decrease significantly from 2012–13 reflecting the planned forward sale of up to three forest rotations in the South East of South Australia. Income tax equivalent revenue from SA Lotteries is expected to cease from 2013–14 in line with the creation of a new lotteries licence for SA Lotteries. This new licence along with the SA Lotteries' corporate product brands will continue to be owned by the state government with a sub-licence giving the right to operate the SA Lotteries' brands and business for a defined period of time. Dividend revenue from SA Lotteries is recorded as gambling tax revenue and therefore has no impact on distribution revenue.

Estimated distributions from the South Australian Government Financing Authority (SAFA) in 2010–11 are significantly higher than in other years due to the programmed return of excess capital from its treasury operations.

The distribution from the South Australian Asset Management Corporation (SAAMC) is significantly higher in 2011–12 reflecting recent distributions from the liquidation of companies with outstanding debts to SAAMC.

Other revenue

Table 3.18: Other revenue ($million)

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Royalties	160.9	154.9	202.7	231.7	224.6	258.0
Fines and penalties	114.2	106.9	138.1	141.9	148.9	157.1
Schools revenue (fundraising)	65.9	35.9	38.0	40.1	42.2	44.5
Other	195.0	220.3	225.9	221.4	231.5	235.8
Total other revenue	**536.0**	**518.1**	**604.7**	**635.0**	**647.3**	**695.4**

Note: Totals may not add due to rounding.

Other revenue is expected to be lower than the original budget estimate by $17.9 million in 2010–11 largely due to a reclassification of schools revenue.

A portion of budgeted schools revenue has been reclassified as other contributions and grants to more appropriately reflect expected arrangements. This adjustment flows through across the forward years. Over the forward estimates, schools revenue is expected to grow modestly.

Royalties are expected to be lower than the 2010–11 Budget estimate by $6 million in 2010–11 mainly due to the impact of the strong Australian dollar on petroleum royalties and deferred oil production following the Moomba floods.

Improvements in commodity prices, the commencement of production at new mines and the impact of increased mineral royalty rates as announced in the 2010–11 Budget, which commence from 1 July 2011, contribute to growth in royalty revenues from mineral mining production over the forward estimates. Crude oil production is expected to fall across the forward estimates due to the decline in production from Cooper Basin oil fields, which partially offsets the growth in mineral royalty revenues.

No additional royalty income from the Olympic Dam expansion project is expected to be received in the forward estimates period.

The increase in revenue from fines and penalties in 2011–12 mainly reflects the impact of increases to expiation fines and penalties announced in the 2010–11 Budget.

Annual fee and rate setting

Fees and charges

Table 3.19 sets out the increase in fees and charges in 2011–12 for major government services. These increases take effect from 1 July 2011.

Table 3.19: 2011–12 increase in selected agency fees and charges

	2010–11	2011–12	Increase
	$	$	%
Public transport			
Single trip tickets — all times and zones	4.60	4.70	2.2
Multi trip tickets — all times and zones	30.00	30.90	3.0
Motor vehicle charges			
Registration fee — motor vehicles:			
Four cylinders or less	102.00	106.00	3.9
Five or six cylinders	208.00	217.00	4.3
Seven or more cylinders	302.00	314.00	4.0
Registration fee — light commercial vehicles:			
Mass between 1001kg and 1500kg	225.00	234.00	4.0
Mass greater than 1500kg	384.00	400.00	4.2
Drivers' licence renewals			
Five years	140.00	185.00	32.1
Ten years	280.00	370.00	32.1
Speeding fines			
Exceeding the speed limit by:			
Less than 15km/h	196.00	252.00	28.6
More than 15km/h but less than 30km/h	312.00	371.00	18.9
More than 30km/h	468.00	532.00	13.7
Water — residential			
Average residential bill(a)	469.60	658.70	40.3
Annual water service availability (supply) charge	142.40	234.60	64.7
Water usage charge per kilolitre supplied:			
Up to and including 120 kilolitres per year	1.28	1.93	50.8
In excess of 120 kilolitres but less than 520 kilolitres per year	2.48	2.75	10.9
In excess of 520 kilolitres per year	2.98	2.98	0.0
Motor vehicle charges			
Compulsory third party premium — passenger vehicles (metropolitan postcodes):			
Standard premium	476.00	489.00	2.7
Input tax credit entitled premium	518.00	518.00	0.0

(a) Based on water consumption of 190 kilolitres.

The annual indexation factor for fees and charges has been set at 2.9 per cent for 2011–12 reflecting the average increase in the cost of providing the relevant services. Fees and charges are typically adjusted by the indexation factor and then rounded to an administratively convenient amount. This results in the increase of some fees and charges being smaller or greater than the indexation factor.

Not all fees and charges are increased through the annual adjustment process. Adjustments to certain fees and charges are determined as a consequence of specific policy decisions.

Light motor vehicle registration fees will increase by around one percentage point above the annual indexation factor from 1 July 2011 to fund a four-year program of road resurfacing and rehabilitation works to improve the condition of regional road networks in South Australia.

The annual drivers' licence renewal fee will increase by $9 in 2011–12. This increase mainly reflects the 2010–11 Budget measure to increase the annual fee for drivers' licence renewals by $8 per annum from 1 July 2011. The annual indexation factor has also been applied to the renewal fee.

Fines for speeding will increase by more than the annual indexation factor due to the 2010–11 Budget measure to increase expiation fines below $100 by an additional $20, and to increase expiation fines above $100 by an additional $50 from 1 July 2011.

On 11 May 2011 the government announced new drinking water and sewerage charges to apply from 1 July 2011. For the average residential customer, the annual drinking water bill (based on water consumption of 190 kilolitres) will increase by 40.3 per cent in 2011–12. Metropolitan sewerage charges will increase by 5.5 per cent on average and country sewerage charges will increase by 6.0 per cent on average in 2011–12.

The new water charges are consistent with the National Water Initiative (NWI) pricing principles. The NWI pricing principles require full recovery of costs and that water usage prices have regard to long-run incremental costs of future water supply.

The increase in drinking water charges reflects the continued investment in securing South Australia's drinking water supply through investments such as the Adelaide Desalination Plant and the North–South Interconnection System Project. The most significant influence on sewerage charges in 2011–12 is the high level of capital expenditure on sewerage treatment and recycled water projects. There are a number of significant infrastructure projects nearing completion in 2010–11 which influence future charges, including the Christies Beach and Aldinga Wastewater Treatment Plant and the Southern Urban Reuse Project. The 2011–12 pricing decision also recovers efficient regulatory costs, including water planning and management charges.

Compulsory third party (CTP) premiums will increase by an average 2.4 per cent in 2011–12. The Class 1 premium (metropolitan private passenger vehicle) will increase by 2.7 per cent, while the Class 41 premium (input tax credit entitled metropolitan passenger vehicle) will remain unchanged in 2011–12 reflecting lower claims experience for this class of vehicles.

Federal financial relations — recent developments

Review of the GST Distribution

On 30 March 2011, the Prime Minister and the Commonwealth Treasurer commissioned the Review of the GST Distribution to examine the distribution of revenue from the GST to the states and territories. The review will be conducted by Mr Nick Greiner, Mr John Brumby and Mr Bruce Carter and has the aim of developing a “simpler, fairer, more predictable and more efficient distribution of the GST”.

The Prime Minister stated that a review was necessary as the current distribution arrangements do not provide sufficient incentive to reform service delivery approaches, do not provide certainty and predictability for states and territories to manage their financial positions and that there is potential for greater simplicity and transparency in the assessment process. However, a key principle of any reform to the distribution arrangements will be that states and territories continue to have the ability to provide broadly equivalent services in key areas (for example education, health and public transport).

The Prime Minister suggested that the current HFE methodology can create disincentives for economic reform and improved service delivery. This view is not supported by the Government of South Australia and there is no evidence that HFE reduces pro-development or pro-reform initiatives of state governments. For example, South Australia has committed significant resources to facilitate the environmental approvals and indenture negotiations for the Olympic Dam expansion. The fact that the revenues from this project will be equalised has not in any way influenced enthusiasm for the project.

The volatility of relativities between years has also been raised as an area of concern. It is the case that estimation of future GST revenues is difficult for state governments, however, this is partly a function of the reduction in the averaging period used in the assessment (reduced from five years to three years as part of the CGC’s Report of Revenue Sharing Relativities — 2010 Review) and reflects the inherent trade-off between volatility and ensuring the relativities are contemporary.

Some jurisdictions have proposed ‘floor’ arrangements or a minimum level which a relativity cannot fall below. Proposals to limit or restrict HFE transfers, by their very nature, fundamentally undermine the equalisation objective.

South Australia will actively participate in the Review of the GST Distribution and put forward arguments to ensure that an equitable, efficient and responsive method of fiscal equalisation is maintained in Australia.

The review will be supported by a Heads of Treasuries Advisory Committee with representation from all states and territories and will also seek submissions from the public.

The Commonwealth Grants Commission will continue to be the independent body that makes recommendations on the distribution of GST revenues.

The review panel has been asked to produce an interim report by February 2012 and a final report by September 2012. The review will not affect the distribution of GST revenue in 2011–12 or 2012–13.

Council of Australian Governments

In 2010–11, the Council of Australian Governments (COAG) met once on 13 February 2011. Unlike other COAG meetings held in recent years, treasurers did not attend.

The main focus of COAG has been on reconstruction of areas affected by natural disasters, national health reform, regulatory and competition reform, vocational education and training and Ministerial Council reform.

Natural disasters

In response to recent natural disasters, COAG adopted a National Strategy for Disaster Resilience and agreed to take immediate steps to implement it. The strategy outlines shared responsibilities of government, business and communities in preparing for and responding to disasters. There was also agreement to take steps to support improved risk-based planning decisions, the take-up of insurance and the provision and construction of resilient infrastructure.

In March 2011, the Assistant Commonwealth Treasurer and Minister for Financial Services and Superannuation announced that a Natural Disaster Insurance Review (NDIR) will be conducted. The NDIR will provide an opportunity for an independent review of issues relating to insurance in light of the recent disasters, in the context of the long-term funding of disaster relief. The terms of reference of the NDIR includes a number of guiding principles and consideration of arrangements to foster a more complete sharing of risk and equitable sharing of costs for damage and loss resulting from floods and other natural disasters throughout the nation.

Health reform

At the February 2011 COAG meeting, the Commonwealth and all state and territory governments signed a Heads of Agreement for National Health Reform. The agreement will form the basis of negotiations towards a new national health reform agreement which COAG aims to sign by 1 July 2011. All elements of the National Health and Hospitals Network Agreement signed in April 2010 and the National Partnership on Improving Public Hospital Services that are not amended by the agreement will be preserved (including the establishment of local health and hospital networks).

The Commonwealth and states will:

- equally share the growth in costs in the public hospital system
- work together on planning for general practitioner (GP) and primary care services and further reforms to mental health, dental health and aged care over the next three years.

State and territory governments will continue to:

- negotiate service level agreements with local health and hospital networks
- be responsible for system-wide public hospital service planning and performance, including capital/infrastructure
- play a significant role in the delivery of primary health care services.

The Commonwealth will:

- focus its primary health care efforts on establishing Medicare locals, 64 GP super clinics and invest in the training of additional GPs, nurses and allied health professionals
- have full funding, policy, management and delivery responsibility for the national aged care system
- have funding and policy responsibility for home and community care services for persons aged 65 years and over (over 50 for Indigenous Australians) in all states except Western Australia and Victoria.

Funding arrangements under the proposed reforms are as follows:

- the current base funding in the National Heathcare Agreement will continue
- the states will not transfer a proportion of GST revenue grants to the Commonwealth as was previously envisaged under the National Health and Hospitals Network Agreement (April 2010)
- the Commonwealth's contribution will be provided through a system of activity-based funding based on a national efficient price, however, there will be block grants provided to the states for minimum volume hospitals and for teaching and research
- the Commonwealth will contribute 45 per cent of the efficient growth funding for public hospital services provided to public patients from 1 July 2014 and the contribution rate will increase to 50 per cent from 1 July 2017
- the Commonwealth will guarantee that its contribution to growth will be a minimum of $16.4 billion nationally between 2014–15 and 2019–20
- funding contributions from the Commonwealth and the states will be paid into a single national pool to be administered by an independent national funding body from 1 July 2012.

Regulatory and competition reform

Building on the regulatory and competition reform achieved to date, COAG asked relevant ministers and officials for options to be developed for a further wave of regulatory and competition reforms. COAG will consider these options later in 2011.

Vocational education and training

COAG agreed, in principle, to establish a national vocational education and training (VET) regulator to drive better quality standards and regulation across the Australian VET sector. To implement this, all states (except Western Australia and Victoria) agreed, in principle, to develop an intergovernmental agreement for regulatory reform of VET.

Ministerial council reform

Drawing on the findings of a review undertaken by Dr Allen Hawke AC, COAG agreed to a new system of ministerial councils. The new arrangements will see the number of ministerial councils halved with a greater focus of the remaining councils on issues and reforms of national importance.

Ministerial Council for Federal Financial Relations

The Ministerial Council for Federal Financial Relations (MCFFR) is a national forum comprised of state and territory treasurers and the Commonwealth Treasurer. The council allows the Commonwealth to come together with the states and territories to discuss financial and economic issues of national significance.

The council has oversight responsibility for the new IGA on behalf of COAG. This responsibility includes ensuring all relevant funding agreements are drafted in accordance with the new IGA design principles and development of the National Performance Reporting System.

In 2010–11, the MCFFR has taken carriage of several reviews and projects, including:

- the Heads of Treasuries review of National Agreements, National Partnerships and implementation plans — commissioned by COAG in December 2009 and completed in December 2010. The review considered
  - whether the new funding agreements were consistent with the design principles in the new IGA
  - the clarity of objectives, outcomes and roles and responsibilities
  - the quantity and quality of performance indicators in agreements.

  The final review report was noted by COAG in February 2011 and it was agreed that an implementation group would be established to progress the final recommendations
- the Housing Supply and Affordability (HSAR) Agenda —Heads of Treasuries, in conjunction with First Ministers' departments and reporting through the MCFFR, were asked to
  - develop recommendations to cut the time, complexity and uncertainty associated with housing supply
  - reform government policies that act as barriers to supply or artificially stimulate demand
  - facilitate more efficient use of the existing housing stock.

  The HSAR working group is scheduled to complete its final report by mid-2011
- the development of a future competition and regulatory reform agenda which has involved preliminary examinations of specific sectors of the economy that may benefit from reform or further reform
- oversight of national occupational licensing reforms — part of COAG's Business Regulation and Competition work program.

Chapter 4: Managing the state's assets and liabilities

Overview

The government's continuing investment in infrastructure impacts on the state's balance sheet both in terms of the asset base and the need to finance the investment.

General government sector purchases of non-financial assets are estimated to be $2.1 billion in 2011–12 and $6.3 billion over the four years to 2014–15.

General government sector net debt is expected to increase from $3.2 billion at 30 June 2011 to $4.2 billion at 30 June 2014, reflecting an increase in borrowing as a result of net lending deficits over the same period. Net debt is expected to decline to $3.6 billion in 2014–15, reflecting a return to net lending surpluses.

At 30 June 2011, the state's unfunded superannuation liability is estimated to be $8.7 billion, a decrease of $385.9 million since the estimate at the time of the 2010–11 Mid-Year Budget Review (MYBR), and $707.4 million lower than the estimate published in the 2010–11 Budget. This volatility is primarily due to the Australian Accounting Standard requirement to discount the gross liability based on the market yield of long-term Commonwealth Government bonds.

The ratio of net financial liabilities to revenue is expected to grow to 96.3 per cent at 30 June 2014, largely as a result of the increase in net debt associated with the government's capital investment program. The ratio is then forecast to decline as net debt reduces.

Non-financial public sector net debt is expected to increase from an estimated $6.9 billion at 30 June 2011 to $8.2 billion at 30 June 2013 as a result of a significant investment in infrastructure in both the general government and public non-financial corporation sectors totalling $9.1 billion over the period 2011–12 to 2014–15. Net debt is expected to decline to $7.6 billion at 30 June 2015, reflecting a return to operating surpluses and lower levels of capital spending.

General government sector financial position

Table 4.1 below summarises key balance sheet indicators for the general government sector.

Table 4.1: Key balance sheet indicators—general government sector

As at 30 June	2010 Actual	2011 Estimated Result	2012 Estimate	2013 Estimate	2014 Estimate	2015 Estimate
Net debt						
$m	1 402	3 217	3 825	4 098	4 213	3 615
% of total revenue	9.0	21.3	24.3	25.3	25.7	20.8
Net financial liabilities						
$m	13 182	14 237	15 029	15 492	15 784	15 379
% of total revenue	84.9	94.4	95.6	95.8	96.3	88.5
Net financial worth						
$m	6 551	6 368	5 578	5 973	6 467	7 541
% of total revenue	42.2	42.2	35.5	36.9	39.4	43.4
Net worth						
$m	36 231	37 456	37 713	38 791	39 512	40 743
% of total revenue	233.2	248.3	239.8	239.8	241.0	234.4

Net debt

General government sector net debt is expected to increase from $3217 million at 30 June 2011 to $4213 million at 30 June 2014 before declining to $3615 million at 30 June 2015.

The estimated increase in net debt primarily reflects an increase in external borrowing, resulting from net lending deficits until 2013–14.

The government's public private partnership (PPP) arrangements are generally recognised as finance leases on the balance sheet and consequently have an impact on net debt and net financial liabilities.

Net financial liabilities

The state's unfunded superannuation liability makes up the largest component of net financial liabilities. At 30 June 2011, the unfunded superannuation liability is estimated to be $8.7 billion, $385.9 million lower than estimated in the 2010–11 MYBR. This decrease is largely a result of higher than expected earnings on superannuation assets since the 2010–11 MYBR and the use of a higher discount rate. The unfunded superannuation liability is discussed in more detail later in this chapter.

In addition to net debt and unfunded superannuation liabilities, net financial liabilities include other financial liabilities and financial assets excluding equity held in public non-financial corporations (PNFCs) and public financial corporations (PFCs).

Net financial liabilities are forecast to increase from $14.2 billion at 30 June 2011 to $15.8 billion at 30 June 2014, due mainly to the increase in net debt and an increase in other employee benefits, before declining to $15.4 billion at 30 June 2015.

Other employee benefits, including long service leave, are estimated to be $2.0 billion at 30 June 2011 and are forecast to increase to $2.5 billion at 30 June 2015, as a result of general increases in remuneration levels and accruing entitlements for long service leave.

The remaining components of net financial liabilities are projected to remain relatively stable from 30 June 2011 to 30 June 2015.

The estimated net financial liabilities to revenue ratio at 30 June 2011 has decreased by 3.1 percentage points since the 2010–11 MYBR estimate of 97.5 per cent, largely because of the decrease in the unfunded superannuation liability. Net financial liabilities as a percentage of revenue are expected to increase to 96.3 per cent at 30 June 2014, before declining to 88.5 per cent at 30 June 2015 as net debt reduces.

Net financial worth

Net financial worth is a broader measure than net financial liabilities as it incorporates equity interests in PNFCs and PFCs. General government net financial worth is expected to increase from $6.4 billion at 30 June 2011 to $7.5 billion at 30 June 2015 reflecting revaluations of investments held in other public sector entities, offset by a decrease in advances paid and increases in other employee benefits and borrowings.

Net worth

Net worth is the amount by which the general government sector's total assets (non-financial and financial) exceed its liabilities. General government sector net worth is expected to increase from $36.2 billion at 30 June 2010 to $37.5 billion at 30 June 2011, mainly due to a downward revaluation of the unfunded superannuation liability, increases in the value of land and other fixed assets (discussed further below) and investments in other public sector entities. This is offset by an increase in borrowings and a decrease in cash and deposits.

Table 4.2 displays movements in net worth attributable to operating transactions and other economic flows (for example revaluations). The increase in the movement in net assets of PNFCs in 2012–13 is impacted by the first-time recognition of the value of the SA Lotteries licence.

Table 4.2: General government sector net worth ($million)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Net worth at beginning of year	**36 231**	**37 456**	**37 713**	**38 791**	**39 512**
Change in net worth from operating transactions:					
Net operating balance	- 427	- 263	114	80	655
Change in net worth from other economic flows:					
Movement in net assets of PFCs	361	95	189	166	146
Movement in net assets of PNFCs[(a)]	521	484	822	515	524
Revaluation of unfunded superannuation liability	765	- 5	- 6	- 6	- 6
Revaluation of long service leave liability	- 66	- 71	- 75	- 79	- 83
Revaluation of annual leave liability	- 9	- 10	- 10	- 10	- 10
Other revaluation adjustments	81	26	42	55	5
Total other economic flows	1 651	520	964	642	576
Net worth at year end	**37 456**	**37 713**	**38 791**	**39 512**	**40 743**

Note: Totals may not add due to rounding.

(a) Net of the impact of the disposal of assets in the PNFC sector and the return of proceeds to the general government sector.

Land and other fixed assets

Land and other fixed assets held by general government sector agencies include road and rail networks and land and buildings held mainly by education and health-related agencies.

Table 4.3 shows the projected holdings of land and fixed assets for the general government sector over the forward estimates period, together with the depreciation expense for each year.

Table 4.3: Land and other fixed assets—general government sector ($million)

As at 30 June	2010 Actual	2011 Estimated Result	2012 Estimate	2013 Estimate	2014 Estimate	2015 Estimate
Inventories	62	62	62	62	62	63
Land	3 762	3 741	3 573	3 505	3 456	3 451
Buildings and improvements	6 877	7 864	8 257	8 164	8 064	8 021
Water, sewerage and drainage assets	150	141	142	144	144	144
Road networks	14 681	14 993	15 569	16 127	16 462	16 817
Rail & bus networks	655	898	1 355	1 686	1 779	1 838
Other infrastructure assets	2 632	2 526	2 312	2 264	2 214	2 001
Heritage assets	857	858	859	860	861	861
Self-generating and regenerating assets	2	2	2	2	2	2
Total land and other fixed assets (net of provisions for depreciation)	**29 677**	**31 085**	**32 131**	**32 814**	**33 042**	**33 198**
Depreciation expense	**633**	**693**	**768**	**835**	**881**	**961**

Note: Totals may not add due to rounding.

The total value of land and fixed assets held in the general government sector is expected to grow from $31.1 billion at 30 June 2011 to $33.2 billion at 30 June 2015. This increase reflects significant ongoing investment in the state's infrastructure, particularly transport network assets, offset by depreciation.

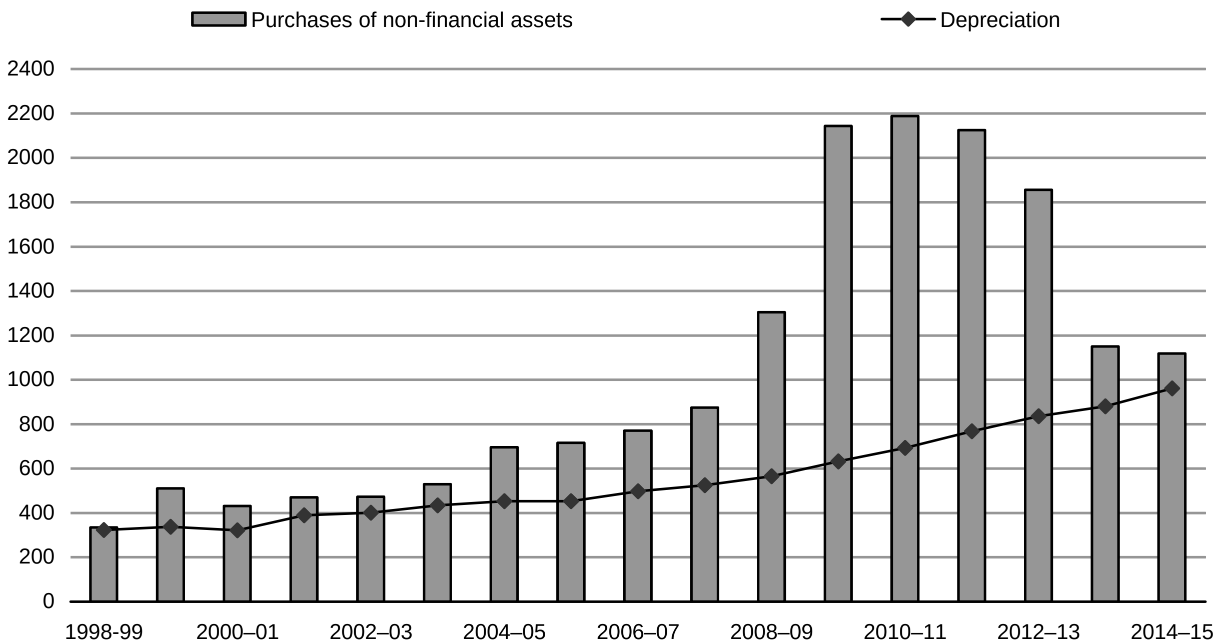
The decline in the value of land assets from 30 June 2011 to 30 June 2015 largely reflects the sale of land at Strathmont and Magill in 2011–12, which are being sold to fund the Cavan Youth Training Centre, as well as disposal of surplus land associated with the South Road Superway and Aldinga Land Corridor sales.

$2.1 billion of non-financial assets will be acquired within the general government sector in 2011–12, mainly in the areas of transport, education and health. Total general government sector capital investment is expected to be $6.3 billion from 2011–12 to 2014–15.

General government sector net infrastructure investment is expected to exceed depreciation over the forward estimates. Depreciation expense reflects the consumption of an asset's service potential. It totals $693 million in 2010–11 and rises to $961 million in 2014–15 as a result of the significant increase in the state's asset base over the same period.

Figure 4.1 illustrates the government's capital investment across the forward estimates.

Figure 4.1: General government sector purchases of non-financial assets ($million)



Note: 1998–99 to 2009–10 are actual outcomes. 2011–12 to 2014–15 are forecasts.

The strong levels of capital investment continue to increase the state's infrastructure base, stimulate the economy in the short term and increase the state's long-term capacity to grow.

Key general government sector balance sheet indicators—time series

Table 4.4 provides a time series of net debt, unfunded superannuation, net financial worth, net worth and net financial liabilities for the general government sector since 30 June 2003 and projected to 30 June 2015.

Significant volatility in the unfunded superannuation liability is evident between 2003 and 2011, reflecting the short-term variability resulting from some key valuation assumptions, in particular the discount rate and actual investment earnings. These factors are largely outside of government control. The state government's concern is to ensure that the impact of its budget policy is in accord with its medium-term fiscal objectives, thus it focuses on managing debt and other financial liabilities whilst maintaining its longer-term commitment to fully fund the unfunded superannuation liability by 2034.

The rise in the ratio of net financial liabilities to revenue from 2003 to 2011 largely reflects the increase in the unfunded superannuation liability over the period.

Despite the significant fluctuation in reported liabilities over the time series, net worth has continued to grow. As discussed earlier, this growth is primarily due to increases in the value of public non-financial corporations and public financial corporations assets.

Table 4.4: General government sector balance sheet indicators—time series

As at 30 June	Net debt $m	Unfunded superannuation[a] $m	Net financial worth $m	Net worth $m	Net financial liabilities $m	Net financial liabilities % of revenue
2003	666	4 445	3 500	15 288	6 974	74.6
2004	224	5 668	3 842	15 760	7 858	78.9
2005	144	7 227	3 853	16 359	9 393	88.7
2006	- 119	6 146	5 846	19 703	8 171	72.7
2007[b]	- 24	5 075	8 110	22 128	7 254	61.7
2008[c][d][e]	- 276	6 468	7 580	23 741	8 078	62.7
2009	475	8 939	5 551	24 146	11 562	85.5
2010	1 402	9 478	6 551	36 231	13 182	84.9
2011	3 217	8 734	6 368	37 456	14 237	94.4
2012	3 825	8 742	5 578	37 713	15 029	95.6
2013	4 098	8 732	5 973	38 791	15 492	95.8
2014	4 213	8 703	6 467	39 512	15 784	96.3
2015	3 615	8 652	7 541	40 743	15 379	88.5

(a) There is a structural break in the methodology used to calculate superannuation liabilities between June 2003 and June 2004. This accounting change, which involved the adoption of the Commonwealth Government bond rate for valuation purposes in line with AASB119, *Employee Benefits*, resulted in a significant increase in superannuation liabilities.

(b) There is a structural break in 2007 reflecting the amalgamation of the South Australian Government Financing Authority (SAFA) and SAICORP on 1 July 2006. The transfer of SAICORP's assets and liabilities from the general government sector to the public financial corporations sector results in an increase in general government net debt of $99 million at 1 July 2006 and an increase in net financial liabilities of $90 million at 1 July 2006.

(c) There is a structural break in 2008 reflecting the transfer of rail assets from TransAdelaide to the general government sector. This results in an increase in net debt and net financial liabilities of $66 million in 2007–08 and a reduction in net financial worth of $591 million, with no impact on net worth.

