Report of the Auditor-General

Auditor-General's Department

Report 3 of 2022

Consolidated Financial Report review

Government of South Australia

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Delivered to the President of the Legislative Council and the Speaker of the House of Assembly on 4 April 2022 and published on 6 April 2022 pursuant to section 38(2)of the *Public Finance and Audit Act 1987*

The Auditor-General's Department acknowledges and respects Aboriginal people as the State's first people and nations, and recognises Aboriginal people as traditional owners and occupants of South Australian land and waters.

Auditor-General's
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4 April 2022

President
Legislative Council
Parliament House
ADELAIDE SA 5000

Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Dear President and Speaker

Report of the Auditor-General:
Report 3 of 2022 *Consolidated Financial Report review*

As required by the *Public Finance and Audit Act 1987*, I present to each of you Report 3 of 2022 *Consolidated Financial Report review*.

Content of the report

The 2020-21 Consolidated Financial Report was published in February 2022. It fulfils the SA Government's consolidated financial reporting obligations under Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. It reports the SA Government's actual financial performance and position for the year.

Our review of the Consolidated Financial Report did not identify any material misstatements or control deficiencies. We did identify an opportunity to improve the way financial information is classified in preparing the Consolidated Financial Report.

There is no requirement under the *Public Finance and Audit Act 1987* or any other legislation to provide an audit opinion on the Consolidated Financial Report, so I have not issued one.

Acknowledgements

The audit team for this Report was Daniel O'Donohue and Bill Sierros.

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

Yours sincerely

Andrew Richardson
Auditor-General

Contents

1 Executive summary

1.1 Introduction

This Report provides our observations on the 2020-21 Consolidated Financial Report (CFR), in particular:

- the purpose of the CFR
- highlights of the CFR
- an overview of the CFR reporting frameworks
- the findings of our review of controls over the preparation of the CFR
- an analysis of the State's actual financial performance and financial position.

The CFR fulfils the SA Government's consolidated financial reporting obligations under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. It reports the SA Government's actual financial performance and position for the year. The 2020-21 CFR was published on the Department of Treasury and Finance (DTF) website in January 2022.[1]

The CFR incorporates both the whole of government financial report and the financial report of the general government sector.

The whole of government financial report gives a consolidated picture of the financial relationship between the SA Government as a whole and the 'rest of the world'. The whole of government reporting entity comprises the general government, public non-financial corporation (PNFC) and public financial corporation (PFC) sectors. The nature and activities of these sectors are explained further in section 2.

In preparing the whole of government financial report, transactions between the general government sector, PNFCs and PFCs are eliminated.

The State Budget focuses on the activity of the general government sector rather than the whole of government, but includes general government sector interactions with the PNFC and PFC sectors such as dividend receipts and community service obligation payments.

We provide commentary on the 2021-22 State Budget in Auditor-General's Report 15 of 2021 *State Finances and related matters*.

1.2 Conclusion

Our review of the CFR did not identify any material misstatements or control deficiencies. We did identify an opportunity to improve the way financial information is classified in preparing the CFR, outlined in section 1.4 of this Report.

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1 *Consolidated Financial Report 2020-21*, <www.treasury.sa.gov.au/budget/current-budget/previous-budgets/budget-2020-21>, viewed January 2022.

There is no requirement under the *Public Finance and Audit Act 1987* or any other legislation to provide an audit opinion on the CFR, so I have not issued one.

1.3 Key overall observations

1.3.1 The whole of government reported a $1.441 billion net operating balance deficit for 2020-21, compared to a $2.067 billion deficit last year

The $626 million improvement was due mainly to higher GST and capital grants from the Commonwealth Government and higher taxation revenue, offset by a higher use of goods and services.

1.3.2 The whole of government reported a net lending deficit of $2.849 billion in 2020-21, up from $2.624 billion in 2019-20

The $225 million increase in the net lending deficit reflects an $851 million increase in the net acquisition of non-financial assets, offset by the $626 million decrease in the net operating balance deficit.

1.3.3 The State is heavily reliant on Commonwealth grant revenue

Grant revenue was the largest revenue stream for the State, representing 52% of total revenue in 2020-21. Section 4.4.4 provides detail on trends in grant revenue.

1.3.4 While the State's total assets and liabilities both increased in 2020-21, total assets increased by $3.3 billion more than total liabilities

Total assets increased by $11.9 billion (9%) to $144.4 billion, while total liabilities increased by $8.6 billion (10%) to $97.4 billion. Section 4.2.1 provides further detail on this $3.3 billion increase in net worth.