(d) There is a structural break in 2008 reflecting the transfer of assets from the Adelaide Festival Centre Trust to the general government sector. This results in an increase in net debt and net financial liabilities of $28 million in 2007–08 and a reduction in net financial worth of $76 million, with no impact on net worth.

(e) There is a structural break in 2008 reflecting the first time recognition on the general government balance sheet of South Australia's share of the net assets of the Murray-Darling Basin Commission. This has no impact on net debt, however results in a reduction in net financial liabilities of $615 million (approximately 5 per cent of revenue) in 2007–08 and increases in net financial worth and net worth of $615 million.

Unfunded superannuation liability

Table 4.4 above shows the unfunded superannuation liability is projected to be relatively steady across the forward estimates period. This is partly because the annual increase of the defined benefit obligation, as a result of benefits being one year closer, is broadly offset by the annual cash payments made as part of the government's target to fully fund all superannuation liabilities by 2034. The relative stability across the forward estimates also reflects an assumed return to the expected long-term earnings rate of 7.0 per cent and an unchanged discount rate.

Table 4.5 summarises the change in the unfunded superannuation liability since the 2010–11 Budget.

Table 4.5: Unfunded superannuation liability ($million)

As at 30 June	2011	2012	2013	2014	2015
Estimate as at 2010–11 Budget	**9 442**	**9 445**	**9 428**	**9 389**	**9 326**
Impact of revised discount rate assumptions used to value superannuation liabilities at the 2010–11 MYBR compared with 2010–11 Budget assumptions[(a)]	- 174	- 171	- 168	- 164	- 159
Impact of higher than expected returns on superannuation assets in 2010–11 as at 2010–11 MYBR compared with 2010–11 Budget assumptions[(b)]	- 148	- 149	- 150	- 151	- 151
Other	1	1	—	—	—
Estimate as at 2010–11 MYBR	**9 120**	**9 125**	**9 110**	**9 075**	**9 016**
Impact of expected higher returns on superannuation assets in 2010–11 compared with 2010–11 MYBR assumptions[(c)]	- 65	- 65	- 65	- 66	- 66
Impact of revised discount rate assumptions used to value superannuation liabilities at the 2011–12 Budget compared with 2010–11 MYBR[(d)]	- 336	- 330	- 324	- 316	- 308
Impact of demographic assumptions adopted in the 2010 actuarial review of the South Australian Superannuation Scheme	53	52	51	50	49
Impact of revised short-term CPI assumptions[(e)]	123	124	124	124	123
Impact of updated member data	- 162	- 163	- 164	- 164	- 163
Estimate as at 2011–12 Budget	**8 734**	**8 742**	**8 732**	**8 703**	**8 652**

Note: Totals may not add due to rounding.

(a) The discount rate at the time of the 2010–11 MYBR was 5.4 per cent compared with 5.3 per cent assumed in the 2010–11 Budget.

(b) The assumed earnings rate for 2010–11 at the time of the 2010–11 MYBR was 11.5 per cent compared with 8.3 per cent assumed in the 2010–11 Budget.

(c) The assumed earnings rate for 2010–11 is 12.9 per cent for the 2011–12 Budget compared with 11.5 per cent assumed in the 2010–11 MYBR.

(d) The discount rate at the time of the 2011–12 Budget is 5.6 per cent compared with 5.4 per cent assumed in the 2010–11 MYBR.

(e) The assumed short-term Consumer Price Index (CPI) rates have been adjusted to reflect those used elsewhere in the 2011–12 Budget.

The projected unfunded superannuation liability has decreased since the 2010–11 Budget and 2010–11 Mid-Year Budget Review (MYBR). This decrease is primarily due to the use of a higher discount rate to value the unfunded superannuation liability in accordance with the Australian Accounting Standards and higher than expected returns achieved by Funds SA in 2010–11.

The estimate of the unfunded superannuation liability as at 30 June 2011 reflects an estimated Funds SA earnings rate of 12.9 per cent for 2010–11. This is greater than the long-term assumed earnings rate of 7.0 per cent and the assumed earnings for 2010–11 in the 2010–11 Budget (8.3 per cent) and 2010–11 MYBR (11.5 per cent).

The use of updated member data to calculate the liability further decreases the unfunded superannuation liability by more than $160 million per year, due largely to the difference between actual and assumed salary growth.

As required by the *Superannuation Act 1988*, a triennial review of the South Australian Superannuation Scheme was undertaken by an independent actuary as at 30 June 2010 and tabled in parliament in March 2011.

Revised demographic assumptions adopted in the triennial review, such as rates of retirement and salary promotion, increase the unfunded superannuation liability by approximately $50 million per year compared with the 2010–11 MYBR.

The use of higher short-term Consumer Price Index (CPI) assumptions compared with the 2010–11 MYBR has also impacted the liability by approximately $120 million per year. South Australian Superannuation Scheme liabilities (being defined benefit schemes) are calculated assuming CPI of 2.5 per cent per annum for the long-term. However, in the 2011–12 Budget, CPI is assumed to be 3.4 per cent for 2012, 3.0 per cent for 2013, and 2.7 per cent for 2014 before reverting to the long-term rate.

The unfunded superannuation liability is estimated at a point in time by discounting future superannuation benefit payments. The discount rate reflects the risk-free interest rate and is set on the basis of the longest dated Commonwealth Government nominal bond. A discount rate of 5.6 per cent (effective annual rate) has been used for the 2011–12 Budget, compared with 5.3 per cent used for the 2010–11 Budget and 5.4 per cent for the 2010–11 MYBR.

The discount rate changes in response to the economy and financial market conditions. Small changes in the long-term bond rate have a material impact on the reported liability, with a 1.0 percentage point reduction in the bond rate increasing the liability by approximately $1.8 billion.

Table 4.6 sets out the impact on the net financial liabilities to revenue ratio, a key fiscal indicator, based on different discount rates.

Table 4.6: Sensitivity of general government sector net financial liabilities to revenue ratio to discount rates (%)

Discount Rate	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
5.6	94.4	95.6	95.8	96.3	88.5
6.0	90.1	91.6	92.0	92.6	85.1
7.5	77.0	79.1	80.0	81.1	74.5

The Commonwealth Government use a 6.0 per cent discount rate on the grounds that it is a long-term average and using a constant rate allows comparisons from budget to budget.

Prior to the adoption of the Commonwealth bond rate as a result of the new accounting standard in 2003–04, a rate of 7.5 per cent was used.

The unfunded superannuation liability is a long-term liability. While financial market volatility in the recent past has resulted in multibillion dollar revisions to the value of the liability recorded on the balance sheet, there has been no material change in the actual expected payments to beneficiaries underlying the liability.

The government remains committed to fully funding the superannuation liability by 2034. Table 4.7 shows estimated cash contributions towards the state's unfunded superannuation liability to achieve that commitment.

Table 4.7: Estimates of past service superannuation liability cash payments ($million)

	2010–11	2011–12	2012–13	2013–14	2014–15
	407	409	425	442	459

Non-financial public sector financial position

While the general government sector is the focus of the budget, the financial position of the non-financial public sector is also important. The non-financial public sector comprises the general government sector and the public non-financial corporations (PNFC) sector.

Table 4.8 summarises key balance sheet indicators for the non-financial public sector.

Table 4.8: Key balance sheet indicators — non-financial public sector

As at 30 June	2010 Actual	2011 Estimated Result	2012 Estimate	2013 Estimate	2014 Estimate	2015 Estimate
Net debt						
$m	4 487	6 872	7 922	8 175	8 170	7 553
% of total revenue	27.5	43.1	47.1	47.5	47.6	41.7
Net financial liabilities						
$m	16 626	18 274	19 465	19 857	20 021	19 582
% of total revenue	101.9	114.6	115.6	115.3	116.7	108.2
Net financial worth						
$m	-16 997	-18 284	-19 381	-19 583	-19 581	-18 996
% of total revenue	-104.2	-114.6	-115.1	-113.7	-114.1	-105.0
Net worth						
$m	36 231	37 456	37 713	38 791	39 512	40 743
% of total revenue	222.1	234.8	224.0	225.3	230.2	225.1

Non-financial public sector net debt is projected to increase from 30 June 2011 to 30 June 2013 before declining over the remaining forward estimates. The PNFC sector component of non-financial public sector net debt is expected to increase from $3.7 billion at 30 June 2011 to $4.1 billion at 30 June 2012 before declining to $3.9 billion at 30 June 2015.

The estimated ratio of net financial liabilities to revenue for the non-financial public sector is expected to increase from 114.6 per cent at 30 June 2011 to 116.7 per cent at 30 June 2014 before declining to 108.2 per cent at 30 June 2015. The increase to 2014 is largely due to infrastructure investment initiatives.

The forecast negative net financial worth position of the non-financial public sector contrasts with the positive net financial worth of the general government sector, reflecting:

- the exclusion of equity held by the general government sector in the PNFC sector, which is recognised as a financial asset in the general government sector but is eliminated in the consolidation of the non-financial public sector
- the inclusion of the PNFC sector's net debt.

Land and other fixed assets

Table 4.9 shows the projected holdings of land and other fixed assets for the non-financial public sector in 2010–11 and across the forward estimates.

Table 4.9: Land and other fixed assets — non-financial public sector ($million)

As at 30 June	2010 Actual	2011 Estimated Result	2012 Estimate	2013 Estimate	2014 Estimate	2015 Estimate
Inventories	429	437	340	340	329	346
Land	9 668	9 771	9 730	9 781	9 810	9 887
Buildings and improvements	11 756	12 903	13 366	13 442	13 507	13 523
Water, sewerage and drainage assets	11 311	12 128	13 028	13 351	13 622	13 966
Road networks	14 685	14 998	15 574	16 131	16 466	16 821
Rail & bus networks	655	898	1 355	1 686	1 779	1 838
Other infrastructure assets	3 085	2 981	2 742	2 683	2 621	2 397
Heritage assets	864	865	866	867	868	869
Self-generating and regenerating assets	769	754	87	87	87	87
Total land and other fixed assets (net of provisions for depreciation)	**53 224**	**55 735**	**57 089**	**58 368**	**59 088**	**59 734**
Depreciation expense	**958**	**1 026**	**1 154**	**1 255**	**1 330**	**1 428**

Note: Totals may not add due to rounding.

The total value of land and other fixed assets for the non-financial public sector is projected to rise from $55.7 billion at 30 June 2011 to $59.7 billion at 30 June 2015, due mainly to investment in transport and water-related infrastructure.

The higher level of non-financial assets in the non-financial public sector compared with the general government sector reflects the inclusion of assets held by PNFCs. These include assets held by SA Water (water and wastewater infrastructure such as pipelines, water filtration plants and reservoirs) and the South Australian Housing Trust.

Key non-financial public sector balance sheet indicators — time series

Table 4.10 provides a time series of net debt, unfunded superannuation, net financial worth, net worth and net financial liabilities for the non-financial public sector since 30 June 2003 and projected to 30 June 2015.

Table 4.10: Non-financial public sector balance sheet indicators — time series

As at 30 June	Net debt $m	Unfunded superannuation[a] $m	Net financial worth $m	Net worth $m	Net financial liabilities $m	Net financial liabilities % of revenue
2003	2 696	4 445	-8 811	15 288	9 096	89.4
2004	2 285	5 668	-9 550	15 760	10 031	93.7
2005	2 126	7 227	-11 004	16 359	11 511	101.5
2006	1 786	6 146	-9 889	19 703	10 451	88.5
2007[b]	1 989	5 075	-8 795	22 128	9 518	77.2
2008[c][d]	1 611	6 468	-10 487	23 741	10 208	74.9
2009	2 872	8 939	-14 921	24 146	14 302	99.6
2010	4 487	9 478	-16 997	36 231	16 626	101.9
2011	6 872	8 734	-18 284	37 456	18 274	114.6
2012	7 922	8 742	-19 381	37 713	19 465	115.6
2013	8 175	8 732	-19 583	38 791	19 857	115.3
2014	8 170	8 703	-19 581	39 512	20 021	116.7
2015	7 553	8 652	-18 996	40 743	19 582	108.2

(a) There is a structural break in the methodology used to calculate superannuation liabilities between June 2003 and June 2004. This accounting change, which involved the adoption of the Commonwealth Government bond rate for valuation purposes in line with AASB119, *Employee Benefits*, resulted in a significant increase in superannuation liabilities.

(b) There is a structural break in 2007 reflecting the amalgamation of the South Australian Government Financing Authority (SAFA) and SAICORP on 1 July 2006. The transfer of SAICORP's assets and liabilities from the general government sector to the public financial corporations sector results in an increase in non-financial public sector net debt of $99 million at 1 July 2006 and an increase in net financial liabilities of $90 million at 1 July 2006.

(c) There is a structural break in 2008 reflecting the amalgamation of the South Australian Community Housing Authority (PFC) with the South Australian Housing Trust (PNFC). This results in an increase in net debt and net financial liabilities and a decrease in net financial worth of $98 million in 2007–08, with no impact on net worth.

(d) There is a structural break in 2008 reflecting the first time recognition on the general government balance sheet of South Australia's share of the net assets of the Murray-Darling Basin Commission. This has no impact on net debt, however results in a reduction in net financial liabilities of $615 million (approximately 5 per cent of revenue) in 2007–08 and increases in net financial worth and net worth of $615 million.

As shown in the above table, net debt steadily decreased from 2003 to 2008 before significantly increasing, reflecting the government's capital investment program. Net worth, however, has continued to improve and is now estimated to reach $40.7 billion at 30 June 2015.

Management of assets and liabilities

Assets

Each agency establishes, implements and maintains its own asset management plan to ensure assets are deployed efficiently and effectively in the delivery of programs.

Debt management

The funding and management of the state's debt is undertaken by the South Australian Government Financing Authority (SAFA).

The state's funding requirements are achieved by SAFA through the issue of securities in the financial markets, including long-term Select Line fixed interest securities issued in Australia and through SAFA's short-term funding facilities.

The 2010–11 financial year has seen an ongoing recovery in domestic capital market conditions from the dislocation that occurred in the global financial crisis.

In March 2009, the Commonwealth introduced a new scheme whereby, in return for a fee, states could issue securities backed by a Commonwealth guarantee. States also had a short window after the issue of new Commonwealth guaranteed securities to opt for guarantee of existing securities, again for a fee. New access to the scheme concluded on 31 December 2010. South Australia did not need to use the Commonwealth guarantee scheme, with debt issuances being strongly supported by investors without the guarantee.

As at 30 June 2010, SAFA had loans to the Treasurer of approximately $5.2 billion to finance the general government sector and South Australian Housing Trust (via long-term housing agreement debt). These loans are partly offset by deposits the Treasurer has with SAFA. The average interest cost on the Treasurer's debt for 2009–10 was 4.35 per cent.

Notwithstanding the increase in external borrowings mentioned above, total borrowings in the general government sector balance sheet have reduced. This is because, for the first time, the 2011–12 Budget reports the Treasurer's cash position with SAFA on a net basis. This change better reflects the actual nature of the cash management arrangement between the Treasurer and SAFA, whereby the Treasurer's cash loans and cash deposits are managed on that basis.

The change in presentation adopted for the 2011–12 Budget does not affect the calculation of key net fiscal indicators, in particular net debt and net financial liabilities. At 30 June 2011 it is estimated that the Treasurer will hold $2.2 billion on deposit with SAFA, which is equally offset by the Treasurer's cash loans.

For general government debt, the government's debt management objective is to minimise the long-term average interest cost subject to acceptable levels of interest rate risk.

Under the debt management framework, debt is managed within a duration range of 1.0 to 1.5 years. There is no discretion to have an interest rate position outside that range. Interest rate risks are also controlled by the use of value at risk limits. The debt management framework is reviewed regularly and such reviews would take into account any significant changes in the state's debt levels.

In addition to debt managed under this framework, the general government sector has CPI indexed and long-term housing agreement debt. This serves to increase the overall duration of general government sector debt.

The framework for managing the debt of public non-financial corporations, such as SA Water, is determined by the individual corporations.

Managing superannuation liabilities and assets

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

As an employer, the Government of South Australia meets the Commonwealth mandated superannuation guarantee arrangements by means of the Southern State Superannuation (Triple S) Scheme.

The Triple S Scheme is an accumulation scheme to which the employer contributes at a rate of 10 per cent if members contribute at least 4.5 per cent of salary. For non-contributory members or members who contribute less than 4.5 per cent of salary, the employer contribution rate is the guarantee charge rate of 9.0 per cent.

The provision by the government of defined benefit superannuation schemes for its employees creates a liability for the government to pay future benefits to scheme members in accordance with the terms of the schemes. The South Australian Superannuation Scheme and the Police Superannuation Scheme, which are the main defined benefit schemes, were closed to new members in 1994. A program began in 1994–95 to fully fund all employer superannuation liabilities. The current funding program aims to have the defined benefit schemes fully funded by 2034.

Superannuation liabilities represent the present value of estimated future benefit payments. The South Australian Superannuation Scheme liabilities (being defined benefit schemes) are calculated assuming general real salary increases of 1.5 per cent per annum and pension increases adjusted by the Consumer Price Index (CPI) assumed to be 2.5 per cent per annum for the long term. However, for the years 2012 to 2014, CPI is assumed to be 3.4 per cent, 3.0 per cent and 2.7 per cent.

Commencing with the 2003–04 Mid-Year Budget Review, the liabilities have been calculated using a discount rate set with reference to the Commonwealth Government bond rate. The risk-free discount rate used for the 2011–12 Budget is 5.6 per cent (effective annual rate) but will be adjusted in future years as the risk-free rate moves. An earnings rate of 12.9 per cent for 2010–11 has been assumed based on estimated investment earnings by Funds SA to mid-May 2011 and using the assumption of 7.0 per cent per annum long-term return for the remainder of the year. The long-term earnings rate assumption of 7.0 per cent per annum may be reviewed periodically to reflect movements in the risk-free discount rate.

Table 4.11 sets out for the superannuation schemes operating in the state public sector, the estimated accrued liabilities of those schemes and the assets available to meet those liabilities, as at 30 June 2011.

Table 4.11: Public sector superannuation liabilities as at 30 June 2011 (estimated)

	Accrued liability	Assets	Net liability
Schemes administered by the Government of South Australia[(a)]	22 072	13 355	8 717
Schemes not administered by the Government of South Australia[(b)]	265	248	17
Total schemes	**22 337**	**13 603**	**8 734**

(a) The parts of the liability relating to schemes administered by the Government of South Australia that are defined benefits schemes have been determined by the Department of Treasury and Finance on the basis of the present value of expected future benefits that have arisen from membership of the various schemes. The SA Ambulance Service Superannuation Scheme is valued by an independent actuary.

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

Table 4.12 details the components of the unfunded liability for the South Australian Superannuation Scheme, the scheme with the largest unfunded liability.

Table 4.12: South Australian Superannuation Scheme as at 30 June 2011 (estimated) ($million)

Liabilities	
Pension Scheme	
Pensioners	6 621
Contributors	3 097
	9 718
Lump Sum Scheme	1 845
Gross liability	**11 563**
less	
Assets	
SA Superannuation Fund (member's contributions)	1 778
Employer fund (contributions by agencies including past service contributions by the government)	2 450
Total assets	**4 228**
equals	
Unfunded liability	**7 335**

Insurance arrangements

The South Australian Government Financing Authority (SAFA) manages the government's insurance and risk management arrangements through a separate insurance division using the trading name SAICORP.

The insurance function of SAFA is operated through two funds specifically established in SAFA's accounts to quarantine the insurance activities from SAFA's finance activities.

Premiums received from agencies for insurance cover provided under the government's insurance and risk management arrangements for incidents occurring from 1 July 1994 are credited to SAICORP Insurance Fund 1, which is used to:

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

Claim payments for insurable incidents that occurred prior to 1 July 1994 that survive the *Limitations of Actions Act 1936*, claims under the builders warranty indemnity reinsurance arrangements and SGIC residual claims are met from SAICORP Insurance Fund 2. From 1 July 2008, non-insurable type liabilities previously met from SAICORP Insurance Fund 2 are managed by the relevant government department and funded separately.

On 18 June 2010, the Treasurer approved SAFA providing QBE and Calliden with reinsurance cover for builders warranty insurance, with effect from 1 July 2010. These arrangements replace previous arrangements with Vero and CGU who have withdrawn from the builders warranty insurance market.

From 1 July 2006, the Treasurer has indemnified SAFA for the financial outcomes of SAICORP Insurance Fund 2. On an annual basis, payments will be made under the Treasurer's indemnity to ensure that SAICORP Insurance Fund 2 is maintained on a break-even basis in SAFA's accounts as at 30 June each year.

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

Premium revenue earned by SAFA from client agencies for 2010–11 is estimated to be $35.7 million ($33.7 million for 2009–10). SAFA has a policy of accumulating reserves over time to meet the cost of retained risks. Funds not required to meet day-to-day operational costs or short–term claim costs are invested in the tax exempt multi-sector growth product of Funds SA.

At 30 June 2010, SAICORP Insurance Fund 1 had:

- total assets of $325.2 million
- total liabilities of $236.4 million, including outstanding claim liabilities of $236.0 million — medical malpractice claims accounted for $154.6 million of the outstanding claim liabilities
- net assets (free reserves) of $88.8 million.

At 30 June 2010, SAICORP Insurance Fund 2 had:

- total assets of $65.3 million
- total liabilities of $65.3 million, including outstanding claim liabilities of $65.1 million — medical malpractice claims accounted for $25.6 million of the outstanding claim liabilities
- no net assets (a break-even position).

In accordance with the Treasurer's indemnity in relation to SAICORP Insurance Fund 2, total assets in the fund include a receivable of $6.8 million from the Treasurer.

During 2010–11, SAICORP Insurance Fund 1 and SAICORP Insurance Fund 2 continued to recover losses arising from the global financial crisis. SAICORP is now close to returning to within its target level of reserves.

Chapter 5: Government businesses

Overview

Highlights 2011–12

- The public non-financial corporations (PNFC) sector will undertake a significant $1.2 billion capital investment program in 2011–12. This includes SA Water's investment program of $834.6 million, over 60 per cent of which is associated with the Adelaide Desalination Plant and the North–South Interconnection System projects. The South Australian Housing Trust's investment program is $285.6 million and the Adelaide Convention Centre's investment program is $46.5 million.
- PNFC sector net debt is budgeted to peak at around $4.1 billion at 30 June 2012.

Recent developments

The Department of Treasury and Finance Market Projects Unit continues to progress a range of initiatives aimed at realising the value of the state's assets to strengthen the state's balance sheet. These initiatives include identifying a range of commercial property assets for sale, selling the harvesting rights of ForestrySA plantations and the creation of a new lotteries licence for SA Lotteries.

In October 2010, the government finalised the sale of the Commissioner of Highways building at Walkerville. The government is continuing to progress the sale of a number of other significant government-owned buildings in the central business district and metropolitan Adelaide, including the sale of lease entitlements for those buildings not owned by the government. Proceeds from these sales have not been disclosed so as to avoid prejudicing the sales process.

In December 2010, Cabinet approved a sales strategy and revised policy arrangements for the provision of government employee housing which aims to shift the government's role from being a substantial owner of public housing assets to a provider of access to a portfolio of rental properties in those regional areas where a viable rental market exists. The government will withdraw from the provision of housing services within 100 kilometres of Adelaide. In areas outside of 100 kilometres from Adelaide, eligible government employees will retain access to housing.

In May 2011, the government announced it would proceed with the forward sale of up to three harvest rotations for ForestrySA plantations in the South East of South Australia, after a regional impact statement concluded that it would have no significant economic, social or environmental impact. As a result of the government's decision, a South-East Forest Industry Roundtable has been established to provide recommendations to the government on:

- various conditions announced by the Treasurer on any forward sale (before going to the market)
- the long-term viability of South Australia's forest industry.

The process for the forward sale of forest rotations is expected to take up to 12 months to complete. Proceeds from the sale have not been disclosed so as to avoid prejudicing the sale process.

Given the changes in the gaming and lottery markets in recent years, the government is now considering the creation of a new lotteries licence for SA Lotteries. This new licence, along with the SA Lotteries' corporate product brands, will continue to be owned by the state government with a sub-licence giving the right to operate the SA Lotteries' brands and business for a defined period of time.

Financial arrangements and policy framework

Contributions (that is dividends and income tax equivalent payments) made by PNFCs and public financial corporations (PFCs) are recorded as part of the general government sector's revenue. Some PNFCs also pay guarantee fees to the government, consistent with competitive neutrality principles. Grants, subsidies and payments for community service obligations made to PNFCs and PFCs are recorded as expenditures of the general government sector.

Competitive neutrality policy

All jurisdictions signed the Competition Principles Agreement which covers a range of matters including competitive neutrality policy and principles (Competition Principles Agreement — 11 April 1995, as amended to 13 April 2007).

Among the requirements of the policy are that jurisdictions will impose government taxes or tax equivalent systems, debt guarantee fees and those regulations that private sector businesses are normally subject to on their government business enterprises.

All jurisdictions recommitted to the principles in the Competition Principles Agreement at the Council of Australian Governments (COAG) meeting on 10 February 2006 and signed the Competition and Infrastructure Reform Agreement. The objectives listed under the Competition and Infrastructure Reform Agreement in relation to competitive neutrality of government business enterprises are:

- that the enterprise has clear commercial objectives
- that any non-commercial objectives or obligations established for the enterprise are clearly specified and publicly reported
- that enterprises do not exercise regulatory or planning approval functions in circumstances in which they compete with private sector enterprises (Competition and Infrastructure Reform Agreement — COAG meeting 10 February 2006 Appendix E to Attachment B, National Competition Policy Review).

Heads of Treasuries monitor and report annually to COAG on the operation of the enhanced competitive neutrality principles in the Competition and Infrastructure Reform Agreement. States are required to complete a competitive neutrality matrix template and self-assess compliance against criteria which reflect obligations under the Competition Principles Agreement and the Competition and Infrastructure Reform Agreement.

Guarantee fees

The liabilities of a government business are guaranteed by the government and as a result it is likely to receive cheaper finance than it would as a 'stand-alone' borrower, which has its credit risk assessed independently of the government guarantee. It is government policy that the fee for the government guarantee on borrowings should be appropriately priced, to avoid a government business obtaining a competitive advantage over a private sector company. The guarantee fee represents a price for the funding cost advantage the government guarantee provides as well as the cost advantages of centralised funding arrangements. The charging of a guarantee fee supports transparency and accountability by ensuring that a government business makes decisions that reflect true borrowing costs.

Ownership framework

The PNFCs Ownership Framework Policy Guidelines state the government's policy framework for community service obligations, dividends and capital structure. The ownership framework has been implemented for SA Water, the Land Management Corporation and ForestrySA and elements of the framework have been applied to the Public Trustee.

Dividends and capital structure

The policy guidelines provide for the dividend requirements of the government as shareholder to be calculated with consideration of the capital structure targets for each PNFC.

The capital structure of a PNFC is determined based on the capital intensity of its operations and the riskiness of its operating revenue and expenses. Other factors considered include the volatility of cash flows and the characteristics of the market in which the PNFC operates. Capital structures are set to ensure that each PNFC has sufficient operating and financial flexibility to allow for approved and unexpected capital expenditure and changes in business operating conditions.

Community service obligations

A community service obligation (CSO) arises when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, and which the government does not require other businesses in the public or private sectors to generally undertake, or which it would only do commercially at higher prices (Steering Committee on National Performance Monitoring of Government Trading Enterprises 1994, *Community Service Obligations: Some Definitional, Costing and Funding Issues*).

Amongst other things, the policy guidelines provide that "CSO payments will be made for all non-commercial activities that PNFCs are required to undertake" and "CSO payments will be transparent and clearly reported".

SA Water receives the largest CSO payment of all the PNFCs, which is mainly for statewide uniform pricing, with a smaller, but still significant, CSO paid in relation to exemptions and concessions.

Grants and subsidies

Grants and subsidies are monies provided by a government department or agency to an entity in order to fund or to assist with the funding of a program or project. This includes Commonwealth Government grants and subsidies paid through the state government.

Operating performance

Table 5.1 provides an overview of the key budget aggregates for the PNFC sector.

Table 5.1: Public non-financial corporations sector budget aggregates ($million)

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Net operating balance before dividends and income tax equivalents	249.2	328.5	318.7	390.2	342.8	343.9
less Dividends[(a)]	186.7	217.3	228.4	260.0	267.6	269.8
less Income tax equivalents	87.8	110.6	103.1	126.3	122.1	122.7
equals						
Net operating balance	**- 25.3**	**0.6**	**- 12.8**	**3.9**	**- 46.9**	**- 48.6**
less						
Net acquisition of non-financial assets						
Gross fixed capital formation[(b)]	848.9	906.9	294.0	196.7	389.8	366.5
less Depreciation	367.9	332.3	385.9	419.2	449.0	467.4
plus Change in inventories	4.1	7.8	- 98.0	- 0.1	- 11.4	16.6
equals Total net acquisition of non-financial assets	485.1	582.4	- 189.9	- 222.6	- 70.6	- 84.3
equals						
Net lending/borrowing[(c)]	**- 510.4**	**- 581.8**	**177.1**	**226.6**	**23.7**	**35.7**

Note: Totals may not add due to rounding.

(a) In accordance with the Australian Bureau of Statistics' classification standards, Table 5.1 excludes dividends from SA Lotteries, which are recorded as gambling tax in Table 3.3 and Table 3.7 of Chapter 3 and as taxation revenue in the general government sector operating statement at Appendix A.

(b) Gross fixed capital formation comprises purchases of non-financial assets (including contributed assets) less sales of non-financial assets (including donated assets).

(c) A negative net lending result means that revenues are not sufficient to fund operating and investing expenditure, resulting in increased liabilities.

The estimated net operating balance before dividends and income tax equivalents for the PNFC sector in 2010–11 of $328.5 million represents a $79.3 million increase from budget, mainly reflecting lower than forecast operating expenses, depreciation and borrowing costs for SA Water and lower than forecast operating expenses for the South Australian Housing Trust. This has been partially offset by lower than forecast sales revenue and grant funding for SA Water and lower than forecast sales revenue for the Land Management Corporation.

The budgeted 2011–12 net operating balance before dividends and income tax equivalents of $318.7 million is lower than 2010–11, reflecting higher operating expenses, depreciation and borrowing costs for SA Water and higher operating expenses for the South Australian Housing Trust. This has been partially offset by higher sales revenue for SA Water and the Land Management Corporation.

From 2010–11 to 2011–12, the net operating balance after dividends and income tax equivalents is forecast to deteriorate by $13.4 million; however, net lending is forecast to improve by $758.9 million. The negative net operating balance after dividends and income tax equivalents is influenced by the inclusion of the South Australian Housing Trust which is a non-commercial PNFC that does not fully recover the cost of services provided through its own revenue sources and relies on the sale of assets to maintain positive cash balances.

The improvement in net lending from 2010–11 to 2011–12 is mainly due to a $772.3 million reduction in the total net acquisition of non-financial assets. This reduction reflects the proposed forward sale of ForestrySA harvests, a decrease in social housing construction under the Commonwealth's Nation Building — Economic Stimulus Plan for the South Australian Housing Trust and the deferral of commercial property sales from 2010–11 to 2011–12 for the Land Management Corporation. This has been partially offset by an increase in SA Water's investing expenditure and the upgrade of the Adelaide Convention Centre in 2011–12. Proceeds from the forward sale of ForestrySA's harvests have not been disclosed so as to avoid prejudicing the sale process.

Net lending is forecast to improve in 2012–13 by $49.5 million, mainly reflecting a reduction in the total net acquisition of non-financial assets, due to the reduction in investing expenditure with the expected completion of the Adelaide Desalination Plant and the North–South Interconnection System Project as well as the cessation of the Nation Building — Economic Stimulus Plan at the end of 2011–12. The improvement in net lending also reflects the realisation of proceeds from the new lotteries licence for SA Lotteries, which is partially offset by the investment in the Adelaide Convention Centre Upgrade Project.

In 2010–11 the PNFC sector is estimated to contribute a total of $327.9 million in dividends and income tax equivalents to the government, which represents a $53.4 million increase from budget. The increase is mainly the result of higher contributions from SA Water partially offset by lower contributions from the Land Management Corporation.

Overall, contributions are forecast to increase slightly from 2010–11 to 2011–12, mainly as a result of the Land Management Corporation's anticipated land release program in 2011–12. This increase has been mostly offset by SA Water's lower contribution due to higher operating expenses and borrowing costs in 2011–12, largely as a result of major infrastructure projects and water security initiatives, partially offset by additional sales revenue.

Contributions are forecast to increase from 2012–13, largely reflecting the additional sales revenue from SA Water associated with the increase in water prices. However, the recovery in contributions from SA Water is partially offset by reduced contributions from ForestrySA, as a result of the planned forward sale of its forest rotations.

SA Water's forward estimates also include the receipt of Commonwealth Government grants for a number of capital projects. Although this funding will be amortised over the life of the assets by SA Water, as required under accounting standards, the funding receipt will reduce SA Water's borrowing requirement and associated borrowing costs, which impacts directly on SA Water's profit.

The revenue sources of a number of major government businesses, including the Land Management Corporation and ForestrySA, are tied to the level of activity in the building and construction sector, particularly residential housing. Dwelling construction activity decreased at a national level in the first half of 2010–11, with South Australia not immune to the decrease.

Public non-financial corporations — performance

Table 5.2 summarises financial transactions between PNFCs and the general government sector, including income tax equivalents, dividends, grants, subsidies and community service obligations (CSOs).

Table 5.2: Financial transactions between PNFCs and the general government sector ($million)[(a)]

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget
Income tax equivalents			
ForestrySA	13.9	13.8	13.5
Land Management Corporation	15.0	9.6	18.8
SA Water	49.7	78.5	62.4
South Australian Housing Trust	—	—	—
Other	9.2	8.7	8.5
Total income tax equivalents	**87.8**	**110.6**	**103.1**
Dividends[(b)]			
ForestrySA	29.2	26.9	28.4
Land Management Corporation	49.6	18.6	58.7
SA Water	104.5	167.5	138.2
South Australian Housing Trust	—	—	—
Other	3.4	4.2	3.1
Total dividends	**186.7**	**217.3**	**228.4**
Grants and subsidies[(c)]			
ForestrySA	0.4	0.4	0.4
Land Management Corporation	—	2.5	2.5
SA Water	98.9	68.3	165.3
South Australian Housing Trust	458.0	445.6	397.9
Other	29.4	29.7	25.8
Total grants and subsidies	**586.7**	**546.5**	**591.9**
CSOs			
ForestrySA	2.9	2.9	3.0
Land Management Corporation	0.9	0.9	1.2
SA Water	180.6	185.7	153.0
South Australian Housing Trust	—	—	—
Other	—	—	—
Total CSOs	**184.4**	**189.6**	**157.2**
Net contribution to government[(d)]			
ForestrySA	39.9	37.4	38.6
Land Management Corporation	63.7	24.8	73.8
SA Water	- 125.3	- 8.0	- 117.7
South Australian Housing Trust	- 458.0	- 445.6	- 397.9
Other	- 16.8	- 16.7	- 14.3
Total net contribution to government	**- 496.7**	**- 408.2**	**- 417.6**

Note: Totals may not add due to rounding.

(a) Table 5.2 is presented on an accrual basis.

(b) In accordance with the Australian Bureau of Statistics' (ABS) classification standards, Table 5.2 excludes dividends from SA Lotteries, which are recorded as gambling tax in Table 3.3 and Table 3.7 of Chapter 3 and as taxation revenue in the general government sector operating statement at Appendix A.

(c) Grants and subsidies are recognised in accordance with ABS classification standards and include Commonwealth Government grants and subsidies paid through the state government.

(d) Net contribution to the government comprises income tax equivalents plus dividends less grants, subsidies and CSOs. A negative amount indicates grants, subsidies and CSOs exceed dividends and income tax equivalents.

SA Water

Table 5.3: Financial transactions between SA Water and the general government sector ($million)

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget
Income tax equivalents	49.7	78.5	62.4
plus			
Dividends	104.5	167.5	138.2
less			
Grants, subsidies and CSOs[(a)]	279.5	254.0	318.3
equals			
Net contribution to government	**- 125.3**	**- 8.0**	**- 117.7**

Note: Totals may not add due to rounding.

(a) Grants, subsidies and CSOs are recognised in accordance with the Australian Bureau of Statistics' classification standards and include Commonwealth Government grants and subsidies paid through the state government.

SA Water's 2010–11 estimated contributions (that is dividends and income tax equivalent payments) to the government of $246.0 million are above budget by $91.8 million, mainly due to decreased operating expenses and borrowing costs associated with the delay of the delivery of first water for the Adelaide Desalination Plant to the end of July 2011 and delays in a number of smaller infrastructure projects and water security initiatives.

SA Water's contributions are estimated to decrease by $45.4 million from 2010–11 to 2011–12, mainly due to increased operating expenses and borrowing costs associated with major infrastructure projects and water security initiatives. These projects include the Adelaide Desalination Plant, which is expected to be completed in December 2012, and the North–South Interconnection System Project to improve connectivity between the northern and southern metropolitan water supply systems.

Grants and subsidies to SA Water from the government in 2010–11 have decreased since the 2010–11 Budget by $30.6 million to $68.3 million, mainly due to the deferral into 2011–12 of Commonwealth Government grants paid through the state government for the Adelaide Desalination Plant. Grants and subsidies are estimated to increase significantly in 2011–12 to $165.3 million, mainly due to the receipt of $154.0 million of Commonwealth Government grants for the Adelaide Desalination Plant, with the final Commonwealth Government grant payments expected to occur in 2012–13.

CSO payments to SA Water by the government in 2010–11 have increased by $5.2 million to $185.7 million since the 2010–11 Budget. CSOs are then estimated to decrease in 2011–12 by $32.7 million to $153.0 million, mainly due to an increase in water charges.

SA Water is estimated to receive a net contribution (including Commonwealth Government grant funding) from the government in 2010–11 of $8.0 million, which is estimated to increase further in 2011–12 to $117.7 million as grants, subsidies and CSOs exceed dividends and income tax equivalent payments.

The government approved an average 26.3 per cent nominal increase in drinking water charges in 2011–12. Sewerage charges will also rise in 2011–12 by 5.5 per cent for metropolitan customers and 6.0 per cent for country customers. The increase in water charges reflects the continued investment in securing South Australia's water supply through investments such as the Adelaide Desalination Plant and the North–South Interconnection System projects.

In its 2010–11 pricing decision, the government has complied with the National Water Initiative (NWI) pricing principles by fully recovering the efficient costs of supplying SA Water's water and sewerage services. The 2011–12 pricing decision continues to fully comply with the NWI by recovering efficient regulatory costs, including water planning and management costs from SA Water customers.

The most significant influence on sewerage prices in 2011–12 is the high level of capital expenditure on sewerage treatment and recycled water projects. There are a number of significant infrastructure projects nearing completion in 2010–11 which influence future prices, including the Christies Beach and Aldinga wastewater treatment plants and the Southern Urban Reuse Project. The costs of independent economic regulation also influence future sewerage costs and, consequently, charges.

Provision has been made for the continuation of updated permanent water conservation measures into 2011–12. Since the lifting of restrictions on 30 November 2010, water consumption has remained at its lowest levels this decade which has been assisted by above-average rainfall in South Australia during summer.

Land Management Corporation

Table 5.4: Financial transactions between the Land Management Corporation and the general government sector ($million)

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget
Income tax equivalents	15.0	9.6	18.8
plus			
Dividends	49.6	18.6	58.7
less			
Grants, subsidies and CSOs	0.9	3.4	3.7
equals			
Net contribution to government	**63.7**	**24.8**	**73.8**

Note: Totals may not add due to rounding.

The Land Management Corporation's estimated net contribution to the government in 2010–11 of $24.8 million is below budget, largely due to lower than forecast sales revenue and the deferral of commercial property sales from 2010–11 to 2011–12.

The Land Management Corporation is planning to undertake a significant land release program in 2011–12, including land releases at Blakeview, Evanston and Aldinga, resulting in an increase in forecast sales revenue in 2011–12. This program, subject to private sector demand, will contribute towards meeting the government's target — set in *The 30-Year Plan for Greater Adelaide* — for a 15-year rolling supply of land zoned for urban development.

Major projects impacting on contributions across the remaining forward estimates include Blakeview, Playford Alive, the Port Adelaide Waterfront Redevelopment and Northgate.

ForestrySA

Table 5.5: Financial transactions between ForestrySA and the general government sector ($million)

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget
Income tax equivalents	13.9	13.8	13.5
plus			
Dividends	29.2	26.9	28.4
less			
Grants, subsidies and CSOs	3.3	3.3	3.3
equals			
Net contribution to government	**39.9**	**37.4**	**38.6**

Note: Totals may not add due to rounding.

ForestrySA's estimated net contribution to the government in 2010–11 of $37.4 million is below budget due to a dividend adjustment for 2009–10 and reduced timber sales, partially offset by a reduction in operating expenses.

ForestrySA's sales are primarily dependent on the domestic housing and construction sector. In 2010–11, the downturn in this sector, as well as the increased market share of imported timber, has resulted in a decrease in ForestrySA's timber sales. While the log market was depressed the demand for pulp increased, partially offsetting the reduced revenue from log sales. It is anticipated that this trend will continue in 2011–12. As a result, ForestrySA's contributions will remain at a similar level in 2011–12.

South Australian Housing Trust

Table 5.6: Financial transactions between the South Australian Housing Trust and the general government sector ($million)[(a)]

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget
Grants, subsidies and CSOs[(b)]			
State grants	327.3	331.8	334.0
Commonwealth grants[(c)]	130.8	113.8	64.0
Net contribution to government	**- 458.0**	**- 445.6**	**- 397.9**

Note: Totals may not add due to rounding.

(a) The South Australian Housing Trust (SAHT) is subject to the tax equivalent regime, however no income tax equivalent payments are forecast over the forward estimates. SAHT is not required to make dividend payments to the government.

(b) Grants, subsidies and CSOs are recognised in accordance with the Australian Bureau of Statistics' classification standards and include Commonwealth Government grants and subsidies paid through the state government.

(c) Commonwealth grants represent funding provided under various National Partnership agreements for specific outcomes.

The South Australian Housing Trust does not fully recover the cost of services provided through its own revenue sources and relies on the sale of assets to maintain positive cash balances.

Total grant funding provided to the South Australian Housing Trust is estimated to be $445.6 million in 2010–11, which is $12.4 million lower than budget mainly due to a deferral of the Commonwealth Nation Building—Economic Stimulus Plan funding to 2011–12. A reduction in total grant funding to $397.9 million in 2011–12 mainly reflects the reduction in funding associated with the Nation Building—Economic Stimulus Plan, which is due to be completed at the end of 2011–12.

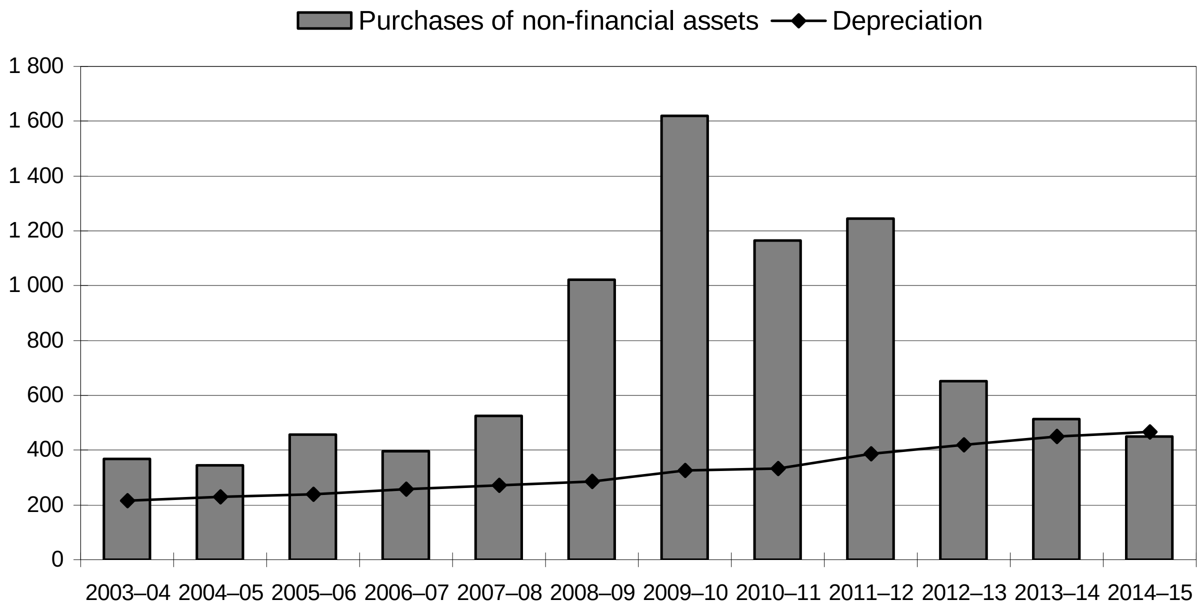
SA Lotteries

In accordance with the Australian Bureau of Statistics classification standards, dividends from SA Lotteries are recorded as gambling tax in Table 3.3 and Table 3.7 of Chapter 3 and as taxation revenue in the general government sector operating statement at Appendix A.

SA Lotteries' 2010–11 estimated income tax equivalent payments to the government are slightly above budget due to additional sales associated with high jackpots during the year. SA Lotteries' income tax equivalents are forecast to decrease slightly in 2011–12, mainly due to an increase in operating expenditure associated with the implementation of the Online Lotteries System, partially offset by an increase in net sales associated with SA Lotteries expanding its network.

Capital investment

Figure 5.1: Purchases of non-financial assets and depreciation ($million)[(a)]



(a) Purchases of non-financial assets comprises investing expenditure and contributed assets.

Purchases of non-financial assets by the PNFC sector will exceed $1.2 billion in 2011–12.

The significant investing expenditure in 2011–12 includes SA Water's investment program of $834.6 million, the South Australian Housing Trust's investment program of $285.6 million, $43.5 million towards the Adelaide Convention Centre Upgrade and $13.2 million towards the Rail Commissioner's Railcar Upgrade Program. SA Water's investing expenditure will increase by $109.5 million from 2010–11 to 2011–12, with significant expenditure occurring in 2011–12 on the Adelaide Desalination Plant and the North–South Interconnection System projects. It is then expected to decrease in 2012–13 to $261.1 million with the completion of the Adelaide Desalination Plant in December 2012 and a number of water security projects, including the North–South Interconnection System Project. SA Water's investing expenditure is expected to then remain at similar levels across the forward estimates.

Details of the 2011–12 investing initiatives are contained in the 2011–12 Capital Investment Statement.

From 2011–12 to 2012–13 there is a large step down in PNFC capital investment, which is mainly due to the reduction in investing expenditure associated with the expected completion of the Adelaide Desalination Plant in December 2012, the expected completion of social housing construction under the Commonwealth's Nation Building—Economic Stimulus Plan and a scheduled reduction in works under the Rail Commissioner's Upgrade Program, partially offset by an increase in the Adelaide Convention Centre Upgrade Project.

PNFC depreciation is increasing steadily reflecting the large infrastructure investment occurring across the forward estimates.

Net debt

Table 5.7: Public non-financial corporations sector net debt ($million)[(a)]

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
SA Water	3 244.4	3 717.3	3 647.4	3 590.7	3 593.6
Other	411.0	380.0	430.2	367.6	345.0
Total PNFC net debt	**3 655.3**	**4 097.3**	**4 077.6**	**3 958.3**	**3 938.6**

Note: Totals may not add due to rounding.

(a) Net debt equals the sum of deposits held, advances received and borrowings, minus the sum of cash and deposits, advances paid and investments, loans and placements. Net debt does not include fixed assets.

PNFC sector net debt is forecast to increase from $3655.3 million in 2010–11 to $4097.3 million in 2011–12, which is mainly attributable to water security projects including the construction of the $1.8 billion Adelaide Desalination Plant and the $403 million North–South Interconnection System. In 2011–12, SA Water will account for around 90.7 per cent of the total PNFC sector net debt. From 2011–12, SA Water's net debt is forecast to decline across the forward estimates.

Public financial corporations

The PFC sector includes HomeStart Finance, South Australian Asset Management Corporation (SAAMC), South Australian Government Financing Authority (SAFA), Motor Accident Commission, Superannuation Funds Management Corporation of South Australia (trading as Funds SA) and WorkCover Corporation.

PFCs that make contributions to the government are shown in Table 5.8.

Table 5.8: Financial transactions between PFCs and the general government sector ($million)[(a)]

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget
Income tax equivalents			
HomeStart Finance	4.4	2.7	2.6
South Australian Asset Management Corporation	—	—	—
South Australian Government Financing Authority	8.5	18.1	4.1
Total income tax equivalents	**12.9**	**20.8**	**6.7**
Dividends			
HomeStart Finance	8.2	5.1	4.8
South Australian Asset Management Corporation	4.0	4.0	20.1
South Australian Government Financing Authority	53.4	50.0	8.2
Total dividends	**65.6**	**59.1**	**33.1**
CSOs			
HomeStart Finance	4.5	4.5	4.8
South Australian Asset Management Corporation	—	—	—
South Australian Government Financing Authority	—	—	—
Total CSOs	**4.5**	**4.5**	**4.8**
Net contribution to government[(b)]			
HomeStart Finance	8.1	3.3	2.6
South Australian Asset Management Corporation	4.0	4.0	20.1
South Australian Government Financing Authority	61.9	68.1	12.3
Total net contribution to government	**74.0**	**75.4**	**35.0**

(a) Income tax equivalents and dividends from public financial corporations are shown in Table 3.17 of Chapter 3.

(b) Net contribution to the government from PFCs comprises income tax equivalents plus dividends less CSOs.

The net contribution to government from HomeStart Finance is below budget in 2010–11 mainly due to an increase in guarantee fees.

SAAMC's net contribution is significantly higher in 2011–12 reflecting recent distributions from the liquidation of companies with outstanding debts to SAAMC.

The net contribution to the government from SAFA is significantly higher in 2010–11 than 2011–12 due to the programmed return of excess capital from its treasury operations.

The full list of PNFCs and PFCs is contained in Appendix D.

Chapter 6: Risk statement

Overview

This chapter outlines the major financial risks that could affect the fiscal outlook set out in the 2011–12 Budget and identifies measures the government has adopted to manage these risks. The risks are summarised in three main sections — risks to revenue, risks to expenditure, and contingent liabilities.

Budget estimates are made on assumptions and judgments formed in the context of information available at the time of their preparation. In practice, both revenues and expenses will be subject to variation from the budget, the size of such variation typically increasing over the forward estimates period.

Financial risks arise from general developments or from specific events that affect the fiscal outlook. They may be positive or negative and they may not necessarily be within the government's control. Examples include fluctuations in economic activity, changes to demand for services and fluctuations in financial markets.

The budget estimates include allowances to help manage potential financial risks. For example, allowances are made for wage and salary outcomes and capital expenditure contingency provisions. In addition, some sources of risk to the fiscal outlook can, to a certain extent, be managed through established risk management practices such as hedging and insurance.

While the international economic environment has improved since the global financial crisis there are still risks, including the sovereign debt issues of some European Union nations, the United States of America's fiscal position and the speed and strength of the Japanese recovery following the recent earthquake and tsunami. Domestically the major economic risk to the state budget is the behaviour of the household sector in relation to general spending trends and demand for housing, both of which have been dampened by increases in official interest rates and more cautious behaviour. This has impacted on two of the state's largest revenue sources — the Goods and Services Tax (GST) revenue grants and stamp duty on conveyances.

Revenue risks

Taxation, grants, royalties and fines

State taxation revenues are exposed to variations and fluctuations in both the volume and value of activity. Broadly based taxes such as payroll tax are influenced by general economic trends, whereas more narrowly based taxes are subject to influences which are specific to particular segments of economic activity. Price and activity trends in the property market have a greater impact on the short-term volatility of state taxation revenues than does the broader economy because of the significant share of revenues derived from property-based taxes such as stamp duty and land tax.

Fluctuations in economic activity within the state increase the risk of state taxation revenues exceeding or falling short of budget forecasts, particularly at turning points in the economic cycle. The performance of the national economy is also a key driver of state government revenues. The pool of GST revenue grants allocated to the states and territories is directly influenced by national trends in consumer spending and housing construction.

Furthermore, South Australia's share of GST revenue grants is influenced, in part, by the state's relative taxation revenue capacity. Under the horizontal fiscal equalisation (HFE) system, if South Australia's taxation revenues are constrained relative to other states and territories as a result of weaker state economic performance, the HFE process will provide South Australia with a higher share of GST revenues. This means that in the medium to longer term, overall South Australian revenues (GST revenue grants and own-source revenues in per capita terms) are ultimately largely driven by national rather than state economic performance. However, the HFE process operates with a lag and therefore fluctuations in state economic activity do have a short-term impact on overall revenues.

With the end of various Commonwealth Government economic stimulus measures, property market activity and consumer spending have been softer than expected resulting in downward revisions to budgeted tax and GST revenue in 2010–11. However, it is assumed that economic growth will improve over the forward estimates period, providing a supportive environment for revenue growth.

Specific economic-related risk factors include:

- the national and international economic environment could be weaker than anticipated as a result of the impact of recent natural disasters nationally and within the Asia–Pacific region, instability and ongoing financial concerns for some overseas regions, rising oil prices and other potential inflationary pressures in some overseas jurisdictions
- consumer spending and the property market may be more subdued than anticipated, particularly if there are further interest rate increases or further significant increases in general living expenses. On the other hand, high aggregate income growth and a high Australian dollar could lead to stronger household expenditure, resulting in higher GST revenue
- variations in climatic conditions could impact on the volume of South Australian agricultural output and farm incomes with flow-on impacts into other areas of the economy
- local industries may face structural pressures from a relatively strong Australian dollar.

State taxation revenue is not particularly sensitive to movements in broad based price measures, such as the Consumer Price Index. Rather, where there are price effects on taxation revenues, they tend to be specific to particular transactions; for example, property values, motor vehicle values and insurance premiums.

Impact: A variance of 1.0 per cent in state taxation revenue, not including GST revenues, equates to about $41 million per annum.

Specific revenue risk areas over and above general economic conditions are considered below.

Property taxes

Conveyance duty revenue is exposed to local variations in the property market. Trends in property market values and activity levels have been difficult to predict in recent years. While property values have generally remained resilient, property market activity has been soft. Forward projections of conveyance duty assume that property market transactions will return to long-term trend levels over the forward estimates period.

However, there continues to be some uncertainty surrounding property market conditions in the short term, particularly if interest rates increase further and the number of first home buyers are slow to recover from current low levels to longer-term trend levels.

This uncertainty makes forecasting of property taxes difficult, especially conveyance duty receipts. The irregular timing of large commercial transactions also adds to the risk of forecasting error.

Land tax receipts can also vary from expectation over the forward estimates period. Indexation of land tax thresholds will commence from 1 July 2011 and will avoid the impact of bracket creep when property values are increasing, with growth in land tax revenues to be broadly in line with growth in land values. Land tax thresholds will not be reduced if land values fall, and as a result, land tax revenues will be additionally impacted if land values decrease.

Impact: A 1.0 percentage point variation in property values equates to about $10 million in conveyance duty revenue, while a 1.0 per cent variation in activity equates to about $8 million in conveyance duty revenue. A 1.0 percentage point variation in land values (after indexation of tax brackets for growth in land values) equates to around $4 million in private land tax revenue in 2011–12.

Gaming machine revenue

There are a number of risks to gaming machine tax revenue collections.

Discretionary spending levels are influenced by a range of factors, including income, debt servicing levels, the cost of essential items and perceived future spending needs. Regulatory reforms can also impact on gaming machine taxation revenue collections.

Gaming machine expenditure is expected to grow modestly over the forward estimates in line with household spending forecasts. This projection is however vulnerable to household budget shocks, for example interest rates and petrol prices, and impacts from potential national-based regulatory reform, including the introduction of a national pre-commitment scheme. The impact of such schemes could be in the range of 10 to 15 per cent.

Impact: A variance of 1.0 per cent in hotel and club gaming machine expenditure equates to around $4 million in gambling tax revenue.

Insurance duty

Insurance premiums can vary significantly over time depending on the capacity of the market and are sometimes affected by major insurable events around the world. Events such as the recent natural disasters in Australia may affect the level and type of insurance taken out by policy holders, as well as the price of insurance premiums.

Impact: A variance of 1.0 per cent in premium levels equates to around $3 million.

Royalties

Mining royalties are exposed to external economic forces. In particular, royalties are affected by changes in international prices for oil, copper, uranium and gold. Royalties can also be affected by changes to production levels, including from unplanned operational incidents, such as plant fires and failures and other unforeseen events. Royalties are also exposed to movements in the exchange rate.

There is potential for growth in royalty revenue from new mines. The timing of these additional royalty streams is dependant on the timing of discoveries, global economic growth as well as the time required for development approvals and to develop new mine sites to an operational level. Royalty revenue does not flow until commercial production commences.

No additional royalty income from the Olympic Dam expansion project is expected to be received in the forward estimates period.

Variations in royalty revenues arising from the royalty base (production and price levels) are substantially offset over time by consequent variations in the share of Commonwealth GST revenue grants received by South Australia through the HFE process.