Total assets increased mainly due to:

- an $8.789 billion (32%) increase in other equity investments, which includes superannuation investment assets managed by the Superannuation Funds Management Corporation of South Australia (Funds SA)
- a $3.04 billion (5%) increase in buildings and structures, mainly as a result of additions/ capitalised expenditure.

The increase in total assets was partially offset by a $1.154 billion (33%) decrease in cash and deposits.

Total liabilities increased mainly due to:

- a $6.812 billion (21%) increase in superannuation fund deposits owed to members, which was mainly a result of strong investment performance by Funds SA

- a $3.811 billion (13%) increase in borrowings
- a $1.235 billion (20%) increase in provisions.

The increase in total liabilities was partially offset by a $2.886 billion (23%) decrease in unfunded superannuation liabilities.

Sections 5.1.2 and 5.1.3 provide further detail on the main movements in assets and liabilities from the prior year.

1.3.5 Matters reflected in Independent Auditor's Reports for government agencies in 2020-21 included inherent uncertainty in some liabilities of the Return to Work Corporation of South Australia and the Lifetime Support Authority of South Australia

As noted in section 1.2, we do not provide an audit opinion on the CFR. However, we provided a management letter summarising the results of our review to DTF in February 2022. It included the agency specific audit matters we identified that would impact on the audit opinion for the CFR, if we provided one.

I noted in the letter that, while I had not modified my Independent Auditor's Reports for the Return to Work Corporation of South Australia (RTWSA) and the Lifetime Support Authority of South Australia (LSA) for 2020-21, I drew attention to the inherent uncertainty associated with their care, support and claims liabilities.

1.4 What we recommended

We issued a management letter to DTF's Chief Executive in February 2022 recommending that the South Australian Government Employee Residential Properties (SAGERP) balances are correctly reported in the general government sector for future CFR reporting.

1.5 Response to our recommendations

DTF's response to our management letter indicated that SAGERP balances will be reported in the general government sector from 1 July 2022.

DTF also advised us that 2020-21 CFR balances will not be restated for the change in SAGERP sector classification, due to the immaterial nature of SAGERP balances and the operational complexities of restating balances.

2 Background

AASB 1049 requires governments to prepare whole of government and general government sector financial reports.

The South Australian CFR for the year ended 30 June 2021 was prepared by DTF under AASB 1049 and includes both whole of government and general government sector financial reports.

The whole of government reporting entity includes the general government sector, PNFCs and PFCs. The general government sector financial report reflects that sector's transactions with PNFCs, PFCs and non-SA Government sector entities.

The three government sectors are defined as follows:

- General government – all budget dependent departments and agencies providing services free of charge or at prices below their cost of production or service cost. These are the services that tend to be primarily financed through taxes and other charges, and for this reason this sector tends to be the focus of fiscal targets.
- PNFCs – trading enterprises mainly engaged in producing goods and services for sale in the marketplace at prices that aim to recover most or all of the costs involved. In South Australia this sector includes the South Australian Housing Trust (SAHT) and South Australian Water Corporation (SA Water).
- PFCs – bodies primarily engaged in providing financial services. This includes financial institutions such as the South Australian Government Financing Authority (SAFA), HomeStart Finance and Funds SA.

A list of the entities controlled by the SA Government and the sector they are in is provided in note 10.8 of the CFR.

In arriving at a consolidated result in the whole of government financial report, transactions between all government controlled entities are eliminated to present a consolidated picture of the financial relationship between the SA Government as a whole and the 'rest of the world'.

AASB 1049 requires financial reports to be prepared consistent with the principles and rules established by the Australian Bureau of Statistics (ABS).[2] However, it is important to note that some technical differences remain between AASB 1049 and the Uniform Presentation Framework based on ABS Government Finance Statistics principles. An explanation of the differences as they impact each of the key fiscal aggregates is provided in note 10.2 of the CFR.

[2] *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, Australia, 2015, ABS (Publication 5514.0).

3 Audit mandate, objective and scope

3.1 Our mandate

The Auditor-General has authority to review controls over the preparation of the CFR under section 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*.

3.2 Our objective

The objective of this Report is to provide commentary and analysis on:

- the actual financial performance and position of the whole of government
- the controls over the preparation of the 2020-21 CFR.