Impact: Excluding HFE impacts, a one cent change in the US dollar/Australian dollar exchange rate has a direct revenue impact of about $2 million on royalty revenue. A 1.0 per cent change in international prices for copper, uranium, gold, oil and petroleum liquids has a direct revenue impact of about $1.7 million.

Traffic infringement fines

Revenue collected from traffic infringement fines is sensitive to changes in driver behaviour patterns and the number of speed detection devices (red light/speed cameras) in operation.

Impact: A variance of 1.0 per cent in the number of traffic infringement notices equates to around $1 million per annum in fines revenue.

Changes to general purpose payments (GST revenue)

The pool of GST revenue grants allocated to the states and territories is directly influenced by national trends in consumer spending and housing construction. Accordingly, South Australia’s revenue is now more exposed to variations in national economic activity.

Impact: A 1.0 per cent change in GST pool growth has a revenue impact for South Australia of about $42 million per annum. Revised Commonwealth Government estimates of the GST pool in 2010–11 are 5.2 per cent below the estimate of the GST pool made at the time of the Commonwealth’s 2010–11 Budget.

Changes to horizontal fiscal equalisation (HFE) methodology

HFE aims to give each jurisdiction the same (per capita) fiscal capacity to provide an average level of services.

In Australia, GST revenue grants are the vehicle used to achieve HFE. South Australia receives nearly $1 billion more in GST revenue grants than it would if funding were distributed on a simple population basis without consideration of the differing fiscal needs and capacities of each state.

Accordingly, changes to the methodology and data underlying the HFE process — determined by the Commonwealth Grants Commission (CGC) — have the potential to significantly impact (both positively and negatively) on the state’s revenue base and budget position.

Methodology reviews are usually conducted by the CGC every five years, with the next scheduled to be completed in 2015. However, in March 2011, the Prime Minister and the Federal Treasurer commissioned the Review of the GST Distribution to examine the distribution of revenue from the GST to the states and territories. The review has the aim of developing a “simpler, fairer, more predictable and more efficient distribution of the GST”.

The review terms of reference states that “the long-standing practice of equalisation between the States has served Australia well” and that “the GST will continue to be distributed to the States on the basis of equalising payments … consistent with the principle that jurisdictions should have equal capacity to provide infrastructure and services to their citizens”.

The review panel has been asked to produce an interim report by February 2012 and a final report by September 2012. The review will not affect the distribution of GST revenue in 2011–12 or 2012–13.

Impact: There is potential that the HFE methodology changes could have a positive or adverse impact on the state over the medium term.

Changes to data used by the Commonwealth Grants Commission (CGC)

In each annual update of relativities, the CGC updates its assessment for the latest available social, demographic and economic data while continuing to use methods established in the last methodology review. While the requirement for the CGC to improve data and data sources wherever possible is appropriate, this can lead to changes in GST relativities.

The CGC has also changed methods used in annual updates where data is no longer available or is now considered unfit for purpose.

State relativities can vary significantly between annual updates, reflecting factors such as differential fluctuations in the value of mining output, variations in Commonwealth payments between states and differential growth rates in conveyance duty receipts.

In the CGC *2011 Update*, the change to South Australia’s relativity had a negative impact of $52 million.

Impact: A 0.01 change in South Australia’s relativity (from the *2011 Update* relativity of 1.27070) results in a change in GST revenue grants of about $32 million.

Specific purpose payments

The Commonwealth funding arrangements agreed to by the Council of Australian Governments (COAG) in 2008 provide for a small number of national specific purpose payments (SPPs) covering the major state functions of health, housing, education and disability services. In addition, National Partnership payments (NPPs) are paid to states to support delivery of specified projects or to facilitate or reward the implementation of reforms of national importance. The new arrangements for SPPs place the focus on outcomes; SPP payments are not dependent on performance. However, some NPPs require funding co-contributions from the states and in some cases penalty provisions apply if performance targets are not met.

Impact: Payments for specific purposes from the Commonwealth account for about 24 per cent of state government revenues. Variations in their level or the conditions applying to these payments have a potential to impact the budget.

Changes in profitability of government businesses

As part of their day-to-day operations, government business enterprises — comprising public non-financial corporations (PNFCs) and public financial corporations (PFCs) such as SA Water, Land Management Corporation, ForestrySA and SA Lotteries — manage a range of commercial risks. Risks that adversely impact upon a government business may affect its ability to pay dividends and make tax equivalent payments, thereby impacting on the financial position of the general government sector.

The planned divestment of Forestry SA assets and the new sub-licence for SA Lotteries will significantly reduce the level of commercial risks faced by the government as their shareholder and owner.

Impact: A 1.0 per cent fall in total contributions in 2011–12 to the general government sector from PNFCs and PFCs would have a $3.7 million impact on the budget.

Asset sales

Reductions in interest costs in the budget arising from debt retirement may be at risk if the government is unable to achieve the value estimated for divestment of ForestrySA harvest rotations, the new SA Lotteries sub-licence and selected government owned properties.

Expenditure risks

Hospital expenditure growth

Hospital expenditure growth has been significant in recent years.

In response to these increasing costs, the government is continuing to implement a number of strategies to manage the expenditure growth in hospitals.

However, if the growth in hospital activity and related input costs are higher than expected in the medium term, this may result in significant additional future costs.

Impact: A 1.0 per cent growth per annum in hospital activity will increase expenses by approximately $18 million per annum.

Student enrolment numbers

The budget includes a best estimate of expected movements in both the number and composition of student enrolments as a result of current government policy settings. To the extent that actual enrolment numbers vary from those estimates there will be an impact on the state's financial position.

Impact: Depending on the mix of students, a 1.0 per cent growth in government school enrolment numbers above the levels incorporated in the 2011–12 Budget would increase expenditure in the range of $9 million to $12 million per annum.

Students with additional needs

The budget includes provisions for the resourcing requirements of students with additional needs; this includes Aboriginal students, students with disabilities, new arrivals and students with English as a second language. If the number of students with additional needs increases above budget projections, there will be an impact on the budget.

Impact: Depending on the mix of students, a 1.0 per cent growth in students with additional needs, above the levels incorporated in the 2011–12 Budget, would increase expenditure by approximately $1.2 million per annum.

Higher than expected increases in wages and salaries

Enterprise agreements are in place for major workforce groups for the relevant terms of each agreement, with all associated costs included in the 2011–12 Budget.

Enterprise bargaining negotiations are progressing for SA Ambulance Service employees and wages parity (building, metal & plumbing trades) employees and have commenced for the South Australian Metropolitan Fire Service (firefighters) and salaried medical officers.

During 2011–12, enterprise bargaining negotiations are expected to commence for clinical academics, visiting medical specialists, wages parity salaried group, school and preschool employees and TAFE lecturers.

The outcomes of future wage negotiations will be crucial in determining whether expenditure forward estimates in this budget can be achieved, and the level of government services that can be delivered in light of the current challenging economic conditions.

Allowances in the forward estimates for enterprise bargaining outcomes cover both salary and non-salary outcomes.

Impact: If public sector-wide wage outcomes for new enterprise agreements vary by 1.0 per cent per annum from allowances in the forward estimates, the budget impact based on current assumptions is estimated to be around $225 million in 2014–15.

Capital investment

Historically high levels of investment are budgeted for across the forward estimates. While project estimates include prudent allowances for cost escalations, such a large capital program increases the risk of additional costs.

Impact: If cost escalations exceed the allowances included in the investment program, there will be a negative impact on annual net lending outcomes. A 1.0 per cent increase in costs for the general government investment program will increase capital expenditure by approximately $21 million in 2011–12.

Interest rates

Higher than expected interest rates could adversely affect the general government and public non-financial corporation (PNFC) sector's budget position through increased interest payments.

Impact: A 1.0 percentage point increase in the average interest rate applying to general government sector debt would increase net interest expense by approximately $33 million in 2011–12 rising to $39 million in 2014–15. A 1.0 percentage point increase in interest rates would increase the PNFC sector's net interest expense by approximately $39 million in 2011–12. This would affect contributions received by the general government sector from PNFCs.

Increase in Consumer Price Index

Higher inflation may impact on the prices paid by government agencies for goods and services. The government's indexation policy provides for standard indexation of supplies and services expenditure in line with projections in the Consumer Price Index. Agencies are required to absorb a cost increase from within existing budget allocations, unless the specific price increase has resulted in a material effect on the agency budget. The materiality test applied is that the price change experienced has altered agency costs by more than 0.5 percentage points above or below the standard indexation provided for in agency budgets.

Impact: Not quantifiable.

Fluctuation in foreign exchange rates

Treasurer's Instruction 23 'Management of Foreign Currency Exposures' requires public authorities to recognise and control foreign exchange risks associated with the purchase of imported goods and services. Public authorities are required to obtain forward cover for the acquisition of goods and services that are expected to give rise to a foreign currency exposure exceeding $100 000. This limits potential foreign exchange risks faced by the government once acquisition decisions are made.

Impact: Foreign exchange rates could have an impact on the costs of portfolios that source capital equipment, supplies and services from overseas. This includes items such as pharmaceuticals, transport equipment and the operations of overseas offices.

Superannuation liabilities and expenses

For defined benefit scheme superannuation liabilities (pension or defined benefit lump sum schemes), the budget is exposed to factors affecting the value of the unfunded liability. These factors include:

- volatility in the expected returns on investment funds and the risk-free discount rate
- changes in actuarial assumptions relating to future benefit payments
- an increase in long-term inflation assumptions.

The unfunded superannuation liability is the state's biggest financial liability.

Impact: Volatility in asset markets poses a risk to the budget. A 1.0 percentage point lower than expected return on superannuation assets invested by Funds SA would increase estimated unfunded superannuation liabilities by around $46 million. An increase in unfunded superannuation liabilities of this magnitude would increase nominal superannuation interest expenses, decreasing the net operating balance by around $3 million per annum. A 1.0 percentage point higher than expected return would have the opposite effect by the same amounts.

A fall in the Commonwealth Government bond rate between valuation dates will lead to the use of a lower discount rate for valuation purposes, resulting in an increase in the value of the unfunded liability. A 1.0 percentage point reduction in the discount rate would increase unfunded superannuation liabilities by $1.8 billion. However the impact on the budget balance is the imputed interest on these unfunded liabilities, and the interest rate used to calculate this will also fall by 1.0 percentage point. The net effect on the budget would be an improvement of around $29 million per annum in the net operating balance. An increase in the discount rate of 1.0 percentage point would decrease unfunded superannuation liabilities by $1.5 billion and increase the imputed interest by $19 million.

Change in domestic and overseas share prices

Funds SA, WorkCoverSA, the Motor Accident Commission and the insurance-related investments of the South Australian Government Financing Authority (SAFA) are exposed to both domestic and international equity markets. Changes in domestic and overseas share prices impact on the investments of these entities.

Impact: A variation in domestic and overseas share prices will directly impact the budget through a change in earnings on superannuation assets. A change in the value of the financial investments of WorkCoverSA and the Motor Accident Commission will not have a direct impact on the budget.

A change in the value of SAFA's financial investments may have a direct impact on the budget through a variation in SAFA's contribution to the Consolidated Account.

Insurance

Risks associated with insurance liabilities are managed by the insurance division (SAICORP) of SAFA. The operations of SAICORP are described in Chapter 4.

State Government Insurance Commission residual assets and liabilities

The assets and liabilities relating to residual State Government Insurance Commission (SGIC) general policies were transferred to SAICORP on 30 June 2003 by the *Motor Accident Commission (Transfer of Residual Assets and Liabilities) Proclamation 2003* under Section 30 of the *SGIC (Sale) Act 1995*. These were general policies of insurance issued but not transferred to the buyer on the sale of the general insurance business, formerly conducted by SGIC. Specific details of these policies are not available and hence no liability has been recognised by SAFA for these items. Liabilities will be brought to account if and when individual policy owners make valid claims.

Government motor vehicle fleet—residual value risk

The state government's fleet operations transferred to SAFA from 1 July 2009. Accordingly, reductions in residual values of vehicles will be met by SAFA and will impact on government agencies over time through changes to the leasing rates charged by SAFA.

Any reductions in residual values of vehicles will be a risk exposure to SAFA and may impact on the budget through a variation in SAFA's contribution to the Consolidated Account.

Contingent liabilities

Contingent liabilities are liabilities, or possible liabilities, that have not been recognised in the government's balance sheet because they:

- arise from past events, and will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the government

  or

- are a present obligation that arises from past events but is not recognised because
  - it is not probable that an outflow of resources will be required to settle the obligation

    or

  - the amount of the obligation cannot be measured with sufficient reliability.

Full details of the state's material quantifiable and non-quantifiable contingent liabilities are included in the *2009–10 Final Budget Outcome and Consolidated Financial Report as at 30 June 2010*.

The state's quantifiable contingent liabilities are summarised in the following table.

Table 6.1: Contingent liabilities of the Government of South Australia to entities external to the public sector at 30 June ($million)

	2009	2010
Guarantees	698	830
Other	19	12
Total	**717**	**842**

The increase in contingent liabilities at 30 June 2010 is largely due to an increase in the Treasurer's guarantee of Local Government Finance Authority loans and liabilities from $460 million at 30 June 2009 to $543 million at 30 June 2010.

Final whole of government data to 30 June 2011 will be published in the 2010–11 Final Budget Outcome and Consolidated Financial Report as at 30 June 2011. The information below provides 30 June 2010 data for the major individual contingent liabilities.

Summary of contingent liabilities and other exposures

Significant contingent liabilities and other specific exposures, both quantifiable and non-quantifiable, for the Government of South Australia include the following:

- Guarantee of Local Government Finance Authority loans and other liabilities — pursuant to the *Local Government Finance Authority Act 1983*, liabilities incurred or assumed by the Local Government Finance Authority are guaranteed by the Treasurer.

  Exposure: $543 million at 30 June 2010.

- Osborne Cogeneration arrangements — certain underlying exposures were retained as part of the former government's sale of electricity assets.

  Exposure: $150 million to $200 million at 30 June 2010.

- Electricity entities — as part of the former government's privatisation of the state's electricity assets, the government provided certain specified undertakings to the lessees. In the extremely remote event that these undertakings are not enforceable and the leasing arrangements are terminated, the state is required to make specified payments to the lessees and would receive the associated electricity infrastructure assets in return.

  Gross exposure: $2.3 billion at 30 June 2010.

- Alice Springs – Darwin Railway — both the South Australian and Northern Territory governments guarantee the obligations of the AustralAsia Railway Corporation, the joint SA/NT statutory authority that looks after the government's interests for the Alice Springs – Darwin Railway. The prospect of these contingent liabilities arising is considered to be highly remote.

  Exposure: Unquantifiable.

Other, less material, contingent liabilities are reported in individual agency financial statements, as contained in agency annual reports or Part B of the Report of the Auditor-General.

Chapter 7: South Australian economy

Overview

The international economic recovery from the global financial crisis is continuing, although the pace of growth remains uneven across the major economies. The International Monetary Fund (IMF) forecasts published in April 2011 anticipate world economic growth of around 4½ per cent per annum in real terms in 2011 and 2012, down slightly from estimated growth of 5 per cent in 2010. Advanced economies are forecast to grow at a modest 2½ per cent per annum while emerging and developing economies are expected to grow at a stronger 6½ per cent. The sovereign debt issues of some European Union nations, the United States of America's fiscal position and the speed and strength of the Japanese recovery are considered to be major downside risks.

Growth in the Australian economy has been negatively affected by severe floods in January and Cyclone Yasi in February, which have temporarily disrupted production in some industries, particularly in Queensland. The subsequent natural disasters in New Zealand and Japan are also expected to have dampening effects on the national economy, in particular through reduced Japanese demand for Australian commodity exports. While GDP growth has slowed, growth in incomes and employment remains strong as Australia continues to benefit from a rising terms of trade generated by continued strong demand for mineral resources from rapidly growing developing economies. Resumption of activity in flood affected sectors and reconstruction activity, combined with an investment surge in the resources sector, is expected to result in above trend growth in the national economy through 2011–12 and 2012–13. The high Australian dollar continues to be a challenge for those trade exposed sectors of the economy which are not benefiting from the high terms of trade, and growth in consumer spending has been subdued as households focus on restoring their savings and reducing debt levels.

South Australia's economic performance in 2010–11 has benefited from the absence of severe climatic conditions which have been apparent in other states, resulting in a record winter crop volume. The South Australian economy is expected to experience solid rates of economic growth across the forward estimates period. While consumer spending is subdued at present in South Australia (as is the case nationally), the business investment outlook appears positive and exports are growing.

Recent economic performance

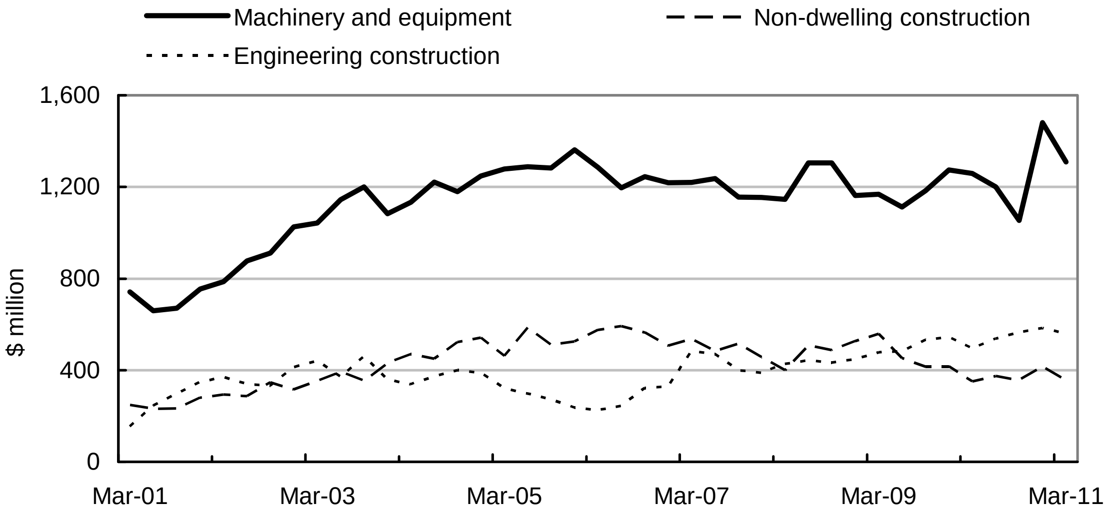
The Department of Treasury and Finance estimates that South Australia's Gross State Product (GSP) will grow by around 3½ per cent in 2010–11, supported by a record winter crop yield, a return to full production at the Olympic Dam mine following the mine shaft accident in October 2009 and some ongoing major construction projects such as the Adelaide Desalination Plant.

State Final Demand (SFD), which is a measure of total spending in the South Australian economy by households, business and governments, increased by 1.9 per cent in real terms through the year to the March quarter 2011, compared with national growth of 3.3 per cent. GSP growth in 2010–11 is anticipated to be stronger than SFD growth because of the strong growth in South Australian exports.

As was the case nationally, household consumption spending grew more slowly in the second half of 2010 due to increases in official interest rates and consumers seeking to increase savings and reduce debt levels.

South Australian new business investment grew by a solid 6.4 per cent through the year to the March quarter 2011. Mineral exploration expenditure in South Australia, following the downturn experienced through the global financial crisis (GFC), has risen by 29 per cent through the year to the December quarter 2010. Mining production in the state has been boosted by the completion of major new mine projects, which has been reflected in an improved overseas export performance.

Figure 7.1: Real new business investment in South Australia—seasonally adjusted ($million per quarter)



Source: ABS, Australian National Accounts: National Income, Expenditure and Product, Catalogue no. 5206.0. Values represent constant 2008–09 prices.

Public investment in new infrastructure remained at high levels in South Australia during 2010–11, reflecting continued significant investment in transport, health, education and public housing infrastructure and the ongoing construction of the Adelaide Desalination Plant.

The housing construction sector has continued to perform solidly. The construction of 12 000 dwellings commenced in South Australia in 2010 and there have been in excess of 10 000 new dwellings commenced each year since 2002. There are, however, signs that the short-term outlook for housing construction has weakened in response to higher interest rates.

The broader housing market has also slowed due to higher interest rates. The median price of established houses sold in Adelaide rose to $410 000 in the March quarter 2011 and was 1.2 per cent higher than the same time a year earlier, reflecting a more subdued rate of growth than experienced in previous years (with the exception of 2008–09 when prices fell during the GFC). Rental vacancy rates remain extremely tight in South Australia reflecting high rates of population growth. The residential vacancy rate in Adelaide was just 0.9 per cent in the December quarter 2010, the lowest of the Australian capitals. According to the Australian Bureau of Statistics (ABS), average residential rents in Adelaide during the March quarter 2011 were 4.2 per cent higher than at the same time a year earlier.

The motor vehicle industry has been boosted by Holden's reintroduction of a second shift in November 2010 to support the production of the new VE Series 2 Commodore and the new four-cylinder car (Cruze) that came on line in early 2011.

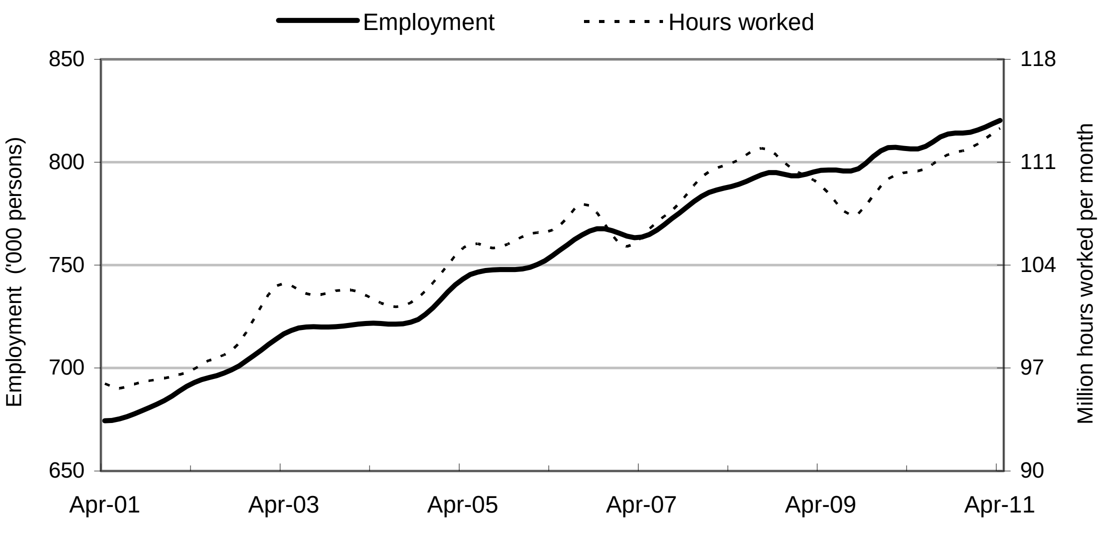
With near ideal growing conditions across most regions, winter crop production is estimated to have increased by around 32 per cent in 2010–11 to be at a record level. This followed a 59 per cent increase in the volume of production in 2009–10. Combined with good international grain prices, the record crop will provide a boost to agricultural incomes with farm gate returns estimated to be $2.8 billion. However, producers of irrigated winegrapes continue to face pressures associated with international competition and a high exchange rate. Accordingly, winegrape production is forecast to decline further in 2010–11, possibly by up to 12 per cent.

Overall, the value of South Australian overseas goods exports rose by 35 per cent to a total of $10.7 billion in the year to April 2011. South Australia recorded the second highest export growth rate of all states over the period (after Western Australia). Strong increases in exports of metal ores, reflecting the increase in mining capacity and higher prices, along with growth in wheat exports resulting from very good farm sector conditions, were the main contributors to the growth in South Australian exports over the period.

South Australia's annual population growth rate eased through the course of 2010, consistent with other states, reflecting a decline in net overseas migration. Changes made to Commonwealth migration policy settings which effectively decoupled international education and permanent residency has resulted in declines in overseas student numbers. Nonetheless, South Australia's estimated resident population still grew by a strong 17 400 during the year to September 2010. Notwithstanding the decline in national migration inflows, net overseas migration accounted for the bulk of the population gain (13 200) outweighing a net loss through interstate migration (3300).

South Australia's labour market continued to show improvement over the past year. The downturn in demand conditions in the economy through 2008–09 resulted in employers reducing hours worked rather than employment numbers. As the economy has recovered from the GFC this pattern has reversed. Hours worked grew by 2.7 per cent through the year to April 2011, faster than the headcount measure of employment which grew by 1.7 per cent (13 900 persons). South Australia's trend unemployment rate was 5.5 per cent in April 2011, up slightly from 5.3 per cent a year earlier.

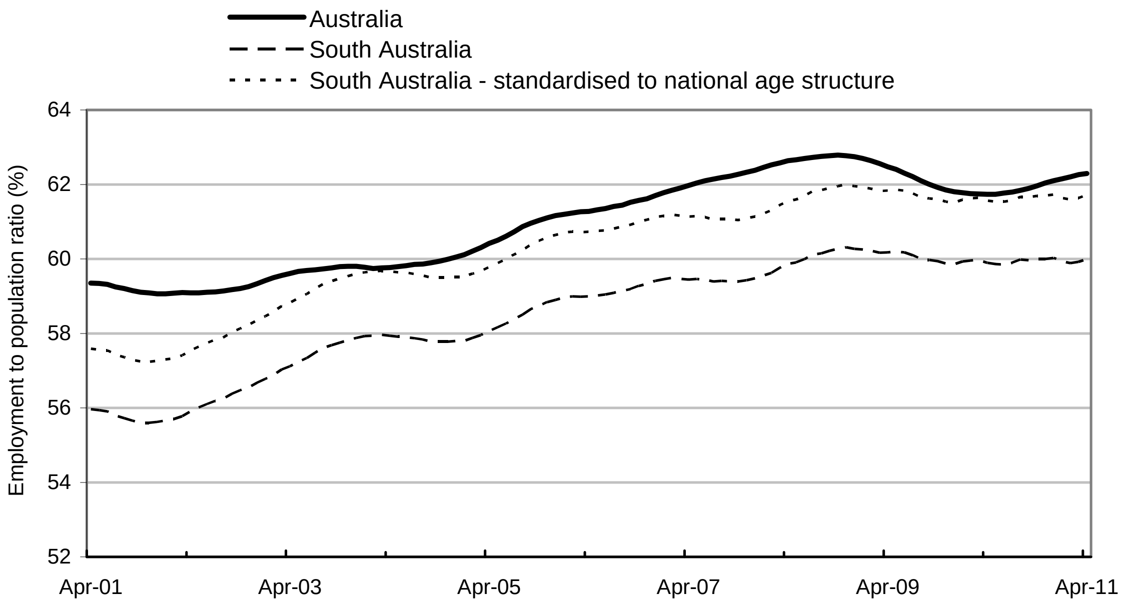
Figure 7.2: South Australian employment and hours worked—trend estimates



Source: ABS, Labour Force Australia, Catalogue no. 6202.0.

In South Australia's Strategic Plan, the Government of South Australia has an objective of increasing the employment to population ratio, standardised for age differences, to the Australian average. Figure 7.3 shows the latest trends in this measure, based on annual average data to remove volatility in the monthly estimates. Before adjusting for differences in age structure, South Australia's employment to population ratio in the year to April 2011 was around 2.3 percentage points lower than the national average. The ongoing gap is partly the result of South Australia's older age structure. When adjustment is made to remove this age structure effect, the gap between South Australia's employment to population ratio and the national average reduces to 0.6 of a percentage point. South Australia's employment to population ratio is only slightly lower than its November 2008 peak, which was the highest level since monthly labour force surveys commenced in February 1978.

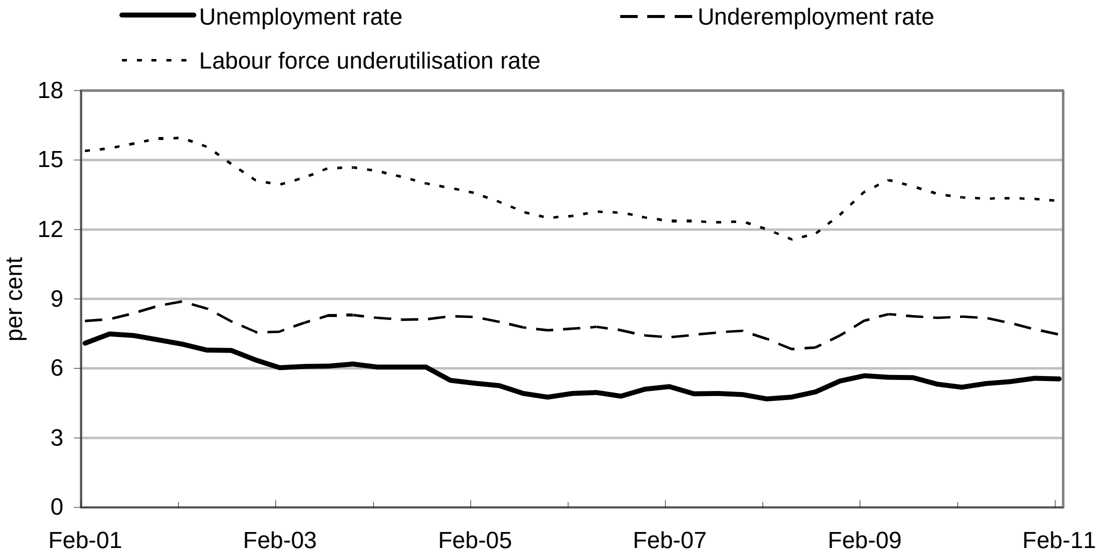
Figure 7.3: Employment to population ratios—moving annual average (per cent)



Source: ABS, Labour Force Australia, Catalogue no. 6291.0.55.001.

Notwithstanding the employment to population ratio being at a near record level, there remains scope for improvement in labour force utilisation. Among those who are employed, there were an estimated 64 400 people in South Australia in February 2011 who had a preference to work more hours. This group represented 7.5 per cent of the workforce (the underemployment rate). The underemployment rate is higher for females (9.7 per cent in February 2011) than for males (5.6 per cent). When combined with those who were unemployed (47 800 in February 2011), the labour force underutilisation rate was 13.2 per cent, down from a recent peak of 14.1 per cent in May 2009. Changes in labour force underutilisation tend to track movements in the unemployment rate but at a higher level. This pattern reflects a relatively stable rate of underemployment, which has averaged slightly less than 8.0 per cent in South Australia over the past decade.

Figure 7.4: Labour force underutilisation—trend (per cent)



Source: ABS, Labour Force Australia, Catalogue no. 6202.0.

Wages growth nationally continues to accelerate but remains below the rates of growth recorded prior to the GFC. There is significant variation in wages growth across industry sectors, with the mining and professional services sectors recording the highest increases while more subdued wages growth is evident in the weaker performing sectors, including real estate services and retail trade. Annual South Australian wages growth, based on the ABS hourly rates of pay index, was 3.6 per cent in the year to the March quarter 2011, compared with 3.9 per cent nationally.

Economic outlook

The outlook for the national and state economies remains positive.

While the recent natural disasters, both at home and abroad, have inflicted a substantial cost in terms of loss of life and personal losses, Commonwealth Treasury expects that the impacts on Australia's economic growth will be temporary. With the resumption of flood affected activity and commencement of reconstruction, GDP growth will be boosted in 2011–12, growing by an estimated 4 per cent. Australia's medium-term prospects are strong, with the economy forecast to grow at an above trend rate in 2011–12 and 2012–13, assisted also by an investment surge in the resources sector.

In South Australia, the Department of Treasury and Finance is forecasting Gross State Product (GSP) to increase by 2¾ per cent per annum from 2011–12, following estimated growth of 3½ per cent in 2010–11 (which was boosted by a record broadacre crop). The ongoing consolidation of the international economic recovery, the terms of trade stimulus and increased mineral production capacity provides a solid foundation for the state's economic outlook going forward. These factors should maintain the state's growth momentum, notwithstanding the challenges posed to many trade exposed sectors of the economy as a result of the strength in the Australian dollar and the likelihood of lower levels of housing construction from the very strong build rates over the past decade. Employment growth in South Australia is expected to be 1½ per cent per annum in 2011–12 and 2012–13, following estimated growth of 1¾ per cent in 2010–11.

The forecasts in Table 7.1 make no allowance for the impacts of the proposed expansion of the Olympic Dam mine, for which the supplementary environmental impact statement is currently subject to assessment by the Commonwealth, South Australian and Northern Territory governments.

Table 7.1: Key economic indicators — Australia and South Australia real growth rates (per cent per annum)

	2009–10 Actual	2010–11 Estimate	2011–12 Forecast	2012–13 Projection	2013–14 Projection	2014–15 Projection
Australia[(a)]						
Gross Domestic Product (GDP)	2.3	2¼	4	3¾	3	3
South Australia						
Gross State Product (GSP)	1.5	3½	2¾	2¾	2¾	2¾
State Final Demand (SFD)	2.9	2½	2¾	2¾	2¾	2¾
Employment	0.9	1¾	1½	1½	1¼	1¼
Adelaide Consumer Price Index (CPI)	2.2	3	3	3	2¾	2½

Note: Forecasts and projections are based largely on underlying national economic and state population trends, climatic conditions impacting on farm sector production and emerging major projects.

(a) Australian forecasts from 2011–12 Australian Government Budget — Budget Paper No. 1.

Source: South Australian Department of Treasury and Finance. Actuals from Australian Bureau of Statistics.

Appendix A: Uniform presentation framework

Overview

By agreement between the Commonwealth and the states and territories, each jurisdiction presents financial information on a uniform presentation framework (UPF) basis presented in their budget papers, mid-year budget update and budget outcome reporting. The tables in this appendix present budget information for South Australia on the UPF basis, reflecting the fiscal measures and scope outlined below.

The primary objective of the UPF is to ensure that Commonwealth, state and territory governments provide a common 'core' of financial information in their budget papers to enable direct comparisons of each government's budget and financial results.

In October 2007, the Australian Accounting Standards Board (AASB) issued a new standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting* applicable from 1 July 2008. Consistent with the disclosure requirements of AASB 1049, the Australian Loan Council approved a revised UPF in March 2008. The tables in this appendix reflect the requirements of the 2008 revision to the UPF.

The *Australian System of Government Finance Statistics: Concepts, Sources and Methods,* published by the Australian Bureau of Statistics (ABS), requires that provisions for doubtful debts be excluded from the balance sheet. Consistent with the Commonwealth Government's methodology, South Australia has not adopted this treatment in the UPF reports because excluding such provisions would overstate the value of assets in the balance sheet (and would therefore be inconsistent with the market valuation principle).

Accrual Government Financial Statistics (GFS) fiscal measures

The key measures in the GFS accrual framework are GFS net operating balance, GFS net lending, cash surplus, net debt, net worth, change in net worth, net financial worth and net financial liabilities.

GFS net operating balance

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

Net operating balance can also be defined as the change in net worth less the effects of revaluation of financial assets and liabilities.

GFS net lending

GFS net lending (sometimes referred to as fiscal balance) measures a government's investment-saving balance.

Net lending (which is recorded in the operating statement) differs from the net operating balance in the treatment of capital expenditure. Unlike the net operating balance, net lending includes net capital expenditure, but not the use of capital (depreciation).

Net lending is the accrual counterpart of the GFS cash surplus in the cash flow statement. However, the two measures are unlikely to coincide because of the differences arising when transactions are recorded in cash and accrual terms.

GFS cash surplus

The GFS cash surplus/deficit is a flow measure reported in the cash flow statement.

The GFS cash surplus has four components:

- net cash received from operating activities — comprising tax revenue plus grants and subsidies received plus revenue from sales of goods and services, less payments for goods and services, interest costs, and grants and subsidies paid
- net cash inflow from sales and purchases of non-financial assets
- the level of distributions paid — in the case of public non-financial corporations and public financial corporations
- the recognition of the initial increase in liability accruing at the beginning of finance leases and similar arrangements.

Net debt

Net debt comprises the stock of selected gross financial liabilities less financial assets.

Net debt is reported in the balance sheet and is the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Net worth

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

The net worth measure is reported in the balance sheet.

Change in net worth

Change in net worth measures the variation in net worth (as described above), and is the most inclusive measure of the change in a government's financial position over a given period.

Net financial worth

Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus liabilities.

Net financial liabilities

Net financial liabilities comprises total liabilities less financial assets (net financial worth), but excludes equity investments (net worth) in the other sectors of the jurisdiction.

Net financial liabilities is a more accurate indicator than net debt of a jurisdiction's fiscal position as it includes substantial non-debt liabilities such as accrued superannuation and long service leave entitlements. Excluding the net worth of other sectors of government from net financial worth results in a purer measure of financial worth than net financial worth, as, in general, the net worth of other sectors of government, in particular the public non-financial corporations sector is backed by physical assets.

Scope

The UPF divides the Australian public sector into three institutional subsectors — the general government sector, the public non-financial corporations (PNFC) sector and the public financial corporations (PFC) sector.

General government comprises all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production.

PNFCs are bodies mainly engaged in the production of goods and services of a non-financial nature for sale in the marketplace at prices that aim to recover most of the costs involved. This sector includes some trading enterprises, such as SA Water, ForestrySA and the South Australian Housing Trust. In general, PNFCs are legally distinguishable from the governments that own them.

PFCs are bodies primarily engaged in providing financial intermediation services or auxiliary financial services. Generally, they are able to transact in financial liabilities on their own account.

A listing of government entities within each sector is included in Appendix D.

Budget reporting

Under the UPF agreement, all governments are required to present as part of their budget documentation an operating statement, balance sheet and cash flow statement for the general government sector, PNFC sector and the non-financial public sector. The non-financial public sector is the consolidation of the general government sector and the PNFC sectors. In addition, information is also presented on taxes, general government sector expenses by function and Loan Council Allocations.

This information is presented in Tables A.1 through to A.20 in this appendix.

Reporting of outcomes

Outcomes are presented in final budget outcome documents. In addition to the tables presented at budget time, outcome reporting also contains the accrual financial statements for the PFC sector.

Table A.1: General government sector operating statement ($million)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Revenue					
Taxation revenue	3 845	4 129	4 413	4 650	4 933
Grants	8 247	8 397	8 405	8 328	8 898
Sales of goods and services	1 885	2 054	2 123	2 167	2 243
Interest income	184	172	196	192	199
Dividend and income tax equivalent income	408	371	406	408	410
Other	518	605	635	647	695
Total revenue	15 087	15 727	16 178	16 392	17 379
less					
Expenses					
Employee expenses	6 417	6 606	6 699	6 829	7 041
Superannuation expenses					
Superannuation interest cost	427	412	410	407	403
Other superannuation expenses	684	701	707	715	729
Depreciation and amortisation	693	768	835	881	961
Interest expenses	307	366	420	441	444
Other property expenses	—	—	—	—	—
Other operating expenses	4 026	4 105	4 130	4 255	4 359
Grants	2 960	3 034	2 863	2 786	2 788
Total expenses	15 514	15 990	16 064	16 313	16 724
equals					
Net operating balance	-427	-263	114	80	655
plus					
Other economic flows	1 651	520	964	642	576
equals					
Comprehensive result - total change in net worth	1 225	257	1 078	722	1 231
Net operating balance	-427	-263	114	80	655
less					
Net acquisition of non-financial assets					
Purchases of non-financial assets	2 189	2 125	1 856	1 151	1 119
less Sales of non-financial assets	102	369	418	134	45
less Depreciation	693	768	835	881	961
plus Change in inventories	—	—	—	—	—
plus Other movements in non-financial assets	—	—	—	—	—
equals Total net acquisition of non-financial assets	1 394	988	603	136	113
equals					
Net lending / borrowing	-1 821	-1 252	-489	-56	542

Note: Totals may not add due to rounding.

Table A.2: Public non-financial corporations (public trading enterprises) sector operating statement ($million)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Revenue					
Taxation revenue	—	—	—	—	—
Grants	736	749	581	540	553
Sales of goods and services	1 636	1 965	2 078	1 744	1 722
Interest income	16	20	20	19	15
Dividend and income tax equivalent income	7	5	3	3	4
Other	223	203	134	127	120
Total revenue	2 619	2 942	2 817	2 432	2 413
less					
Expenses					
Employee expenses	237	242	275	285	294
Superannuation expenses					
Superannuation interest cost	—	—	—	—	—
Other superannuation expenses	28	28	31	32	33
Depreciation and amortisation	332	386	419	449	467
Interest expenses	225	249	273	287	286
Other property expenses	322	327	380	392	395
Other operating expenses	1 376	1 638	1 339	957	906
Grants	98	86	95	78	81
Total expenses	2 618	2 955	2 813	2 479	2 462
equals					
Net operating balance	1	-13	4	-47	-49
plus					
Other economic flows	510	-79	664	666	573
equals					
Comprehensive result - total change in net worth	510	-92	668	619	524
Net operating balance	1	-13	4	-47	-49
less					
Net acquisition of non-financial assets					
Purchases of non-financial assets	1 165	1 244	652	512	450
less Sales of non-financial assets	259	950	456	123	83
less Depreciation	332	386	419	449	467
plus Change in inventories	8	-98	—	-11	17
plus Other movements in non-financial assets	—	—	—	—	—
equals Total net acquisition of non-financial assets	582	-190	-223	-71	-84
equals					
Net lending / borrowing	-582	177	227	24	36

Note: Totals may not add due to rounding.

Table A.3: Non-financial public sector operating statement ($million)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Revenue					
Taxation revenue	3 491	3 739	3 989	4 327	4 600
Grants	8 242	8 395	8 403	8 328	8 898
Sales of goods and services	3 258	3 714	3 878	3 574	3 621
Interest income	160	162	171	154	158
Dividend and income tax equivalent income	87	44	23	21	21
Other	711	782	753	759	799
Total revenue	15 949	16 836	17 218	17 163	18 098
less					
Expenses					
Employee expenses	6 647	6 841	6 969	7 111	7 332
Superannuation expenses					
Superannuation interest cost	427	412	410	407	403
Other superannuation expenses	711	728	738	746	762
Depreciation and amortisation	1 026	1 154	1 255	1 330	1 428
Interest expenses	491	585	648	670	675
Other property expenses	—	—	—	—	—
Other operating expenses	4 755	5 024	4 706	4 542	4 577
Grants	2 318	2 368	2 375	2 324	2 315
Total expenses	16 375	17 112	17 100	17 130	17 491
equals					
Net operating balance	-426	-276	118	33	606
plus					
Other economic flows	1 651	533	960	689	625
equals					
Comprehensive result - total change in net worth	1 225	257	1 078	722	1 231
Net operating balance	-426	-276	118	33	606
less					
Net acquisition of non-financial assets					
Purchases of non-financial assets	3 350	3 369	2 506	1 664	1 569
less Sales of non-financial assets	356	1 319	871	257	128
less Depreciation	1 026	1 154	1 255	1 330	1 428
plus Change in inventories	8	-98	—	-11	17
plus Other movements in non-financial assets	—	—	—	—	—
equals Total net acquisition of non-financial assets	1 976	799	381	66	29
equals					
Net lending / borrowing	-2 402	-1 075	-263	-33	578

Note: Totals may not add due to rounding.

Table A.4: General government sector balance sheet ($million)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Assets					
Financial assets					
Cash and deposits	787	806	735	744	750
Advances paid	714	542	493	401	310
Investments, loans and placements	178	188	201	213	226
Receivables	680	665	656	650	638
Equity					
Investments in other public sector entities	20 604	20 607	21 465	22 250	22 921
Investments - other	753	751	747	747	747
Other financial assets	45	43	42	42	41
Total financial assets	23 760	23 604	24 339	25 047	25 632
Non-financial assets					
Land and other fixed assets	31 085	32 131	32 814	33 042	33 198
Other non-financial assets	3	3	3	3	3
Total non-financial assets	31 088	32 134	32 818	33 046	33 201
Total assets	54 849	55 738	57 157	58 092	58 834
Liabilities					
Deposits held	436	378	357	371	328
Advances received	591	590	571	532	510
Borrowing	3 868	4 394	4 598	4 669	4 064
Superannuation	8 734	8 742	8 732	8 703	8 652
Other employee benefits	2 008	2 106	2 229	2 360	2 521
Payables	926	924	926	929	933
Other liabilities	829	891	953	1 018	1 085
Total liabilities	17 393	18 025	18 366	18 580	18 091
Net worth	37 456	37 713	38 791	39 512	40 743
Net financial worth (a)	6 368	5 578	5 973	6 467	7 541
Net financial liabilities	14 237	15 029	15 492	15 784	15 379
Net debt (b)	3 217	3 825	4 098	4 213	3 615

Note: Totals may not add due to rounding.
(a) Net financial worth equals total financial assets minus total liabilities.
(b) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table A.5: Public non-financial corporations (public trading enterprises) sector balance sheet ($million)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Assets					
Financial assets					
Cash and deposits	332	267	178	186	139
Advances paid	46	38	31	23	16
Investments, loans and placements	68	42	44	47	50
Receivables	248	244	236	239	242
Equity					
Investments in other public sector entities	—	—	—	—	—
Investments - other	11	9	6	3	—
Other financial assets	4	4	4	4	4
Total financial assets	709	604	498	502	451
Non-financial assets					
Land and other fixed assets	24 650	24 958	25 554	26 046	26 535
Other non-financial assets	1	2	2	2	2
Total non-financial assets	24 651	24 959	25 556	26 048	26 537
Total assets	25 360	25 563	26 054	26 550	26 988
Liabilities					
Deposits held	—	1	1	2	2
Advances received	596	511	461	371	280
Borrowing	3 505	3 933	3 868	3 842	3 860
Superannuation	—	—	—	—	—
Other employee benefits	82	78	80	81	83
Payables	401	401	367	374	380
Other liabilities	162	116	85	70	47
Total liabilities	4 745	5 040	4 863	4 740	4 653
Net worth	20 615	20 523	21 191	21 811	22 335
Net financial worth (a)	-4 037	-4 436	-4 364	-4 237	-4 202
Net financial liabilities	4 037	4 436	4 364	4 237	4 202
Net debt (b)	3 655	4 097	4 078	3 958	3 939

Note: Totals may not add due to rounding.
(a) Net financial worth equals total financial assets minus total liabilities.
(b) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table A.6: Non-financial public sector balance sheet ($million)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Assets					
Financial assets					
Cash and deposits	877	896	762	772	780
Advances paid	165	70	63	54	45
Investments, loans and placements	245	231	245	260	275
Receivables	794	797	785	784	784
Equity					
Investments in other public sector entities	-10	85	274	439	585
Investments - other	764	760	753	750	747
Other financial assets	47	45	45	44	43
Total financial assets	2 882	2 883	2 927	3 103	3 260
Non-financial assets					
Land and other fixed assets	55 735	57 089	58 368	59 088	59 734
Other non-financial assets	4	5	5	5	5
Total non-financial assets	55 740	57 093	58 373	59 094	59 739
Total assets	58 622	59 976	61 300	62 196	62 999
Liabilities					
Deposits held	196	202	208	214	221
Advances received	591	590	571	532	510
Borrowing	7 372	8 326	8 466	8 510	7 923
Superannuation	8 734	8 742	8 732	8 703	8 652
Other employee benefits	2 090	2 184	2 308	2 441	2 604
Payables	1 220	1 217	1 191	1 201	1 211
Other liabilities	963	1 002	1 032	1 083	1 135
Total liabilities	21 166	22 264	22 509	22 684	22 256
Net worth	37 456	37 713	38 791	39 512	40 743
Net financial worth (a)	-18 284	-19 381	-19 583	-19 581	-18 996
Net financial liabilities	18 274	19 465	19 857	20 021	19 582
Net debt (b)	6 872	7 922	8 175	8 170	7 553

Note: Totals may not add due to rounding.
(a) Net financial worth equals total financial assets minus total liabilities.
(b) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table A.7: General government sector cash flow statement ($million)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Cash receipts from operating activities					
Taxes received	3 842	4 122	4 416	4 646	4 929
Receipts from sales of goods and services	1 866	2 024	2 101	2 146	2 222
Grants and subsidies received	8 206	8 395	8 404	8 326	8 897
Interest receipts	177	164	188	184	190
Dividends and income tax equivalents	441	395	405	410	419
Other receipts	533	632	661	673	721
Total operating receipts	15 066	15 732	16 174	16 385	17 378
Cash payments for operating activities					
Payments for employees	-7 507	-7 699	-7 791	-7 941	-8 160
Payments for goods and services	-3 806	-3 916	-3 948	-4 070	-4 172
Grants and subsidies paid	-3 025	-3 098	-2 930	-2 853	-2 855
Interest paid	-351	-366	-419	-440	-444
Other payments	-95	-72	-71	-69	-69
Total operating payments	-14 783	-15 150	-15 158	-15 372	-15 699
Net cash flows from operating activities	283	581	1 015	1 012	1 679
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	60	360	418	134	45
Purchases of non-financial assets (a)	-1 987	-2 123	-1 854	-1 149	-1 116
Net cash flows from investments in non-financial assets	-1 927	-1 763	-1 436	-1 015	-1 071
Net cash flows from investments in financial assets for policy purposes (b)	-28	749	203	-13	91
Net cash flows from investments in financial assets for liquidity purposes	-15	-9	-8	-11	-13
Net cash flows from financing activities					
Advances received (net)	-18	-1	-19	-40	-22
Borrowing (net)	-828	528	207	72	-603
Deposits received (net)	29	-58	-21	14	-43
Dividends paid	—	—	—	—	—
Other financing (net)	—	-1	-1	-1	-1
Net cash flows from financing activities	-817	468	166	45	-668
Net increase / (decrease) in cash held	-2 505	25	-61	19	18
Net cash flows from operating activities	283	581	1 015	1 012	1 679
Net cash flows from investments in non-financial assets	-1 927	-1 763	-1 436	-1 015	-1 071
Dividends paid	—	—	—	—	—
Cash surplus / (deficit)	-1 645	-1 182	-421	-3	608

Note: Totals may not add due to rounding.
(a) The ABS disaggregates this item into new and secondhand non-financial assets.
(b) Includes equity acquisitions, disposals and privatisations (net).

Table A.8: Public non-financial corporations (public trading enterprises) sector cash flow statement ($million)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Cash receipts from operating activities					
Taxes received	—	—	—	—	—
Receipts from sales of goods and services	1 594	1 952	2 054	1 727	1 706
Grants and subsidies received	736	750	581	540	553
Interest receipts	16	20	19	18	14
Dividends and income tax equivalents	7	5	3	3	4
Other receipts	214	180	126	101	93
Total operating receipts	2 567	2 906	2 784	2 389	2 370
Cash payments for operating activities					
Payments for employees	-279	-291	-322	-334	-346
Payments for goods and services	-680	-721	-628	-594	-559
Grants and subsidies paid	-98	-86	-95	-78	-81
Interest paid	-225	-250	-274	-287	-287
Other payments	-671	-778	-872	-461	-480
Total operating payments	-1 953	-2 127	-2 192	-1 754	-1 752
Net cash flows from operating activities	614	778	593	635	618
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	166	792	456	123	83
Purchases of non-financial assets (a)	-1 126	-1 212	-619	-479	-416
Net cash flows from investments in non-financial assets	-959	-420	-163	-356	-332
Net cash flows from investments in financial assets for policy purposes (b)	7	8	8	8	8
Net cash flows from investments in financial assets for liquidity purposes	4	29	1	1	1
Net cash flows from financing activities					
Advances received (net)	-72	-661	-204	14	-90
Borrowing (net)	443	428	-64	-26	18
Deposits received (net)	—	—	—	—	—
Dividends paid	-217	-228	-260	-268	-270
Other financing (net)	—	—	—	—	—
Net cash flows from financing activities	154	-460	-528	-279	-341
Net increase / (decrease) in cash held	-180	-65	-89	9	-47
Net cash flows from operating activities	614	778	593	635	618
Net cash flows from investments in non-financial assets	-959	-420	-163	-356	-332
Dividends paid	-217	-228	-260	-268	-270
Cash surplus / (deficit)	-563	130	170	11	16

Note: Totals may not add due to rounding.
(a) The ABS disaggregates this item into new and secondhand non-financial assets.
(b) Includes equity acquisitions, disposals and privatisations (net).

Table A.9: Non-financial public sector cash flow statement ($million)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Cash receipts from operating activities					
Taxes received	3 487	3 735	3 985	4 322	4 595
Receipts from sales of goods and services	3 200	3 673	3 836	3 540	3 587
Grants and subsidies received	8 200	8 394	8 402	8 326	8 897
Interest receipts	153	154	163	146	150
Dividends and income tax equivalents	87	44	23	21	21
Other receipts	696	782	768	755	795
Total operating receipts	15 823	16 783	17 177	17 111	18 045
Cash payments for operating activities					
Payments for employees	-7 765	-7 967	-8 092	-8 254	-8 483
Payments for goods and services	-4 200	-4 337	-4 267	-4 341	-4 400
Grants and subsidies paid	-2 383	-2 432	-2 442	-2 391	-2 383
Interest paid	-536	-586	-649	-671	-676
Other payments	-260	-329	-379	-74	-75
Total operating payments	-15 144	-15 652	-15 828	-15 731	-16 018
Net cash flows from operating activities	679	1 131	1 348	1 380	2 027
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	226	1 152	871	257	128
Purchases of non-financial assets (a)	-3 112	-3 336	-2 470	-1 628	-1 532
Net cash flows from investments in non-financial assets	-2 886	-2 183	-1 599	-1 371	-1 403
Net cash flows from investments in financial assets for policy purposes (b)	-92	96	7	9	9
Net cash flows from investments in financial assets for liquidity purposes	-11	20	-7	-10	-12
Net cash flows from financing activities					
Advances received (net)	-18	-1	-19	-40	-22
Borrowing (net)	-385	957	143	47	-584
Deposits received (net)	4	6	6	6	6
Dividends paid	—	—	—	—	—
Other financing (net)	—	-1	-1	-1	-1
Net cash flows from financing activities	-399	961	129	12	-600
Net increase / (decrease) in cash held	-2 710	24	-122	19	19
Net cash flows from operating activities	679	1 131	1 348	1 380	2 027
Net cash flows from investments in non-financial assets	-2 886	-2 183	-1 599	-1 371	-1 403
Dividends paid	—	—	—	—	—
Cash surplus / (deficit)	-2 207	-1 052	-251	9	624

Note: Totals may not add due to rounding.
(a) The ABS disaggregates this item into new and secondhand non-financial assets.
(b) Includes equity acquisitions, disposals and privatisations (net).

Table A.10: General government sector derivation of ABS GFS cash surplus/deficit ($million)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Cash surplus / (deficit)	-1 645	-1 182	-421	-3	608
Acquisitions under finance leases and similar arrangements (a)	-196	—	—	—	—
ABS GFS Surplus (+) / deficit (-) including finance leases and similar arrangements	-1 840	-1 182	-421	-3	608

Table A.11: Public non-financial corporations (public trading enterprises) sector derivation of ABS GFS cash surplus/deficit ($million)

Cash surplus / (deficit)	-563	130	170	11	16
Acquisitions under finance leases and similar arrangements (a)	—	—	—	—	—
ABS GFS Surplus (+) / deficit (-) including finance leases and similar arrangements	-563	130	170	11	16

Table A.12: Non-financial public sector derivation of ABS GFS cash surplus/deficit ($million)

Cash surplus / (deficit)	-2 207	-1 052	-251	9	624
Acquisitions under finance leases and similar arrangements (a)	-196	—	—	—	—
ABS GFS Surplus (+) / deficit (-) including finance leases and similar arrangements	-2 403	-1 052	-251	9	624

Note: Totals may not add due to rounding.
(a) Finance leases are shown with a negative sign as they are deducted in compiling the ABS GFS cash surplus/deficit.

Table A.13: General government sector taxes ($million) (a)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Taxes on employers' payroll and labour force	958	1 049	1 116	1 185	1 258
Taxes on property					
Land taxes	571	603	632	657	684
Stamp duties on financial and capital transactions	904	989	1 089	1 211	1 329
Financial institutions' transaction taxes	—	—	—	—	—
Other	166	171	175	181	186
Total	1 641	1 763	1 897	2 049	2 198
Taxes on the provision of goods and services					
Excises and levies	—	—	—	—	—
Taxes on gambling	402	420	473	458	487
Taxes on insurance	362	387	401	415	429
Total	763	807	874	872	916
Taxes on use of goods and performance of activities					
Motor vehicle taxes	482	509	526	543	562
Total	482	509	526	543	562
Total GFS taxation revenue	3 845	4 129	4 413	4 650	4 933

Note: Totals may not add due to rounding.
(a) Excludes taxes paid by general government entities.