There is no requirement under the *Public Finance and Audit Act 1987* or any other legislation to provide an audit opinion on the CFR, so I have not issued one.

I do, however, consider it valuable and consistent with wider public expectation that we review the credibility and validity of the financial information in the CFR.

The CFR is the only report that presents the consolidated activity of all government sectors. It presents a picture of the financial relationship between the SA Government as a whole and the 'rest of the world'.

Auditor-General's Report 15 of 2021 *State Finances and related matters* provides commentary on the 2021-22 State Budget estimated results of the general government sector.

3.3 What we reviewed and how

Our review in 2020-21 covered:

- the principles adopted in defining the economic entity for the purposes of CFR reporting
- DTF's controls and procedures for evaluating the reliability and validity of financial data provided by agencies
- processes for preparing the CFR
- compliance with legislation and accounting frameworks.

Our review also included sample testing to ensure that financial data provided by agencies for inclusion in the CFR was consistent with their audited financial statements, and evaluating the accounting policies and significant accounting estimates unique to the CFR.

4 2020-21 Consolidated Financial Report financial performance

Key points

- The whole of government reported a $1.441 billion net operating balance deficit for 2020-21, compared to a $2.067 billion net operating balance deficit in the prior year.
- The State's net worth increased by $3.296 billion, mainly because of the revaluation of defined benefit superannuation plans, financial assets and liabilities at fair value and non-financial assets, offset by the large net operating balance deficit.
- There was an $878 million difference between the whole of government and general government sector 2020-21 net operating balances because the CFR consolidates transactions in all sectors and eliminates inter-sector transactions.
- Grants are a key revenue stream, representing 52% of total whole of government revenue in 2020-21.
- Employee expenses were the largest component of expenditure in 2020-21, representing 37% of total expenditure.
- The whole of government reported a net lending deficit of $2.849 billion in 2020-21, compared to a net lending deficit of $2.624 billion in the prior year.

4.1 Net operating balance

4.1.1 The net operating balance has varied significantly over the past two years

The net operating balance in the Statement of Comprehensive Income is calculated as revenue from transactions less expenses from transactions. It is a summary measure of the ongoing sustainability of operations and excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

The whole of government reported a $1.441 billion net operating balance deficit for 2020-21, compared to a $2.067 billion net operating balance deficit for 2019-20.

Figure 4.1 shows the whole of government and general government net operating balances for the past five years.

Figure 4.1: Net operating balances

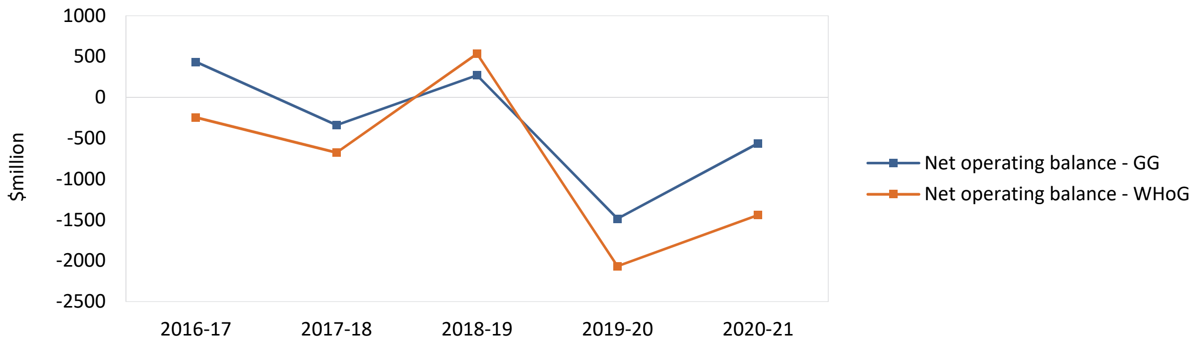


Figure 4.1 shows that apart from 2018-19 and 2020-21, there has been a trend of increasing deficits across the five years. The significant net operating balance deficit in 2019-20 includes the impact of the start of the COVID-19 pandemic. Section 4.4 provides further detail about changes in revenue and expenditure.