Table A.14(a): General government sector grant revenue ($million)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Current grant revenue					
Current grants from the Commonwealth					
General purpose grants	4 296	4 493	4 814	5 051	5 438
National partnership grants	572	793	643	537	493
Specific purpose grants	1 408	1 440	1 487	1 513	1 584
Specific purpose grants for on-passing	736	783	802	822	843
Total current grants from the Commonwealth	7 011	7 508	7 747	7 923	8 358
Other contributions and grants	164	158	158	156	157
Total current grant revenue	7 176	7 666	7 905	8 079	8 515
Capital grant revenue					
Capital grants from the Commonwealth					
General purpose grants	—	—	—	—	—
National partnership grants	874	574	346	95	229
Specific purpose grants	116	117	120	118	119
Specific purpose grants for on-passing	13	13	14	14	14
Other capital grants	27	6	5	5	4
Total capital grants from the Commonwealth	1 030	712	484	232	367
Other contributions and grants	42	19	16	16	16
Total capital grant revenue	1 072	730	500	248	383
Total grant revenue	8 247	8 397	8 405	8 328	8 898

Table A.14(b): General government sector grant expense ($million)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Current grant expense					
State/territory government	3	3	3	3	2
Local government	59	61	62	64	66
Local government on-passing	135	163	167	171	175
Private and not-for-profit sector	948	937	930	951	970
Private and not-for-profit sector on-passing	601	620	635	651	667
Grants to other sectors of Government	607	728	582	542	555
Other	219	209	186	180	178
Total current grant expense	2 571	2 721	2 565	2 562	2 614
Capital grant expense					
State/territory government	—	—	—	—	—
Local government	13	32	26	2	—
Local government on-passing	—	—	—	—	—
Private and not-for-profit sector	228	240	257	206	158
Private and not-for-profit sector on-passing	13	13	14	14	14
Grants to other sectors of Government	131	23	—	—	—
Other	3	3	1	1	1
Total capital grant expense	389	313	299	223	174
Total grant expense	2 960	3 034	2 863	2 786	2 788

Note: Totals may not add due to rounding.

Table A.15: General government sector dividend and income tax equivalent income ($million)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Dividend and income tax equivalent income from PNFC sector	328	332	386	390	392
Dividend and income tax equivalent income from PFC sector	80	40	19	19	18
Other dividend income	—	—	—	—	—
Total dividend and income tax equivalent income	408	371	406	408	410

Note: Totals may not add due to rounding.

Table A.16: General government sector expenses by function ($million)[(a)(b)]

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget
General public services	**405**	**402**	**413**
Government superannuation benefits	—	—	—
Other general public services	405	402	413
Defence[(c)]	—	—	—
Public order and safety	**1 457**	**1 448**	**1 515**
Police and fire protection services	841	853	892
Law courts and legal services	297	276	291
Prisons and corrective services	238	243	249
Other public order and safety	81	76	83
Education	**3 919**	**3 952**	**3 947**
Primary and secondary education	3 240	3 293	3 262
Tertiary education	533	503	522
Pre-school education and education not definable by level	116	127	133
Transportation of students	25	26	27
Education n.e.c.	4	4	3
Health	**4 534**	**4 615**	**4 715**
Acute care institutions	3 972	4 002	4 125
Mental health institutions	n.a.	n.a.	n.a.
Nursing homes for the aged	n.a.	n.a.	n.a.
Community health services	294	313	315
Public health services	117	139	122
Pharmaceuticals, medical aids and appliances	8	9	9
Health research	6	7	7
Health administration n.e.c.	137	146	138
Social security and welfare	**1 100**	**1 048**	**1 146**
Social security	107	96	106
Welfare services	853	849	936
Social security and welfare services n.e.c.	140	103	104
Housing and community amenities	**1 389**	**1 349**	**1 349**
Housing and community development	651	666	623
Water supply	318	345	399
Sanitation and protection of the environment	403	331	317
Other community amenities	16	6	11
Recreation and culture	**414**	**325**	**483**
Recreation facilities and services	246	159	310
Cultural facilities and services	158	155	163
Broadcasting and film production	6	7	6
Recreation and culture n.e.c.	5	4	4

Table A.16: General government sector expenses by function ($million)[(a)(b)] (continued)

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget
Fuel and energy	**45**	**53**	**43**
Fuel affairs and services	13	15	6
Electricity and other energy	8	11	11
Fuel and energy n.e.c.	25	27	27
Agriculture, forestry, fishing and hunting	**188**	**190**	**180**
Agriculture	165	166	158
Forestry, fishing and hunting	23	23	21
Mining and mineral resources other than fuels; manufacturing; and construction	**82**	**74**	**84**
Mining and mineral resources other than fuels	31	28	33
Manufacturing	—	—	—
Construction	51	46	52
Transport and communications	**817**	**892**	**894**
Road transport	346	375	390
Water transport	16	19	19
Rail transport	45	42	45
Air transport	—	—	—
Pipelines	n.a.	n.a.	n.a.
Other transport	405	421	405
Communications	6	36	35
Other economic affairs	**288**	**300**	**274**
Storage, saleyards and markets	n.a.	n.a.	n.a.
Tourism and area promotion	62	69	68
Labour and employment affairs	62	65	62
Other economic affairs	164	166	144
Other purposes	**835**	**866**	**948**
Public debt transactions	255	307	366
General purpose inter-government transactions	92	96	134
Natural disaster relief	55	34	18
Nominal superannuation interest expense	427	427	412
Other purposes n.e.c.	6	2	18
Total GFS expenses	**15 475**	**15 514**	**15 990**

Note: Totals may not add due to rounding.

(a) Expenses by function data is derived from information submitted by government departments and agencies. The processes for deriving this data are subject to ongoing refinements. Consequently the data may be subject to future revisions.

(b) Some functional classifications are not readily distinguishable at agency level. Those instances are denoted as 'not available' (n.a.).

(c) The ABS defines 'defence' as expenditure on military and civil defence affairs, foreign military aid and defence research. The expenditure of Defence SA is included in 'other economic affairs'.

Table A.17: General government sector capital expenditure by function ($million)[(a)]

	2010–11 Budget	2010–11 Estimated Result	2011–12 Budget
General public services	94	23	55
Defence[(b)]	—	—	—
Public order and safety	155	158	170
Education	650	683	227
Health	385	356	441
Social security and welfare	56	7	—
Housing and community amenities	20	20	15
Recreation and culture	115	106	42
Fuel and energy	—	1	—
Agriculture, forestry, fishing and hunting	8	10	5
Mining and mineral resources other than fuels; manufacturing; and construction	—	16	24
Transport and communications	752	781	1 131
Other economic affairs	39	27	15
Other purposes	8	2	—
Total capital expenditure	**2 283**	**2 189**	**2 125**

Note: Totals may not add due to rounding.

(a) Expenses by function data is derived from information submitted by government departments and agencies. The processes for deriving this data are subject to ongoing refinements. Consequently the data may be subject to future revisions.

(b) The ABS defines 'defence' as expenditure on military and civil defence affairs, foreign military aid and defence research. The expenditure of Defence SA is included in 'other economic affairs'.

Table A.18: General government sector net worth ($million)

	2010–11 Estimated Result	2011–12 Budget	2012–13 Estimate	2013–14 Estimate	2014–15 Estimate
Net worth at beginning of year	**36 231**	**37 456**	**37 713**	**38 791**	**39 512**
Change in net worth from operating transactions					
Net operating balance	- 427	- 263	114	80	655
Change in net worth from other economic flows					
Movement in net assets of PFCs	361	95	189	166	146
Movement in net assets of PNFCs[(a)]	521	484	822	515	524
Revaluation of unfunded superannuation liability	765	- 5	- 6	- 6	- 6
Revaluation of long service leave liability	- 66	- 71	- 75	- 79	- 83
Revaluation of annual leave liability	- 9	- 10	- 10	- 10	- 10
Other revaluation adjustments	81	26	42	55	5
Total other economic flows	1 651	520	964	642	576
Net worth at year end	**37 456**	**37 713**	**38 791**	**39 512**	**40 743**

Note: Totals may not add due to rounding.

(a) Net of equity injections from and the return of equity to the general government sector.

Loan Council arrangements

The Australian Loan Council — a ministerial council established in 1927 comprising Commonwealth, state and territory treasurers — requires all jurisdictions to nominate a Loan Council Allocation (LCA) for consideration at its annual meeting.

LCA nominations, prepared in March, are intended to provide an indication of each government's probable call on financial markets over the forthcoming financial year. The Loan Council, having regard to each jurisdiction's fiscal position and reasonable infrastructure requirements, along with the macroeconomic implications of the aggregate figure, then considers the nominations.

Following the endorsement of LCA nominations, jurisdictions are further required to update their nominated LCAs at budget time for changes in economic parameters and policy decisions, and also provide an LCA outcome at the end of the financial year. A tolerance limit of two per cent of total public sector revenue, set at nomination time, applies between both the nomination and budget, and the budget and outcome LCAs. If the tolerance limit is exceeded, the Loan Council must be notified and a report detailing the reasons for change released publicly.

Nominated LCAs for 2011–12, for all jurisdictions and in aggregate, were reviewed and endorsed at the meeting of the Australian Loan Council held on 7 April 2011.

South Australia's nomination, budget and estimated outcome LCAs for 2010–11 are shown in Table A.19, with nomination and budget time LCAs for 2011–12 shown in Table A.20. These tables are prepared in accordance with the requirements of the accrual UPF, endorsed by the Loan Council in March 2000 and revised in April 2008 to recognise acquisitions under finance leases and similar arrangements.

As Table A.19 indicates, South Australia is expecting an LCA deficit of $2060 million for 2010–11. This is greater than the 2010–11 Budget (September 2010) estimated deficit of $1719 million, reflecting an increase in the non-financial public sector deficit and a lower superannuation adjustment reflecting increased estimates of employer benefit payments. On the basis of these estimates, South Australia's 2010–11 LCA outcome will exceed the two per cent of total revenue tolerance limit included in the 2010–11 LCA nomination.

South Australia's 2011–12 Budget LCA, detailed in Table A.20, is an estimated $598 million deficit. This is a decrease from the $33 million surplus nominated in March of this year reflecting an increase in the non-financial sector deficit, a downward revision to the superannuation adjustment and an expected increase in home finance borrowings. The revised deficit is likely to exceed the LCA nomination tolerance limit.

Table A.19: Loan Council allocation 2010–11 ($million)[(a)]

	Nomination (March 2010)	Budget (September 2010)	Estimated result (June 2011)
General government sector cash deficit/surplus	1 188	1 578	1 645
PNFC sector cash deficit/surplus	-202	478	563
Non-financial public sector cash deficit/surplus[(b)]	**986**	**2 055**	**2 207**
Acquisitions under finance leases and similar arrangements	120	196	196
ABS Government Finance Statistics cash deficit/surplus	**1 106**	**2 251**	**2 403**
Less: Net cash flows from investments in financial assets for policy purposes	2	1	-92
Adjusted total non-financial public sector deficit/surplus	**1 104**	**2 250**	**2 495**
Plus: Memorandum items[(c)]			
Operating leases[(d)]	-77	-87	-71
Recourse asset sales	—	—	—
Superannuation[(e)]	-645	-645	-606
Local government	19	33	77
Home finance schemes	116	167	165
Total memorandum items	**-587**	**-531**	**-435**
LCA deficit/surplus[(f)(g)]	**517**	**1 719**	**2 060**

Note: Totals may not add due to rounding.

(a) For the purposes of this table a surplus amount is represented as a negative number while a deficit is shown as a positive number.

(b) The sum of the deficits of the general government and PNFC sectors may not equal the non-financial public sector deficit due to intersectoral transfers, which are netted out in the calculation of the total figure. The figures exclude statutory marketing authorities.

(c) Excludes universities.

(d) Increase/decrease in the net present value (NPV) of operating leases with a NPV of $5 million or greater.

(e) Includes both ‘payments in excess of emerging costs of superannuation’ and ‘interest earnings on employer balances’.

(f) The two per cent of total revenue tolerance limit for South Australia’s 2010–11 LCA is $316 million.

(g) South Australia had one infrastructure project with private sector involvement that met the recognition criteria for 2010–11: the construction of six new schools across the northern and western suburbs of Adelaide.

Table A.20: Loan Council allocation 2011–12 ($million)[(a)]

	Nomination (March 2011)	Budget (June 2011)
General government sector cash deficit/surplus	909	1 182
PNFC sector cash deficit/surplus	-366	-130
Total non-financial public sector cash deficit/surplus[(b)]	**543**	**1 052**
Acquisitions under finance leases and similar arrangements	—	—
ABS Government Finance Statistics cash deficit/surplus	**543**	**1 052**
Less: Net cash flows from investments in financial assets for policy purposes	10	96
Adjusted total non-financial public sector deficit/surplus	**533**	**956**
Plus: Memorandum items[(c)]		
Operating leases[(d)]	-74	-87
Recourse asset sales	—	—
Superannuation[(e)]	-524	-476
Local government	32	55
Home finance schemes	—	150
Total memorandum items	**-566**	**-358**
LCA deficit/surplus[(f)(g)]	**-33**	**598**

Note: Totals may not add due to rounding.

(a) For the purposes of this table a surplus amount is represented as a negative number while a deficit is shown as a positive number.

(b) The sum of the deficits of the general government and PNFC sectors may not equal the non-financial public sector deficit due to intersectoral transfers, which are netted out in the calculation of the total figure. The figures exclude statutory marketing authorities.

(c) Excludes universities.

(d) Increase/decrease in the net present value (NPV) of operating leases with a NPV of $5 million or greater.

(e) Includes both 'payments in excess of emerging costs of superannuation' and 'interest earnings on employer balances'.

(f) The two per cent of total revenue tolerance limit around South Australia's 2011–12 LCA is $336 million.

(g) South Australia may have one infrastructure project with private sector involvement that meets the recognition criteria for 2011–12: the construction of the new Royal Adelaide Hospital.

Appendix B: General government and non-financial public sector financial statistics time series

The following tables provide historical data on key fiscal aggregates, together with estimates reflected in the 2011–12 Budget. Data provided is sourced for 1998–99 from *Australian Bureau of Statistics Government Finance Statistics 2007–08* and 1999–2000 to 2009–10 from budget outcome publications for South Australia. The estimates for 2010–11 onwards are contained in the 2011–12 Budget papers.

Gross State Product (GSP) and Consumer Price Index (for real-growth calculations) data up to 2009–10 is sourced from the latest Australian Bureau of Statistics publications. Department of Treasury and Finance forecasts are used for the forward estimates.

Except where specified, historical data in this time series has not been back-cast to reflect classification and accounting changes. As such care must be taken in interpreting the data.

General government

Table B.1: General government key operating statement aggregates

	Revenue			Expenses			Net operating balance	Net acquisition of non-financial assets	Net lending
	$m	% real growth	% GSP	$m	% real growth	% GSP	$m	$m	$m
1998–99	7 290		17.4	7 505		17.9	- 215	19	- 233
1999–2000	7 644	2.3	17.3	7 974	3.7	18.0	- 330	140	- 471
2000–01	8 108	3.0	16.9	8 406	2.4	17.5	- 297	102	- 399
2001–02	8 538	2.0	16.5	8 713	0.5	16.9	- 174	- 50	- 124
2002–03	9 346	5.2	17.2	8 898	-1.8	16.4	448	34	414
2003–04	9 955	3.4	17.2	9 570	4.4	16.5	385	- 38	424
2004–05	10 592	4.0	17.6	10 368	5.9	17.2	224	105	119
2005–06	11 242	2.9	17.6	11 040	3.2	17.2	202	119	83
2006–07	11 757	1.9	17.0	11 547	2.0	16.7	209	139	71
2007–08	12 879	6.1	17.0	12 414	4.1	16.4	464	242	222
2008–09	13 531	1.8	17.5	13 764	7.4	17.8	- 233	639	- 872
2009–10[(a)]	15 534	12.4	19.3	15 347	9.1	19.1	187	1 279	-1 092
2010–11[(a)]	15 087	-5.7	17.7	15 514	-1.9	18.2	- 427	1 394	-1 821
2011–12	15 727	1.2	17.5	15 990	0.1	17.8	- 263	988	-1 252
2012–13	16 178	-0.1	17.0	16 064	-2.4	16.9	114	603	- 489
2013–14	16 392	-1.3	16.4	16 313	-1.1	16.3	80	136	- 56
2014–15	17 379	3.4	16.5	16 724	0.0	15.9	655	113	542

Note: Totals may not add due to rounding.

(a) In 2009–10 and 2010–11 revenue, expenses and net acquisition of non-financial assets are impacted by the Commonwealth Government's Nation Building—Economic Stimulus Plan.

Table B.2: General government key balance sheet aggregates ($million)[(a)]

As at 30 June	Net debt[(b)]	Unfunded superannuation[(c)]	Net financial liabilities	Net financial worth	Net worth
1988	859				
1989	694				
1990	854				
1991	1 817				
1992	4 610				
1993	7 884				
1994	7 113				
1995	5 815				
1996	5 512				
1997	4 983				
1998	4 762				
1999	4 779	3 909	9 733	1 894	10 624
2000	1 920	3 543	6 911	2 986	12 445
2001	1 246	3 249	6 093	4 091	14 816
2002	1 303	3 998	6 907	3 559	14 721
2003	666	4 445	6 974	3 500	15 288
2004	224	5 668	7 858	3 842	15 760
2005	144	7 227	9 393	3 853	16 359
2006	- 119	6 146	8 171	5 846	19 703
2007[(d)]	- 24	5 075	7 254	8 110	22 128
2008[(e)(f)(g)]	- 276	6 468	8 078	7 580	23 741
2009	475	8 939	11 562	5 551	24 146
2010	1 402	9 478	13 182	6 551	36 231
2011	3 217	8 734	14 237	6 368	37 456
2012	3 825	8 742	15 029	5 578	37 713
2013	4 098	8 732	15 492	5 973	38 791
2014	4 213	8 703	15 784	6 467	39 512
2015	3 615	8 652	15 379	7 541	40 743

(a) During the implementation of the 2008 revised uniform presentation framework (UPF), minor variances in some aggregates compared with earlier budget publications were discovered. This table reflects minor revisions resulting from the back-casting of budget aggregates associated with implementing the revised UPF.

(b) Net debt data for the years before 1999 is sourced from *Australian Bureau of Statistics, Government Financial Estimates 2003–04* (Catalogue no. 5501).

(c) There is a structural break in the methodology used to calculate superannuation liabilities between June 2003 and June 2004. This accounting change, which involved the adoption of Commonwealth Government bond rate for valuation purposes in line with AASB119, *Employee Benefits*, resulted in a significant increase in superannuation liabilities.

(d) There is a structural break in 2007 reflecting the amalgamation of the South Australian Government Financing Authority (SAFA) and SAICORP on 1 July 2006. The transfer of SAICORP's assets and liabilities from the general government sector to the public financial corporations sector resulted in an increase in general government net debt of $99 million at 1 July 2006 and an increase in net financial liabilities of $90 million at 1 July 2006.

(e) There is a structural break in 2008 reflecting the transfer of rail assets from TransAdelaide to the general government sector. This results in an increase in net debt and net financial liabilities of $66 million in 2007–08 and a reduction in net financial worth of $591 million, with no impact on net worth.

(f) There is a structural break in 2008 reflecting the transfer of assets from the Adelaide Festival Centre Trust to the general government sector. This results in an increase in net debt and net financial liabilities of $28 million in 2007–08, and a reduction in net financial worth of $76 million, with no impact on net worth.

(g) There is a structural break in 2008 reflecting the first time recognition on the general government balance sheet of South Australia's share of the net assets of the Murray-Darling Basin Commission. This has no impact on net debt, however results in a reduction in net financial liabilities of $615 million in 2007–08, and increases in net financial worth and net worth of $615 million.

Table B.3: General government sector receipts, payments and surplus ($million)[(a)]

	Receipts	Payments	ABS Cash surplus
1979–80	1 891	1 671	220
1980–81	2 065	1 917	148
1981–82	2 210	2 122	87
1982–83	2 664	2 507	156
1983–84	2 988	2 734	255
1984–85	3 380	3 057	324
1985–86	3 634	3 161	474
1986–87	3 956	3 416	540
1987–88	4 307	3 858	449
1988–89	4 630	3 977	653
1989–90	4 973	4 370	603
1990–91	5 260	4 796	463
1991–92	5 387	5 396	- 10
1992–93	5 967	5 456	512
1993–94	6 087	6 024	63
1994–95	6 155	6 220	- 66
1995–96	6 405	6 164	241
1996–97	6 379	6 282	97
1997–98	6 988	6 724	264
1998–99	7 165	7 041	123
1999–2000	7 676	7 915	- 239
2000–01	8 278	8 387	- 108
2001–02	8 698	8 748	- 50
2002–03	9 522	8 864	658
2003–04	10 023	9 502	522
2004–05	11 252	11 059	193
2005–06	11 480	11 293	187
2006–07	12 090	12 116	- 26
2007–08	12 932	12 552	379
2008–09	13 579	14 299	- 721
2009–10	15 837	16 991	-1 154
2010–11	15 126	16 966	-1 840
2011–12	16 092	17 274	-1 182
2012–13	16 592	17 013	- 421
2013–14	16 519	16 521	- 3
2014–15	17 423	16 816	608

Note: Totals may not add due to rounding.

(a) There is a break in the series between 1998–99 and 1999–2000. Data for the years before 1999–2000 is sourced from the Australian Bureau of Statistics (ABS) and are consistent with ABS Government Finance Statistics (GFS) reporting requirements on a cash basis. Capital receipts and payments, including payments associated with the provision of financial support for state owned financial institutions (which were treated by the ABS as an 'investment in financial assets for policy purposes') are not included in the series before 1999–2000. After 1998–99, data is derived from an accrual ABS GFS reporting framework, with receipts proxied by receipts from operating activities and sales of non-financial assets, and payments proxied by payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases and similar arrangements. Due to the associated methodological and data-source changes, time series data that encompasses measures derived under both cash and accrual accounting should be used with caution.

Table B.4: General government sector operating statement ($million)

	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15
Revenue										
Taxation revenue	2 979	3 250	3 570	3 537	3 649	3 845	4 129	4 413	4 650	4 933
Grants	5 766	5 969	6 616	7 249	8 881	8 247	8 397	8 405	8 328	8 898
Sales of goods and services	1 333	1 464	1 572	1 697	1 936	1 885	2 054	2 123	2 167	2 243
Interest income	147	167	203	150	138	184	172	196	192	199
Dividend and income tax equivalent income	575	450	429	382	433	408	371	406	408	410
Other	441	456	490	517	497	518	605	635	647	695
Total revenue	11 242	11 757	12 879	13 531	15 534	15 087	15 727	16 178	16 392	17 379
less										
Expenses										
Employee expenses	4 644	4 933	5 268	5 749	6 221	6 417	6 606	6 699	6 829	7 041
Superannuation expenses										
Superannuation interest cost	344	316	276	383	455	427	412	410	407	403
Other superannuation expenses	480	506	546	580	600	684	701	707	715	729
Depreciation and amortisation	454	498	525	566	633	693	768	835	881	961
Interest expenses	223	204	218	180	204	307	366	420	441	444
Other property expenses	—	—	—	—	—	—	—	—	—	—
Other operating expenses	2 874	3 021	3 246	3 624	3 695	4 026	4 105	4 130	4 255	4 359
Grants	2 021	2 069	2 337	2 682	3 540	2 960	3 034	2 863	2 786	2 788
Total expenses	11 040	11 547	12 414	13 764	15 347	15 514	15 990	16 064	16 313	16 724
equals										
Net operating balance	202	209	464	- 233	187	- 427	- 263	114	80	655
plus										
Other economic flows	3 142	2 215	1 149	708	11 830	1 651	520	964	642	576
equals										
Comprehensive result — total change in net worth	3 344	2 424	1 613	475	12 017	1 225	257	1 078	722	1 231
Net operating balance	202	209	464	- 233	187	- 427	- 263	114	80	655
less										
Net acquisition of non-financial assets										
Purchases of non-financial assets	717	771	875	1 305	2 144	2 189	2 125	1 856	1 151	1 119
less Sales of non-financial assets	144	134	108	108	29	102	369	418	134	45
less Depreciation	454	498	525	566	633	693	768	835	881	961
plus Change in inventories	—	—	—	7	3	—	—	—	—	—
plus Other movements in non-financial assets	—	—	—	—	- 206	—	—	—	—	—
equals Total net acquisition of non-financial assets	119	139	242	639	1 279	1 394	988	603	136	113
equals										
Net lending/borrowing	83	71	222	- 872	-1 092	-1 821	-1 252	- 489	- 56	542

Note: Totals may not add due to rounding.

Table B.5: General government sector balance sheet ($million)

As at 30 June	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Assets										
Financial assets										
Cash and deposits	2 210	2 384	2 760	3 084	3 277	787	806	735	744	750
Advances paid	902	905	782	752	676	714	542	493	401	310
Investments, loans and placements	180	119	134	140	163	178	188	201	213	226
Receivables	454	471	498	610	713	680	665	656	650	638
Equity										
Investments in other public sector entities	14 017	15 364	15 658	17 113	19 734	20 604	20 607	21 465	22 250	22 921
Investments — other	173	30	668	707	752	753	751	747	747	747
Other financial assets	44	39	38	43	47	45	43	42	42	41
Total financial assets	17 979	19 311	20 539	22 449	25 363	23 760	23 604	24 339	25 047	25 632
Non-financial assets										
Land and other fixed assets	13 840	14 013	16 138	18 590	29 677	31 085	32 131	32 814	33 042	33 198
Other non-financial assets	17	4	23	5	3	3	3	3	3	3
Total non-financial assets	13 857	14 018	16 161	18 595	29 680	31 088	32 134	32 818	33 046	33 201
Total assets	31 836	33 329	36 700	41 045	55 043	54 849	55 738	57 157	58 092	58 834
Liabilities										
Deposits held	282	331	328	335	387	436	378	357	371	328
Advances received	682	659	644	628	610	591	590	571	532	510
Borrowing	2 209	2 394	2 427	3 488	4 522	3 868	4 394	4 598	4 669	4 064
Superannuation	6 146	5 075	6 468	8 939	9 478	8 734	8 742	8 732	8 703	8 652
Other employee benefits	1 393	1 492	1 646	1 867	1 922	2 008	2 106	2 229	2 360	2 521
Payables	616	553	665	760	1 004	926	924	926	929	933
Other liabilities	805	699	779	881	888	829	891	953	1 018	1 085
Total liabilities	12 133	11 201	12 959	16 898	18 811	17 393	18 025	18 366	18 580	18 091
Net worth[(a)]	19 703	22 128	23 741	24 146	36 231	37 456	37 713	38 791	39 512	40 743
Net financial worth[(a)(b)(c)]	5 846	8 110	7 580	5 551	6 551	6 368	5 578	5 973	6 467	7 541
Net financial liabilities[(a)(b)(c)]	8 171	7 254	8 078	11 562	13 182	14 237	15 029	15 492	15 784	15 379
Net debt[(b)(c)(d)]	- 119	- 24	- 276	475	1 402	3 217	3 825	4 098	4 213	3 615

Note: Totals may not add due to rounding.

(a) There is a structural break in 2008 reflecting the first time recognition on the general government balance sheet of South Australia's share of the net assets of the Murray-Darling Basin Commission. This has no impact on net debt, however results in a reduction in net financial liabilities of $615 million in 2007–08, and increases in net financial worth and net worth of $615 million.

(b) There is a structural break in 2008 reflecting the transfer of rail assets from TransAdelaide to the general government sector. This results in an increase in net debt and net financial liabilities of $66 million in 2007–08, and a reduction in net financial worth of $591 million, with no impact on net worth.

(c) There is a structural break in 2008 reflecting the transfer of assets from the Adelaide Festival Centre Trust to the general government sector. This results in an increase in net debt and net financial liabilities of $28 million in 2007–08, and a reduction in net financial worth of $76 million, with no impact on net worth.

(d) There is a structural break in 2007 reflecting the amalgamation of the South Australian Government Financing Authority (SAFA) and SAICORP on 1 July 2006. The transfer of SAICORP's assets and liabilities from the general government sector to the public financial corporations sector resulted in an increase in general government net debt of $99 million at 1 July 2006.

Non-financial public sector

Table B.6: Non-financial public sector key operating statement aggregates

	Revenue			Expenses			Net operating balance	Net acquisition of non-financial assets	Net lending
	$m	% real growth	% GSP	$m	% real growth	% GSP	$m	$m	$m
1998–99	9 468		22.6	9 597		22.9	- 129	- 115	- 14
1999–2000	9 206	-5.1	20.8	9 552	-2.9	21.6	- 346	-3 508	3 161
2000–01	9 051	-4.5	18.9	9 279	-5.7	19.3	- 228	-1 111	883
2001–02	9 367	0.3	18.1	9 487	-0.9	18.4	- 120	- 124	5
2002–03	10 172	4.4	18.8	9 696	-1.7	17.9	476	72	405
2003–04	10 707	2.2	18.5	10 294	3.1	17.8	413	33	379
2004–05	11 343	3.5	18.9	11 029	4.7	18.3	314	125	189
2005–06	11 807	0.9	18.4	11 634	2.3	18.2	172	53	119
2006–07	12 321	1.7	17.8	12 175	2.0	17.6	147	173	- 26
2007–08	13 634	7.1	18.0	13 065	3.9	17.3	569	303	266
2008–09	14 360	2.1	18.6	14 567	8.0	18.8	- 207	1 249	-1 456
2009–10[(a)]	16 315	11.2	20.3	15 679	5.3	19.5	636	2 361	-1 725
2010–11[(a)]	15 949	-5.1	18.7	16 375	1.4	19.2	- 426	1 976	-2 402
2011–12	16 836	2.5	18.7	17 112	1.5	19.0	- 276	799	-1 075
2012–13	17 218	-0.7	18.1	17 100	-3.0	18.0	118	381	- 263
2013–14	17 163	-2.9	17.1	17 130	-2.4	17.1	33	66	- 33
2014–15	18 098	2.8	17.2	17 491	-0.4	16.6	606	29	578

Note: Totals may not add due to rounding.

(a) In 2009–10 and 2010–11 revenue, expenses and net acquisition of non-financial assets are impacted by the Commonwealth Government's Nation Building—Economic Stimulus Plan.

Table B.7: Non-financial public sector key balance sheet aggregates ($million)

As at 30 June	Net debt[a]	Unfunded superannuation[b]	Net financial liabilities	Net financial worth	Net worth
1988	4 397				
1989	4 197				
1990	4 457				
1991	5 418				
1992	8 142				
1993	11 610				
1994	10 550				
1995	8 844				
1996	8 432				
1997	8 170				
1998	7 927				
1999	7 657	3 909	13 099	-12 256	10 624
2000	4 355	3 543	9 914	-8 986	12 445
2001	3 223	3 249	8 151	-7 109	14 816
2002	3 317	3 998	8 973	-7 902	14 721
2003	2 696	4 445	9 096	-8 811	15 288
2004	2 285	5 668	10 031	-9 550	15 760
2005	2 126	7 227	11 511	-11 004	16 359
2006	1 786	6 146	10 451	-9 889	19 703
2007[c]	1 989	5 075	9 518	-8 795	22 128
2008[d][e]	1 611	6 468	10 208	-10 487	23 741
2009	2 872	8 939	14 302	-14 921	24 146
2010	4 487	9 478	16 626	-16 997	36 231
2011	6 872	8 734	18 274	-18 284	37 456
2012	7 922	8 742	19 465	-19 381	37 713
2013	8 175	8 732	19 857	-19 583	38 791
2014	8 170	8 703	20 021	-19 581	39 512
2015	7 553	8 652	19 582	-18 996	40 743

(a) Net debt data for the years before 1999 is sourced from *Australian Bureau of Statistics, Government Financial Estimates 2003–04* (Catalogue no. 5501).

(b) There is a structural break in the methodology used to calculate superannuation liabilities between June 2003 and June 2004. This accounting change, which involved the adoption of Commonwealth Government bond rate for valuation purposes in line with AASB119, *Employee Benefits*, resulted in a significant increase in superannuation liabilities.

(c) There is a structural break in 2007 reflecting the amalgamation of the South Australian Government Financing Authority (SAFA) and SAICORP on 1 July 2006. The transfer of SAICORP assets and liabilities from the general government sector to the public financial corporations sector resulted in an increase in non-financial public sector net debt of $99 million at 1 July 2006 and an increase in net financial liabilities of $90 million at 1 July 2006.

(d) There is a structural break in 2008 reflecting the amalgamation of the South Australian Community Housing Authority (public financial corporation) with the South Australian Housing Trust (public non-financial corporation). This results in an increase in net debt and net financial liabilities and a decrease in net financial worth of $98 million in 2007–08, with no impact on net worth.

(e) There is a structural break in 2008 reflecting the first time recognition on the general government balance sheet of South Australia's share of the net assets of the Murray-Darling Basin Commission. This has no impact on net debt, however results in a reduction in net financial liabilities of $615 million in 2007–08, and increases in net financial worth and net worth of $615 million.

Table B.8: Non-financial public sector receipts, payments and surplus ($million)[(a)]

	Receipts	Payments	ABS Cash surplus
1979–80	2 681	2 388	292
1980–81	2 877	2 649	228
1981–82	3 145	2 963	182
1982–83	3 651	3 356	295
1983–84	4 383	4 014	369
1984–85	4 887	4 356	531
1985–86	5 172	4 415	757
1986–87	5 542	4 790	752
1987–88	6 078	5 299	780
1988–89	6 946	5 784	1 162
1989–90	7 517	6 465	1 052
1990–91	7 830	6 839	991
1991–92	8 352	7 969	383
1992–93	8 939	7 946	993
1993–94	8 761	8 119	642
1994–95	8 570	8 142	428
1995–96	8 985	8 654	331
1996–97	8 908	8 532	375
1997–98	9 426	8 895	532
1998–99	9 301	8 692	609
1999–2000	13 014	9 501	3 513
2000–01	10 572	9 414	1 158
2001–02	9 726	9 722	4
2002–03	10 439	9 805	634
2003–04	10 891	10 403	488
2004–05	12 051	11 786	265
2005–06	12 239	11 868	370
2006–07	12 684	12 809	- 125
2007–08	13 943	13 477	466
2008–09	14 563	15 806	-1 243
2009–10	16 847	18 695	-1 849
2010–11	16 049	18 452	-2 403
2011–12	17 935	18 987	-1 052
2012–13	18 048	18 299	- 251
2013–14	17 368	17 359	9
2014–15	18 173	17 549	624

Note: Totals may not add due to rounding.

(a) There is a break in the series between 1998–99 and 1999–2000. Data for the years before 1999–2000 is sourced from the ABS and are consistent with ABS GFS reporting requirements on a cash basis. Capital receipts and payments, including payments associated with the provision of financial support for state owned financial institutions (which were treated by the ABS as an ‘investment in financial assets for policy purposes’) are not included in the series before 1999–2000. After 1998–99, data is derived from an accrual ABS GFS reporting framework, with receipts proxied by receipts from operating activities and sales of non-financial assets, and payments proxied by payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases and similar arrangements. Due to the associated methodological and data-source changes, time series data that encompasses measures derived under both cash and accrual accounting should be used with caution.

Table B.9: Non-financial public sector operating statement ($million)

	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15
Revenue										
Taxation revenue	2 749	3 009	3 308	3 244	3 331	3 491	3 739	3 989	4 327	4 600
Grants	5 849	6 039	6 616	7 262	8 897	8 242	8 395	8 403	8 328	8 898
Sales of goods and services	2 494	2 610	2 926	3 082	3 311	3 258	3 714	3 878	3 574	3 621
Interest income	113	155	188	125	123	160	162	171	154	158
Dividend and income tax equivalent income	126	42	24	36	58	87	44	23	21	21
Other	476	466	572	611	594	711	782	753	759	799
Total revenue	11 807	12 321	13 634	14 360	16 315	15 949	16 836	17 218	17 163	18 098
less										
Expenses										
Employee expenses	4 808	5 108	5 450	5 944	6 436	6 647	6 841	6 969	7 111	7 332
Superannuation expenses										
Superannuation interest cost	344	316	276	383	455	427	412	410	407	403
Other superannuation expenses	499	525	568	605	628	711	728	738	746	762
Depreciation and amortisation	692	755	798	852	958	1 026	1 154	1 255	1 330	1 428
Interest expenses	310	290	322	290	344	491	585	648	670	675
Other property expenses	—	—	—	—	—	—	—	—	—	—
Other operating expenses	3 325	3 483	3 840	4 404	4 306	4 755	5 024	4 706	4 542	4 577
Grants	1 655	1 698	1 811	2 089	2 553	2 318	2 368	2 375	2 324	2 315
Total expenses	11 634	12 175	13 065	14 567	15 679	16 375	17 112	17 100	17 130	17 491
equals										
Net operating balance	172	147	569	- 207	636	- 426	- 276	118	33	606
plus										
Other economic flows	3 172	2 278	1 044	682	11 382	1 651	533	960	689	625
equals										
Comprehensive result — total change in net worth	3 344	2 424	1 613	475	12 017	1 225	257	1 078	722	1 231
Net operating balance	172	147	569	- 207	636	- 426	- 276	118	33	606
less										
Net acquisition of non-financial assets										
Purchases of non-financial assets	1 127	1 145	1 399	2 328	3 762	3 350	3 369	2 506	1 664	1 569
less Sales of non-financial assets	381	217	298	304	336	356	1 319	871	257	128
less Depreciation	692	755	798	852	958	1 026	1 154	1 255	1 330	1 428
plus Change in inventories	—	—	—	76	99	8	- 98	—	- 11	17
plus Other movements in non-financial assets	—	—	—	—	- 206	—	—	—	—	—
equals Total net acquisition of non-financial assets	53	173	303	1 249	2 361	1 976	799	381	66	29
equals										
Net lending/borrowing	119	- 26	266	-1 456	-1 725	-2 402	-1 075	- 263	- 33	578

Note: Totals may not add due to rounding.

Table B.10: Non-financial public sector balance sheet ($million)

As at 30 June	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Assets										
Financial assets										
Cash and deposits	2 372	2 566	3 040	3 360	3 573	877	896	762	772	780
Advances paid	83	34	81	71	72	165	70	63	54	45
Investments, loans and placements	204	139	163	176	232	245	231	245	260	275
Receivables	436	522	521	520	766	794	797	785	784	784
Equity										
Investments in other public sector entities	562	723	- 279	- 619	- 371	- 10	85	274	439	585
Investments — other	199	58	693	727	766	764	760	753	750	747
Other financial assets	46	41	40	82	104	47	45	45	44	43
Total financial assets	3 902	4 084	4 259	4 316	5 143	2 882	2 883	2 927	3 103	3 260
Non-financial assets										
Land and fixed assets	29 564	30 917	34 202	39 059	53 224	55 735	57 089	58 368	59 088	59 734
Other non-financial assets	28	6	25	8	4	4	5	5	5	5
Total non-financial assets	29 592	30 922	34 227	39 067	53 228	55 740	57 093	58 373	59 094	59 739
Total assets	33 494	35 006	38 486	43 384	58 371	58 622	59 976	61 300	62 196	62 999
Liabilities										
Deposits held	147	159	166	174	171	196	202	208	214	221
Advances received	715	659	644	628	610	591	590	571	532	510
Borrowing	3 583	3 910	4 084	5 677	7 583	7 372	8 326	8 466	8 510	7 923
Superannuation	6 146	5 075	6 468	8 939	9 478	8 734	8 742	8 732	8 703	8 652
Other employee benefits	1 473	1 560	1 719	1 944	2 003	2 090	2 184	2 308	2 441	2 604
Payables	706	715	801	907	1 319	1 220	1 217	1 191	1 201	1 211
Other liabilities	1 020	801	862	969	975	963	1 002	1 032	1 083	1 135
Total liabilities	13 790	12 878	14 745	19 237	22 140	21 166	22 264	22 509	22 684	22 256
Net worth(a)	19 703	22 128	23 741	24 146	36 231	37 456	37 713	38 791	39 512	40 743
Net financial worth(a)(b)	-9 889	-8 795	-10 487	-14 921	-16 997	-18 284	-19 381	-19 583	-19 581	-18 996
Net financial liabilities(a)(b)	10 451	9 518	10 208	14 302	16 626	18 274	19 465	19 857	20 021	19 582
Net debt(b)(c)	1 786	1 989	1 611	2 872	4 487	6 872	7 922	8 175	8 170	7 553

Note: Totals may not add due to rounding.

(a) There is a structural break in 2008 reflecting the first time recognition on the general government balance sheet of South Australia's share of the net assets of the Murray-Darling Basin Commission. This has no impact on net debt, however results in a reduction in net financial liabilities of $615 million in 2007–08, and increases in net financial worth and net worth of $615 million.

(b) There is a structural break in 2008 reflecting the amalgamation of the South Australian Community Housing Authority (public financial corporation) with the South Australian Housing Trust (public non-financial corporation). This results in an increase in net debt and net financial liabilities and a decrease in net financial worth of $98 million in 2007–08, with no impact on net worth.

(c) There is a structural break in 2007 reflecting on the amalgamation of the South Australian Government Financing Authority (SAFA) and SAICORP on 1 July 2006. The transfer of SAICORP's assets and liabilities from the general government sector to the public financial corporations sector resulted in an increase in non-financial public sector net debt of $99 million at 1 July 2006.

Appendix C: Consolidated Account

Table C.1: Summary of receipts and payments

	2011–12 Budget $000	2010–11 Estimated Result $000	2010–11 Budget $000
Receipts			
Taxation	**3 754 828**	3 563 924	3 584 616
Commonwealth general purpose grants	**4 492 600**	4 250 019	4 411 925
Commonwealth specific purpose grants	**1 556 957**	1 525 952	1 590 453
Commonwealth National Partnership payments	**44 176**	106 720	35 485
Contributions from state undertakings	**401 839**	448 010	385 443
Fees and charges	**443 865**	357 330	360 351
Recoveries	**52 708**	157 057	60 014
Royalties	**202 748**	154 929	160 934
Other receipts	**603 448**	341 038	372 016
Total receipts	**11 553 169**	10 904 979	10 961 237
Payments			
Appropriation Act	**12 740 353**	12 206 336	12 482 308
Specific appropriation authorised in various Acts	**119 420**	113 295	131 998
Total payments	**12 859 773**	12 319 631	12 614 306
Consolidated Account financing requirement	**1 306 604**	1 414 652	1 653 069
Borrowing from (+) repayment to (-) South Australian Government Financing Authority	**1 306 604**	1 414 652	1 653 069

Table C.2: Estimates of payments

	2011–12 Budget $000	2010–11 Estimated Result $000	2010–11 Budget $000
Payments from Appropriation Act			
Arts SA	**122 144**	134 198	139 101
Attorney-General's Department	**137 204**	142 713	146 381
Administered items for the Attorney-General's Department	**42 833**	47 039	51 292
Auditor-General's Department	**13 770**	13 561	13 565
Courts Administration Authority	**88 314**	86 852	86 494
Defence SA	**36 205**	50 113	63 550
Department for Correctional Services	**207 114**	210 335	214 234
Department for Families and Communities	**1 233 555**	1 200 656	1 218 540
Administered items for the Department for Families and Communities	**164 141**	151 492	157 492
Department for Transport, Energy and Infrastructure	**692 780**	665 350	687 904
Administered items for the Department for Transport, Energy and Infrastructure	**13 704**	13 212	13 412
Department for Water	**79 488**	95 034	97 793
Administered items for the Department for Water	**6 844**	7 569	8 469
Department of Education and Children's Services	**2 304 056**	2 178 605	2 196 172
Administered items for the Department of Education and Children's Services	**213 862**	200 461	200 674
Department of Environment and Natural Resources	**126 491**	144 763	136 273
Administered items for the Department of Environment and Natural Resources	**10 837**	13 269	21 821
Department of Further Education, Employment, Science and Technology	**409 791**	391 216	442 078
Department of Health	**3 750 111**	3 635 110	3 673 497
Department of Planning and Local Government	**14 692**	18 604	17 703
Administered items for the Department of Planning and Local Government	**2 313**	2 393	2 510
Department of Primary Industries and Resources	**113 648**	130 684	133 259
Administered items for the Department of Primary Industries and Resources	**3 589**	3 349	3 349
Department of the Premier and Cabinet	**124 559**	123 792	132 619
Administered items for the Department of the Premier and Cabinet	**9 733**	11 541	11 541
Department of Trade and Economic Development	**51 390**	56 291	61 378
Department of Treasury and Finance	**78 634**	74 622	75 500
Administered items for the Department of Treasury and Finance	**1 932 688**	1 651 566	1 703 759
Electoral Commission of South Australia	**3 129**	3 221	3 221
Environment Protection Authority	**6 301**	2 506	3 686
House of Assembly	**8 026**	7 854	8 034
Independent Gambling Authority	**1 623**	1 592	1 592
Joint Parliamentary Services	**14 462**	14 582	14 402
Legislative Council	**5 245**	5 134	5 134
Minister for Tourism	**4 454**	4 454	4 454
South Australia Police	**656 320**	654 916	673 863
Administered items for South Australia Police	**168**	165	165
South Australian Tourism Commission	**53 238**	54 640	54 515
State Governor's Establishment	**2 897**	2 882	2 882
Total payments appropriated for administrative units, statutory authorities and Ministers	**12 740 353**	12 206 336	12 482 308
Payments for which specific appropriation is authorised in various Acts	**119 420**	113 295	131 998
Total Consolidated Account payments	**12 859 773**	12 319 631	12 614 306

Table C.2: Estimates of payments (continued)

	2011–12 Budget $000	2010–11 Estimated Result $000	2010–11 Budget $000
Payments for which specific appropriation is authorised in various Acts			
Salaries and allowances			
Agent-General — pursuant to *Agent-General Act 1901*	**325**	119	319
Auditor-General — pursuant to *Public Finance and Audit Act 1987*	**287**	290	286
Commissioners of Environment, Resource and Development Court — pursuant to *Remuneration Act 1990*	**1 077**	998	992
Commissioner of Police — pursuant to *Police Act 1998*	**408**	398	276
State Coroner and Deputy Coroner — pursuant to *Remuneration Act 1990*	**793**	768	763
Electoral Commissioner and Deputy Electoral Commissioner — pursuant to *Electoral Act 1985*	**356**	349	321
Employee Ombudsman — pursuant to *Fair Work Act 1994*	**137**	134	134
Governor — pursuant to *Constitution Act 1934*	**281**	276	276
Judges — pursuant to *Remuneration Act 1990*			
Chief Justice	**629**	610	605
Judges and Masters	**22 115**	21 415	21 274
Magistrates — pursuant to *Remuneration Act 1990*	**13 916**	13 146	13 072
Members of various standing committees — pursuant to *Parliamentary Remuneration Act 1990 and Parliamentary Committees (Miscellaneous) Act 1991*	**785**	771	687
Ombudsman — pursuant to *Ombudsman Act 1972*	**346**	333	315
Parliamentary salaries and electorate other allowances — pursuant to *Parliamentary Remuneration Act 1990*			
Ministers, officers and members of parliament	**13 346**	13 106	13 111
Senior Judge and judges of the Industrial Relations Court and Commission — pursuant to *Remuneration Act 1990*	**2 842**	2 642	2 638
Solicitor-General — pursuant to *Solicitor-General Act 1972*	**561**	547	570
Valuer-General — pursuant to *Valuation of Land Act 1971*	**129**	129	121
Total salaries and allowances	**58 333**	56 031	55 760
Other			
Compensation for injuries resulting from criminal acts — pursuant to *Victims of Crime Act 2001*	**7 425**	7 244	7 244
Electoral Districts Boundaries Commission — pursuant to the *Constitution Act 1934*	**—**	520	520
First Home Owner Grant — pursuant to *First Home Owner Grant Act 2000*	**53 662**	49 500	68 474
Total other	**61 087**	57 264	76 238
Total payments for which specific appropriation is authorised in various Acts	**119 420**	113 295	131 998

Table C.3: Estimates of receipts

	2011–12 Budget $000	2010–11 Estimated Result $000	2010–11 Budget $000
Taxation receipts			
Payroll tax	**1 236 500**	1 166 200	1 133 500
Commonwealth places mirror payroll tax[(a)]	**21 600**	20 300	19 800
Stamp duties	**1 448 735**	1 376 735	1 421 635
Commonwealth places mirror stamp duties[(a)]	**300**	300	300
Land tax	**598 407**	570 773	570 723
Commonwealth places mirror land tax[(a)]	**1 700**	1 600	1 600
Other taxes on property	**10**	40	10
Save the River Murray Levy	**25 900**	25 000	24 600
Gaming machines tax	**312 113**	295 700	305 300
Contribution from Lotteries Commission of South Australia	**80 181**	77 957	75 929
Contribution from casino operations	**21 900**	21 000	23 000
Contribution from South Australian Totalizator Agency Board	**4 300**	5 200	5 200
Contribution from on-course totalizators, bookmakers and small lotteries	**3 182**	3 119	2 819
Recoup from Recreation and Sport Fund	**—**	—	200
Total taxation receipts	**3 754 828**	3 563 924	3 584 616
Commonwealth general purpose payments			
GST revenue grants	**4 492 600**	4 250 019	4 411 925
Total Commonwealth general purpose payments	**4 492 600**	4 250 019	4 411 925
Commonwealth specific purpose payments[(b)]			
Council of Australian Governments funding arrangements	**1 556 944**	1 523 338	1 590 453
Natural disaster relief and recovery arrangements	**13**	2 614	—
Total Commonwealth specific purpose payments	**1 556 957**	1 525 952	1 590 453
Commonwealth National Partnership payments[(c)]			
Concessions to pensioners and others	**25 354**	24 573	24 573
First Home Owners Boost	**655**	10 912	10 912
Regulation and Competition Reform	**14 725**	—	—
Health Reform	**3 442**	70 623	—
Digital Regions Initiative	**—**	612	—
Total Commonwealth National Partnership payments	**44 176**	106 720	35 485

(a) Taxes akin to state taxes are levied on activities conducted on Commonwealth places under the authority of Commonwealth mirror tax legislation. Revenue is retained by the state.

(b) Refers only to those Commonwealth specific purpose payments paid to the Consolidated Account.

(c) Refers only to National Partnership payments that are paid to the Consolidated Account. The remainder of National Partnership payments are paid into the Intergovernmental Agreement on Federal Financial Relations special deposit account for subsequent disbursement to the relevant line agencies.

Table C.3: Estimates of receipts (continued)

	2011–12 Budget $000	2010–11 Estimated Result $000	2010–11 Budget $000
Contributions from state undertakings			
Arrangements with private electricity entities			
Local government rate equivalent	**220**	214	214
Defence SA			
Local government rate equivalent	**213**	213	213
Department for Transport, Energy and Infrastructure			
Income tax equivalent	**3 002**	3 002	3 002
Local government rate equivalent	**972**	949	824
ForestrySA			
Dividend	**28 431**	26 895	29 237
Income tax equivalent	**13 116**	13 370	13 503
Funds SA			
Local government rate equivalent	**191**	186	179
Generation Lessor Corporation			
Dividend	—	1 150	—
HomeStart Finance			
Dividend	**4 786**	5 087	9 173
Income tax equivalent	**2 564**	2 725	4 372
Land Management Corporation			
Dividend	**58 685**	18 627	49 602
Income tax equivalent	**14 169**	13 954	16 643
Local government rate equivalent	**657**	545	570
Lotteries Commission of South Australia			
Income tax equivalent	**7 060**	7 420	6 399
Local government rate equivalent	**5**	5	5
Public Trustee Office			
Dividend	**1 363**	1 371	1 808
Income tax equivalent	**721**	357	507
SA Water Corporation			
Dividend	**138 189**	167 540	104 456
Income tax equivalent	**91 220**	87 566	73 728
Local government rate equivalent	**1 437**	1 402	1 373
South Australian Asset Management Corporation			
Dividend	**20 100**	4 000	4 000
South Australian Government Employee Residential Properties			
Dividend	**1 706**	1 706	1 706
Income tax equivalent	**295**	236	1 462
South Australian Government Financing Authority			
Dividend	**8 200**	50 000	53 449
Income tax equivalent	**4 100**	18 100	8 488
South Australian Housing Trust			
Income tax equivalent	**—**	21 180	—
West Beach Trust			
Income tax equivalent	**437**	210	530
Total contributions from state undertakings	**401 839**	448 010	385 443

Table C.3: Estimates of receipts (continued)

	2011–12 Budget $000	2010–11 Estimated Result $000	2010–11 Budget $000
Fees and charges[d]			
Auditor-General's Department — fees for audit and other sundry receipts	**12 843**	12 529	12 529
Court fines	**36 417**	28 842	31 179
Court regulatory fees	**30 385**	26 194	27 136
Land and business regulations	**2 956**	2 894	2 894
Land Services regulatory fees	**169 350**	140 059	148 396
Guarantee fees	**89 238**	67 819	54 832
Infringement notice schemes — expiation fees	**100 904**	77 213	81 873
Small lotteries	**1 740**	1 692	1 412
Sundry fees	**32**	88	100
Total fees and charges	**443 865**	357 330	360 351
Recoveries			
Automotive assistance package	**900**	1 150	1 150
Child Abuse Protection program — Intrasector grants received	**200**	200	200
Contribution to the cost of private plated vehicles	**10**	10	10
Essential Services Commission of South Australia	**6 408**	5 526	5 468
Department for Transport, Energy and Infrastructure — indentured ports	**4 175**	3 471	4 071
Department for Water — Qualco Sunlands	**250**	250	250
Helicopter service — recovery of costs and sponsorships	**1 020**	2 040	1 020
Independent Gaming Corporation contribution to Gamblers Rehabilitation Fund	**2 000**	2 000	2 000
Industry Financial Assistance	**616**	—	—
Metropolitan Drainage Fund	**7**	15	7
National Tax Equivalent Program	**50**	50	50
Return of cash to Consolidated Account — cash alignment policy	**—**	96 556	—
Return of deposit account balances	**4 750**	13 490	12 919
Return of deposit account balances — superannuation	**30 000**	30 000	30 000
Sale of Government Gazette	**178**	170	170
Sundry recoupment	**138**	137	137
Unclaimed monies and personal property	**2 006**	1 992	2 562
Total recoveries	**52 708**	157 057	60 014
Royalties			
Department of Primary Industries and Resources	**202 748**	154 929	160 934
Total royalties	**202 748**	154 929	160 934

(d) Refers to only those fees and charges paid to the Consolidated Account.

Table C.3: Estimates of receipts (continued)

	2011–12 Budget $000	2010–11 Estimated Result $000	2010–11 Budget $000
Other receipts			
Interest			
Interest on investments	**116 281**	103 713	103 713
Interest recoveries from general government entities	**2 054**	2 589	2 571
Interest recoveries from non-commercial public trading enterprises	**15 896**	27 467	27 542
Interest recoveries from the private sector	**236**	186	54
Repayment of advances			
Administered items for the Department for Transport, Energy and Infrastructure	**209**	209	209
Department of Health	**1 140**	872	872
Department of Primary Industries and Resources	**1 694**	1 333	1 000
Minister for Education and Children's Services	**—**	1 500	—
Renmark Irrigation Trust	**—**	116	116
SA Country Arts Trust	**—**	—	20
South Australian Cricket Association	**85 000**	—	—
South Australian Housing Trust	**295 498**	193 270	193 270
South Australian Tourism Commission	**—**	50	50
West Beach Trust	**—**	2 716	—
Other repayments	**6**	—	—
Repayment of equity capital contributions			
Defence SA	**6 593**	1 910	7 427
South Australian Asset Management Corporation	**716**	—	—
Other			
Other recoveries	**264**	449	550
Sale of land and buildings	**77 861**	4 658	34 622
Total other receipts	**603 448**	341 038	372 016
Total Consolidated Account receipts	**11 553 169**	10 904 979	10 961 237

Appendix D: South Australian state public sector organisations

	General Government Sector	Public Non-Financial Corporations Sector	Public Financial Corporations Sector
Adelaide Cemeteries Authority		*	
Adelaide Convention Centre Corporation		*	
Adelaide Entertainments Corporation (trading as Adelaide Entertainment Centre)		*	
Adelaide Festival Centre Trust		*	
Adelaide Festival Corporation	*		
Adelaide Film Festival	*		
Adelaide and Mount Lofty Ranges Natural Resources Management Board	*		
Alinytjara Wilurara Natural Resources Management Board	*		
Art Gallery Board, The	*		
Attorney-General’s Department	*		
Auditor-General’s Department	*		
Australian Children’s Performing Arts Company (trading as Windmill Performing Arts)	*		
Bio Innovation SA	*		
Carrick Hill Trust	*		
Correctional Services, Department for	*		
Courts Administration Authority	*		
Dairy Authority of South Australia	*		
Defence SA	*		
Distribution Lessor Corporation		*	
Education Adelaide	*		
Education and Children’s Services, Department of	*		
Electoral Commission of South Australia	*		
Environment and Natural Resources, Department of	*		
Environment Protection Authority	*		
Essential Services Commission of South Australia	*		
Eyre Peninsula Natural Resources Management Board	*		
Families and Communities, Department for	*		
Further Education, Employment, Science and Technology, Department of	*		
Generation Lessor Corporation		*	
Government schools	*		
Health, Department of	*		
History Trust of South Australia	*		
HomeStart Finance			*
House of Assembly	*		
Independent Gambling Authority	*		

	General Government Sector	Public Non-Financial Corporations Sector	Public Financial Corporations Sector
Joint Parliamentary Services	*		
Justice, Department of	*		
Kangaroo Island Natural Resources Management Board	*		
Land Management Corporation		*	
Legislative Council	*		
Libraries Board of South Australia	*		
Lotteries Commission of South Australia (trading as SA Lotteries)		*	
Motor Accident Commission			*
Museum Board	*		
Northern and Yorke Natural Resources Management Board	*		
Olympic Dam Taskforce	*		
Outback Communities Authority	*		
Planning and Local Government, Department of	*		
Playford Centre	*		
Premier and Cabinet, Department of the	*		
Primary Industries and Resources, Department of	*		
Public Trustee		*	
Rail Commissioner		*	
RESI Corporation		*	
SACE Board of South Australia	*		
South Australia Police (SAPOL)	*		
South Australian Ambulance Service (SA Ambulance Service)	*		
South Australian Arid Lands Natural Resources Management Board	*		
South Australian Asset Management Corporation			*
South Australian Country Arts Trust	*		
South Australian Country Fire Service (CFS)	*		
South Australian Film Corporation	*		
South Australian Fire and Emergency Services Commission (SAFECOM)	*		
South Australian Forestry Corporation (trading as ForestrySA)		*	
South Australian Government Employee Residential Properties		*	
South Australian Government Financing Authority (SAFA)			*
South Australian Housing Trust		*	
South Australian Local Government Grants Commission	*		
South Australian Metropolitan Fire Service (MFS)	*		
South Australian Motor Sport Board		*	
South Australian Murray Darling Basin Natural Resources Management Board	*		
South Australian State Emergency Service (SES)	*		
South Australian Tourism Commission	*		
South Australian Water Corporation (trading as SA Water)		*	
South East Natural Resources Management Board	*		

	General Government Sector	Public Non-Financial Corporations Sector	Public Financial Corporations Sector
South Eastern Water Conservation and Drainage Board	*		
State Electoral Office	*		
State Governor's Establishment	*		
State Opera of South Australia	*		
State Procurement Board	*		
State Theatre Company of South Australia	*		
Superannuation Funds Management Corporation of South Australia (trading as Funds SA)			*
Trade and Economic Development, Department of	*		
TransAdelaide		*	
Transmission Lessor Corporation		*	
Transport, Energy and Infrastructure, Department for	*		
Treasury and Finance, Department of	*		
Venue Management, Office of	*		
Water, Department for	*		
West Beach Trust (trading as Adelaide Shores)		*	
WorkCover Corporation of South Australia			*
Zero Waste SA	*		
Changes since the 2010–11 Budget:			
New Entities created since previous budget:			
Olympic Dam Taskforce Established 18 November 2010 as an attached office to the Department of Primary Industries and Resources, the Taskforce was effective 1 December 2010.	*		

Appendix E: Tax expenditure statement

Overview

This statement provides a summary of tax expenditures incurred by the Government of South Australia in 2009–10 and 2010–11.