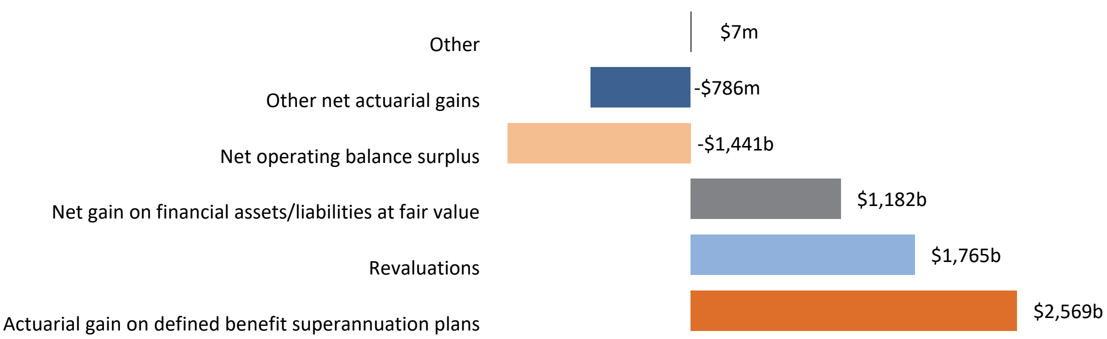
The $626 million decrease in the whole of government net operating balance deficit in 2020-21 was less than the $922 million decrease in the general government sector net operating balance deficit over the same period. The $296 million variance reflects increases in PNFC ($43 million) and PFC ($375 million) net operating balance deficits and a $121 million decrease in consolidation eliminations (refer to note 10.1 of the CFR).

4.2 Total change in net worth

4.2.1 The State's net worth increased by $3.296 billion, mainly because of an increase in the value of defined benefit superannuation plan assets and the revaluation of non-financial assets, offset by the large net operating balance deficit

Figure 4.2 shows the drivers for the $3.296 billion increase in net worth in 2020-21 for the whole of government in the Statement of Comprehensive Income.

Figure 4.2: Reasons for net worth increase in 2020-21



The change in net worth is mainly the result of:

- a net actuarial gain on defined benefit superannuation plan assets ($2.569 billion), primarily as a result of movement in the discount rate (from 1.5% in 2019-20 to 2% in 2020-21) that resulted in a decrease of $1.22 billion in the estimated value of the defined benefit obligation calculated by the actuary, and a $1.296 billion increase in the fair value of plan assets that was due mainly to a $1.634 billion return on plan assets
- an increase in asset revaluation reserves ($1.765 billion). The main revaluation increases were $721 million on Department for Infrastructure and Transport (DIT) property, plant and equipment, network assets and intangibles, $309 million on SA Water infrastructure, plant and equipment, $242 million on Department for Education land, buildings and improvements and $206 million on SAHT land and buildings
- a net gain on financial assets/liabilities at fair value ($1.182 billion). The main gains were by RTWSA ($297 million) and SAFA ($143 million).

The change in net worth was also influenced by the net operating balance deficit ($1.441 billion) and other net actuarial losses ($786 million), primarily driven by an increase in the RTWSA Compensation Fund outstanding claims liability ($788 million), agency workers compensation liabilities ($43 million) and insurance claims provisions ($33 million), offset by a decrease in agency long service leave liabilities ($87 million).

4.3 Net lending/borrowing position

4.3.1 The net lending/borrowing position has varied significantly over the past five years

The net lending/borrowing position is the net operating balance less the net acquisition/ disposal of non-financial assets. A net lending balance (fiscal surplus) indicates that the public sector is contributing more than enough to finance its investment spending. A net borrowing (fiscal deficit) position indicates that the public sector's level of investment exceeds its level of savings.

Figure 4.3 shows the whole of government and general government net lending/borrowing position for the past five years.