What are tax expenditures?

The term ‘tax expenditure’ refers to differential tax treatment where the difference constitutes a departure from the tax standard or benchmark.

Examples of tax expenditures can include revenue forgone from:

- tax exemptions
- reduced rates of taxation
- tax rebates or deductions
- deferral of the payment of tax liabilities.

Thus a tax expenditure is a reduction in tax revenue resulting from ‘preferential’ tax treatment. In practice, differentiating preferential tax treatment from tax differences that are integral to efficient revenue raising design is not always straightforward.

In the design of expenditure and revenue policy, governments observe various principles of fairness and equity. Such principles apply to decisions on taxation policies as well as decisions that underpin the direction of public expenditure. As a result, a number of differential tax treatments across a broad spectrum of taxpayers and particular activities may arise. Differential treatment afforded to certain taxpayers to achieve social and political objectives rather than tax design objectives constitutes a tax expenditure.

Why measure tax expenditures?

The immediate and direct impact of preferential tax treatment is to reduce the revenue yield from a given tax. In the absence of concessions and exemptions, governments would be able to support a higher level of government spending, or reduce the severity of their tax rates or, if expenditures and revenues remain unchanged, reduce their borrowing requirements.

The provision of preferential tax treatment is indisputably a cost to the budget and may also impose additional costs on non–favoured taxpayers. It is often a hidden cost. By explicitly publishing estimates of the magnitude of this preferential tax treatment, transparency is increased and the community is made more fully aware of the government’s fiscal priorities. The government should also be better placed to ensure that resources, in total, are committed to the areas that clearly reflect policy priorities.

Valuation of tax expenditures

Tax expenditures in this appendix are calculated according to the revenue forgone method, which involves applying the general structure of a tax to a tax base (that is, a group of people or activities) that is currently exempt from the tax or subject to concessional treatment.

This static approach does not take into account possible behavioural changes which may result from the removal of a tax concession, that is, the revenue forgone approach assumes that taxpayer behaviour will remain unchanged if concessions are removed. Therefore, tax expenditures measured using this approach are likely to be only a broad indication of actual revenue impacts and, more specifically, this approach is likely to overstate the actual revenue forgone as a result of an individual tax concession.

Some qualifications apply to the estimates contained in this statement. Aside from the absence of assumptions about behavioural responses, the estimates are in many cases approximations, reflecting data limitations and the use of proxy indicators to measure the size of revenue bases relevant to tax concessions.

Benchmark for measuring tax expenditures

Tax expenditures should be quantified by comparing the existing tax structure with a benchmark tax structure based entirely on taxation design principles. In practice, deciding on such a structure does involve some judgements. For example, the benchmark structure used for payroll tax is a flat tax at the current rate with no threshold. There is no particular merit in the current rate from the point of view of tax design but it has been adopted because it is the existing rate. Further, a zero threshold would probably not be desirable from a tax design point of view because the administrative costs of collecting revenue from very small employers might well exceed the revenue collected. However, for the sake of simplicity, a zero threshold has been adopted in this exercise.

Summary

The view has been taken that the extent of tax relief provided through the availability of exemptions, concessions, rebates and allowable deductions is sufficiently important to warrant documentation even if:

- the benchmark against which the tax expenditure is assessed could be argued to be imperfectly defined
- the measurement of those imperfectly defined expenditures is also subject to qualification
- the value of many tax expenditures cannot be quantified.

Many tax expenditures have not been able to be quantified. In particular, there are a large number of exemptions from stamp duties that are not reflected in the estimates due to a lack of information on the size of the affected tax bases. Similarly, a number of exemptions relating to some payroll tax exemptions have not been quantified. As such, the aggregate total of the estimates contained in Table E.1 does not represent the total value of assistance provided by tax expenditures.

The largest tax expenditures are the payroll tax threshold exemption and the land tax exemptions for the principal place of residence and primary production.

The following is a brief summary of the individual tax expenditures quantified.

Payroll tax

Total quantified tax expenditures relating to payroll tax for 2010–11 ($654 million) represent 68 per cent of payroll tax revenue collections (excluding general government collections). This represents an increase of $57 million from 2009–10.

The largest payroll tax expenditure relates to the tax–free threshold. Payroll tax is levied on wages paid by employers and is applied at a rate of 4.95 per cent above an annual threshold of $600 000. The threshold exemption results in a large number of small businesses not being liable for payroll tax. In addition, those businesses that are liable for payroll tax do not have tax liabilities in respect of annual wages below the threshold.

It is estimated that the tax revenue forgone as a result of the existence of the threshold is $420 million for 2010–11 for private sector employers. This comprises $278 million in revenue forgone from small businesses that are not liable for payroll tax, and $142 million in respect of employers who are liable for payroll tax but benefit from not paying tax on annual wages up to the applicable threshold.

Several other groups of taxpayers are exempt from payroll tax liabilities, many of which have not been able to be quantified in terms of tax expenditures. Of those that have been calculated, the largest tax expenditure relates to the exemption for public hospitals, which is estimated to amount to $105 million in 2010–11. Other expenditures include local government councils ($26 million), non–profit schools ($15 million) and non–profit hospitals and providers of health services ($24 million).

The government also offers schemes whereby businesses can claim payroll tax rebates for certain activities. The cost of the payroll tax exporter rebate in 2010–11 is estimated to be $11 million. In the 2010–11 Budget, the government announced that the payroll tax exporters rebate scheme will be phased out, with the scheme to be abolished from 1 July 2013. The trainee rebate scheme was abolished from 1 July 2010 and replaced with a payroll tax exemption for the wages to apprentices and trainees ($31 million). Due to the timing of trainee rebate claims, which are made in arrears, there is a cost for the trainee rebate in 2010–11 ($9 million). During 2010–11 a new payroll tax rebate was offered by the government, rebating the payroll tax attributable to labour associated with the direct construction of new, large scale renewable energy projects ($4 million).

Stamp duties

Stamp duties apply to a range of transactions including conveyances, insurance and motor vehicle registration. There are a large number of exemptions contained in stamp duty legislation, many of which cannot be quantified. The total tax expenditure in 2010–11 for stamp duties ($45 million) is equivalent to 3 per cent of gross stamp duty revenues. The total cost of stamp duty expenditures has increased by $13 million from 2009–10 primarily as a result of an increased number of transactions that qualify for corporate reconstruction relief.

Conveyance duty tax expenditures amount to $25 million in 2010–11. The stamp duty exemption for family farm transfers is estimated to cost $8 million in 2010–11. Stamp duty relief for corporate reconstructions is estimated to cost $14 million in 2010–11 compared to $4 million in 2009–10. General remissions are expected to cost $3 million in 2010–11.

Approximately $20 million of stamp duty tax expenditures in 2010–11 relate to exemptions given in respect of the $60 stamp duty fee payable on the combined renewal certificate for vehicle registration and compulsory third party insurance. Of this, an estimated $13 million relates to concessions provided to pensioners and state concession cardholders. The balance mainly relates to conditionally registered vehicles (for example historic and left hand drive vehicles, special purpose vehicles such as fork lifts, tractors, self propelled farm implements and mobile cranes), government vehicles registered under the Continuous Government Registration Scheme and vehicles owned by councils.

Land tax

Total land tax expenditures are estimated to be $964 million in 2010–11. This represents 169 per cent of land tax collections (including from government).

Land tax is calculated on the aggregate taxable value of all land held by a person as at 30 June preceding the assessment year. No tax is payable if the total taxable value of all land is less than the tax–free threshold level. The tax–free threshold was $110 000 in 2009–10 and was increased to $300 000 on 1 July 2010. A marginal tax rate structure applies above this threshold; with increasing marginal tax rates applied as the value of landholdings increases.

Growth in land tax expenditures between 2009–10 and 2010–11 is impacted by the increase in the tax–free threshold to $300 000 in 2010–11. The cost of the tax–free threshold is calculated by reference to the bottom marginal tax rate applying at the time. As part of the land tax relief measures introduced in 2010–11, the bottom marginal tax rate was increased from 0.3 per cent to 0.5 per cent. This also contributes to the higher cost of the tax–free threshold in 2010–11.

The 2010–11 tax expenditures associated with land tax include:

- the tax–free threshold — estimated to cost $173 million
- the principal place of residence exemption (provided the land is owned by a natural person as distinct from a corporate body) — estimated to cost $255 million. The cost of the principal place of residence exemption has fallen in 2010–11 because of the application of the higher tax–free threshold. A substantial number of principal places of residence have a land value less than the new tax–free threshold ($300 000 from 1 July 2010) and tax which would be payable is reduced for properties above $300 000
- the primary production exemption (provided it meets certain criteria) — estimated to cost $398 million
- the for–profit aged care facilities exemption — estimated to cost $1.5 million
- other specific exemptions provided in sections 4 and 5 of the *Land Tax Act 1936*. Exempt categories include caravan parks, residential parks, supported residential facilities, land used for religious purposes, state subsidised hospitals, libraries, parklands, conservation of native flora and fauna, sporting activities and so on. The cost of these exemptions amounts to approximately $135 million in 2010–11.

Gambling taxes

Tax expenditures for gambling taxes arise from the gambling tax–free threshold and the differential tax treatment of non–profit venues and hotels.

In South Australia, for hotels, gambling tax is levied on net gambling revenue above an annual threshold of $75 000. Non–profit venues are subject to a tax structure that is relatively less severe than that applicable to hotels.

In 2010–11, it is estimated that the revenue foregone as a result of the existence of the tax–free threshold is $11 million. The benefit to non–profit venues of the tax differential is estimated to be $9 million in 2010–11. The combined costs of gambling tax expenditures represent approximately 5 per cent of gambling tax collections in 2010–11.

Save the River Murray Levy

The Save the River Murray Levy was introduced to fund specific measures aimed at improving the long–term security and quality of South Australia's water supply.

The levy is imposed at a flat rate on SA Water customers and is indexed annually to movements in the Adelaide Consumer Price Index. Consideration of the impact the levy would have on different sections of the community was taken into account before the introduction of the levy. To relieve the burden of the levy, eligible pensioners and low income earners are exempt from the levy. This exemption amounts to an estimated tax expenditure of $5.3 million in 2010–11, or 21 per cent of revenue raised from the Save the River Murray Levy.

Primary producers who own land that is not contiguous, but is farmed as a single farming enterprise, are allowed to amalgamate their Save the River Murray Levy liabilities in certain circumstances. This limits their Save the River Murray Levy liability to the non–residential charge applicable on one property. However, it is not possible to quantify expenditure for this exemption.

Emergency services levy

The emergency services levy (ESL) was originally intended to provide a comprehensive method of funding emergency services by raising sufficient funds from property holders to support aggregate expenditure on emergency services. In practice, property owners (fixed and mobile) now collectively contribute over half of the total levy proceeds. The remaining levy proceeds are provided by government in the form of remissions, pensioner concessions and the levy payable on the government's own property. The tax expenditure costings measure the difference between standard levy rates and post–remission levy rates which vary depending on land use code and location (for fixed property) and by class of vehicle (for mobile property).

The ESL is a complex tax with differential rates of levy on land use types and regions. The motivation for the differential levy rates lies in a desire to achieve some alignment with relative risk of property types, the value of the service provided (related to property value) and regional variation in service levels. A remission of the variable property value element of the ESL effectively shifts the balance of the ESL revenue to the flat dollar amount per property.

Growth in tax expenditures

The cost of tax expenditures has increased in 2010–11 mainly in respect of:

- land tax — primarily reflecting changes to the tax–free threshold between 2009–10 and 2010–11
- payroll tax — reflecting, in large part, the introduction of an exemption for wages paid to trainees and apprentices from 1 July 2010.

Table E.1: Summary of tax expenditures

Tax expenditures ($m)	2009–10[(a)]	2010–11
Payroll tax		
Threshold exemption	418.9	419.6
<u>*of which:*</u>		
benefit to existing taxpayers with payrolls above the threshold	*127.8*	*141.9*
benefit to employers with payrolls below the threshold	*291.1*	*277.6*
Firm specific relief	1.1	0.3
Public benevolent institutions and not-for-profit charitable organisations	9.3	9.8
Public hospitals exemption	100.6	104.5
Non-profit schools or colleges at or below secondary level	14.0	14.5
Non-profit hospital and health providers exemption[(b)]	14.1	24.1
Child care centres	0.2	0.2
Local government council exemption	24.8	26.4
Assistance for motion picture production companies	<0.1	0.1
Apprentices and trainee exemption	—	31.0
Trainee rebate[(c)]	7.8	9.4
Export rebate	6.2	11.0
Renewable energy rebate	—	3.6
General remissions	0.3	—
Total for payroll tax	**597.4**	**654.4**
Stamp duties		
Conveyance duty		
Family farm exemption	7.9	8.3
Corporate reconstruction relief	3.8	14.4
Inner city housing rebate	0.3	0.1
General remissions	1.5	2.6
Stamp duty on renewal certificate for motor vehicle registration and compulsory third party insurance (CTP) — exemptions for:		
The Crown and vehicles registered under the Continuous Government Registration Scheme	1.1	1.2
Hire vehicles with more than 12 seats	0.1	0.1
Councils	0.3	0.3
Conditionally registered vehicles	4.6	4.9
Incapacitated ex-servicemen and other persons	0.2	0.2
Pensioner and state concession card holders	12.4	13.1
Stamp duty on motor vehicle registrations		
General remissions	0.1	0.1
Total for stamp duties	**32.1**	**45.3**

Table E.1: Summary of tax expenditures (continued)

Tax expenditures ($m)	2009–10[(a)]	2010–11
Land tax[(d)]		
Threshold exemption	52.2	172.9
Principal place of residence exemption	320.1	255.3
Primary production exemption	376.7	398.5
Caravan parks and residential parks exemption	1.3	1.3
Supported residential facilities exemption	0.3	0.4
For-profit aged care facilities	1.4	1.5
Other exemptions[(e)]	122.9	133.8
Total for land tax	**874.9**	**963.6**
Gambling taxes		
Threshold exemption	10.8	10.8
Differential treatment of non-profit businesses	8.4	8.7
General remissions	<0.1	<0.1
Total for gambling taxes	**19.2**	**19.5**
Other taxes on property		
Save the River Murray Levy		
Pensioner concessions	4.9	5.3
Emergency services levy		
Pensioner concessions	6.2	6.5
General remissions		
Fixed property	80.1	78.1
Mobile property	10.7	11.3
Total for other taxes on property	**101.9**	**101.2**

Note: Totals may not add due to rounding.

(a) Costing of specific exemptions for 2009–10 may differ from those published in the 2010–11 Budget reflecting new data.

(b) The increased cost in 2010–11 is consistent with current employee data from WorkCover for non–profit hospitals and health providers.

(c) 2009–10 and 2010–11 costs include prior year adjustments.

(d) Comparisons of land tax expenditure between 2009–10 and 2010–11 are particularly impacted by land tax relief provided in 2010–11 including the increase in the tax–free threshold from $110 000 to $300 000.

(e) Includes a wide range of exemptions provided to land used for a number of specific activities under section four of the *Land Tax Act 1936*. Some of these include land used for religious purposes, state subsidised hospitals, libraries, parklands, conservation of native flora and fauna, sporting activities and so on.

Appendix F: Local government finances

Table F.1 below sets out arrangements by program or purpose under which the state provides grants and subsidies to councils (including for state programs) or payments to councils for local government or joint state-local government programs. Amounts included in the table do not include funding that is provided by the Commonwealth to the state and on-passed to local government or contract payments to councils for the provision of services on behalf of state agencies. Care needs to be taken in any comparison of the level of state government financial support to councils provided in different state jurisdictions. Significant definitional differences exist between the states and the level of information captured within each varies. In addition, certain funding in some states relates to functions that in general are not performed by South Australian councils.

In an appendix to the 2010–11 Budget Statement, a high level analysis of the local government sector's overall financial performance and position was provided. That analysis was based on financial data assembled from all councils. When new data becomes available, a similar analysis will be published on the website of the Office for State/Local Government Relations <www.localgovt.sa.gov.au> along with information about the financial relationships local government has with both the Commonwealth and the state government.

Table F.1: Specific purpose payments from the state to local government ($000)

Program/purpose	2010–11 Estimated Result	2011–12 Budget
Attorney-General		
Campbelltown Leisure Centre Redevelopment	—	3 000
Club Development Program	20	—
Community Recreation and Sport Facilities Program	1 678 [(a)]	— [(b)]
Crime Prevention and Community Safety Grants Program	186 [(a)]	— [(b)]
National Youth Week and youth advisory committees	302	300
Statewide Recreation and Sport Enhancement Program	283 [(a)]	220 [(b)]
Emergency Services—SAFECOM		
Natural Disaster Resilience Program	750 [(a)]	— [(b)]
Environment and Natural Resources		
Adelaide City Parklands Grant	1 356	1 390
Coast Protection Board grants	340	340
Metropolitan council coast protection works	—	— [(b)]
Native Vegetation Fund	203 [(a)]	— [(b)]
One Million Trees	222 [(a)]	— [(b)]
Environment Protection		
Environment Protection Fund	31	31
Families and Communities		
Council rate concessions	33 500	33 800
Family and Community Development Program	824	851
Home and Community Care Program	6 644	6 688
Support for disability services	401	420
Further Education, Employment, Science and Technology		
Adult Community Education Program	665 [(a)]	670 [(a)]
TAFE SA—learning resource centres	946	944
Health		
Drug and Alcohol Services Program	501	550

continued

Table F.1: Specific purpose payments from the state to local government ($000) (continued)

Program/purpose	2010–11 Estimated Result	2011–12 Budget
Planning and Local Government		
European Wasp Program	23	70
Grants for 'regional open space' and the public realm	11 451 (a)	7 792 (b)
Premier and Cabinet		
Cultural Facilities Program, Public Art Program and sundry grants	137 (a)	110 (b)
Community Arts Development Program	31 (a)	56 (b)
Out of the Square Theatre Program	150	150
Public library services	17 359	17 667
Primary Industries and Resources		
Contribution to administration of Municipal Council of Roxby Downs	300	— (b)
Trade and Economic Development		
Upper Spencer Gulf and Outback Enterprise Zone Fund	— (a)	— (b)
Transport, Energy and Infrastructure		
Greenways and Cycle Paths Program	—	— (b)
Regional Roads Program	250	—
Remote Aerodrome Safety Program	259	—
State Bicycle Fund	431 (a)	431 (a)
State Black Spot Program — Safer Local Roads	1 561	2 712
Subsidy of electricity provision at Coober Pedy	5 506	1 956 (b)
TravelSmart SA Program	120	120
Treasury and Finance		
Community wastewater management systems	3 539	3 627
Local Government Disaster Fund	4 358	1 392
Regional Development Infrastructure Fund	364 (a)	500 (b)
Rural Town Development	497 (a)	—
Water		
Adelaide stormwater projects	2 578	6 654
Port Pirie Stormwater Feasibility Study	470	—
Stormwater Management Fund	4 415	4 525
Zero Waste		
Kerbside Performance Incentives Program	695	1 100
Problematic waste initiatives	260	500
Regional Implementation Program	406	807
Resource Efficiency Assistance Program — local government	91	100
Total	**104 103**	— (c)

(a) The portion of funding for the program(s) which was allocated to local government, or which is estimated will be allocated.

(b) Total program funding for local government not yet determined or is dependent on the success of applications under a competitive grants process.

(c) When allocations for all programs are finalised, funding for local government in excess of $105 million can be expected in 2011–12.

Glossary of terms used in the budget statement

Assets: Resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Balance sheet: A statement showing the financial position (at a specific time) of a reporting entity in terms of its recognised assets, liabilities and equity at the end of a reporting period.

Cash flow statement: A statement showing the inflows and outflows of cash and cash equivalents of a reporting entity during the reporting period. Cash flows are classified as operating, investing and/or financing activities.

Consolidated Account: The government's main operating account, from which appropriations are paid and revenues of the state are credited, created pursuant to the *Public Finance and Audit Act 1987*.

Consumer Price Index (CPI): A general indicator of the rate of change in prices paid by households for consumer goods and services published by the Australian Bureau of Statistics (ABS).

Contingent asset: A possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the entity.

Contingent liability: A possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the entity; or a liability that does not meet the recognition criteria.

Financial reports: Financial reports for the various sectors of the public sector are also produced in accordance with the *Uniform Presentation Framework*. These are the operating statement, balance sheet and cash flow statement.

General government: The sector of government that includes all government agencies that provide services free of charge or at prices significantly below the cost of production or provide regulatory services.

GFS transactions: Changes to assets, liabilities and equity that arise from mutually agreed interactions between entities.

Government Finance Statistics (GFS): Statistics that measure the financial activities of governments and reflect the impact of those activities on other sectors of the economy. GFS is based on international statistical standards.

Government Purpose Classification: A system used to classify expenses and net acquisition of non-financial assets of the public sector in terms of the purposes for which the transactions are made.

Gross Domestic Product (GDP): The total market value of all final goods and services produced within a country in a given period after deducting the cost of goods and services used up in the process of production, but before deducting allowances for the consumption of fixed capital. It is an indicator of the level of economic activity in the market sector, and percentages changes in it are used as a measure of a country's rate of economic growth.

Gross State Product (GSP): The total market value of goods and services produced within a state in a given period after deducting the cost of goods and services used up in the process of production, but before deducting allowances for the consumption of fixed capital.

Horizontal fiscal equalisation (HFE): The principle underlying the Commonwealth Grants Commission's assessment of per capita relativities, which are the basis for the interstate distribution of general revenue grants. Under this principle, grants are distributed so as to give each state and territory the capacity to provide public services at an average standard and level of efficiency, for comparable revenue effort.

Income (revenue): Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contribution by owners.

Income tax equivalent(ITE): Payments equivalent to income tax that certain public authorities or business units (if a legal entity) would be liable to pay under the Commonwealth's *Income Tax Assessment Act 1997*, were that public authority or business unit (if a legal entity) not an instrumentality of the Crown in right of the State of South Australia.

Investment expenditure: Comprises projects and programs that result in the capitalisation of assets on the balance sheet. They include the acquisition and construction of, or addition to non-current assets, including property, plant and equipment and other productive assets. Examples include roads, hospitals, medical equipment and schools.

Liabilities: Present obligations arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Net debt: The sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Net financial liabilities: Total liabilities less financial assets, other than equity in non-financial public corporations and in public financial corporations. This measure is broader than net debt as it includes significant liabilities other than borrowings, such as unfunded superannuation and long service leave entitlements.

Net financial worth: Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus liabilities. It differs from net financial liabilities in that equity in non-financial public corporations and public financial corporations are included as assets.

Net lending/borrowing position: A GFS measure of the net operating balance, less acquisition of non-financial assets, plus consumption of fixed capital (depreciation). Measures the extent to which accruing operating expenses (less depreciation) and investment expenditures are funded by revenues.

Net operating balance: A GFS measure of the operating result of a sector of government. It is the excess of GFS revenue over GFS expenses.

Net worth: Net worth is calculated as total assets (both financial and non-financial) minus total liabilities, shares and other contributed capital. Net worth incorporates a government's non-financial assets, such as land and other fixed assets, as well as financial assets and liabilities not captured by the net debt measure, most notably accrued employee superannuation liabilities, debtors and creditors.

Non-financial public sector: The consolidation of the general government sector and public non-financial corporations sector.

Operating expenses: A decrease in economic benefits during the accounting period in the form of outflows or depletion of assets or incurrence of liabilities that result in decreases of equity other than those relating to distributions to owners.

Operating statement: The financial statement disclosing all income and expenses (and their sources) of a reporting entity recognised in the reporting period unless an accounting standard requires otherwise.

Other economic flows: Changes to assets, liabilities and equity that are not the result of GFS transactions.

Public financial corporation (PFC): Government controlled entity that is mainly engaged in financial intermediation or the provision of auxiliary financial services.

Public non-financial corporation (PNFC): Government controlled entity that is mainly engaged in the production of market goods and/or non-financial services, which recovers a significant portion of its costs through user charges.

Real terms: Estimates of financial aggregates in real terms reflect adjustments made in order to take account of the impact of rising prices on the purchasing power of money. Throughout this budget paper, reference is made to real term aggregates and growth rates. All real terms calculations use the Adelaide CPI, unless specifically stated otherwise.

Sector: An Australian Bureau of Statistics national accounting concept used to group entities with similar economic characteristics. Sectors comprising the public sector are general government, public non-financial corporations and public financial corporations.

State Final Demand (SFD): A measure of spending in a state economy. The estimate obtained by summing government final consumption expenditure, household final consumption expenditure, private gross fixed capital formation and the gross fixed capital formation of public corporations and general government.

Unfunded superannuation liability: The amount by which the liabilities of a superannuation scheme or schemes, (measured as the present value of expected future superannuation benefits that have accrued to members), at the reporting date exceeds the value of assets held by the superannuation scheme or schemes to meet those benefits.

Uniform presentation framework (UPF): The reporting framework agreed by the Commonwealth, state and territory governments, to ensure all governments provide a common ‘core’ of financial information in their budget papers (refer to Appendix A).

Abbreviations used in the budget statement

AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
CGC	Commonwealth Grants Commission
COAG	Council of Australian Governments
CPI	Consumer Price Index
CSO	community service obligation
CTP	compulsory third party
ESL	emergency services levy
FTE	full-time equivalent
GDP	Gross Domestic Product
GFC	global financial crisis
GFS	Government Financial Statistics
GP	general practitioner
GSP	Gross State Product
GST	Goods and Services Tax
HFE	horizontal fiscal equalisation
IGA	Intergovernmental Agreement
IMF	International Monetary Fund
ITE	income tax equivalent
LCA	Loan Council Allocation
MCFFR	Ministerial Council for Federal Financial Relations
MYBR	Mid-Year Budget Review
NDIR	Natural Disaster Insurance Review
NP	National Partnership
NPV	net present value
NRM	natural resources management
NWI	National Water Initiative
PFC	public financial corporation

PNFC	public non-financial corporation
PPP	public private partnership
SAAMC	South Australian Asset Management Corporation
SAFA	South Australian Government Financing Authority
SAFECOM	South Australian Fire and Emergency Services Commission
SAHT	South Australian Housing Trust
SAICORP	South Australian Government Captive Insurance Corporation
SFD	State Final Demand
SGIC	State Government Insurance Commission
SPP	specific purpose payment
Triple S	Southern State Superannuation
TVSP	targeted voluntary separation package
UPF	uniform presentation framework
VET	vocational education and training

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