Figure 4.3: Net lending/borrowing position

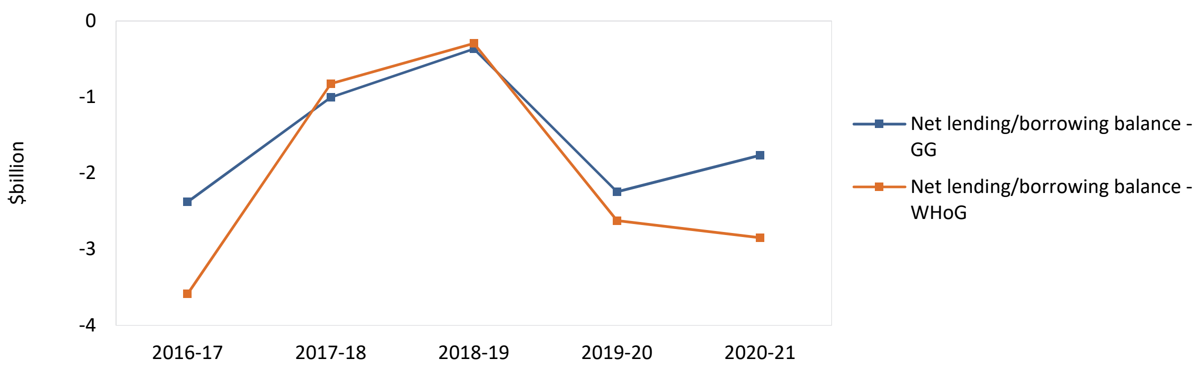


Figure 4.3 shows the significant variability in the net lending/borrowing position over the past five years, with a significant increase in the net lending/borrowing deficit in 2019-20 when compared to the previous two years.

The net lending deficit of $3.588 billion for the whole of government in 2016-17 mainly reflected the recognition of $2.5 billion of assets under finance lease for the new Royal Adelaide Hospital, recognised by the Central Adelaide Local Health Network Incorporated following commercial acceptance in June 2017.

The $225 million deterioration in the whole of government net lending/borrowing position in 2020-21 reflects an $851 million increase in the net acquisition of non-financial assets, largely offset by the $626 million decrease in the net operating balance discussed in section 4.1.1. The increase in the net acquisition of non-financial assets was due mainly to higher asset acquisitions, partially offset by an increase in asset sales.

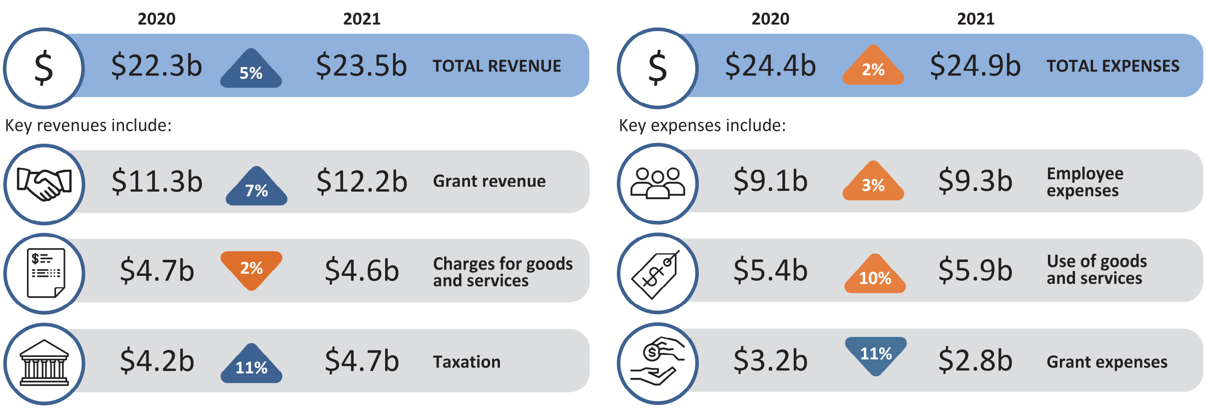
In 2020-21 asset purchases were mainly by DIT, the Department for Education, local health networks and SAHT. Asset sales were mainly by the Department for Environment and Water, DIT, SAFA and SAHT. Further details of asset purchases and sales are contained in agency financial statements.

4.4 Revenue and expenditure

4.4.1 A 5% increase in total revenue and a 2% increase in total expenditure

Figure 4.4 shows changes in revenue and expenditure between 2019-20 and 2020-21 for key items.

Figure 4.4: Analysis of variations in revenue and expenditure



Total revenue increased by $1.165 billion (5%) in 2020-21. Total expenditure increased by $539 million (2%).

4.4.2 An increase in total revenue mainly due to higher grants, taxation revenues and other revenues, offset by a decrease in interest income

The main variations in total revenue from the prior year were:

- grant revenue – increased by 7% or $810 million. This was mainly a result of higher GST grant revenue from the Commonwealth Government and increased capital grants under the Intergovernmental Agreement on Federal Financial Relations, partially offset by decreased specific purpose grants from the Commonwealth Government
- taxation revenue – increased by 11% or $470 million, mainly due to increases in stamp duties on property ($202 million), gambling taxes ($162 million) and payroll tax ($70 million, offset by a decrease in land tax ($53 million)
- other revenues – increased by 7% or $110 million, mainly due to a $50 million increase in recoveries by the Department for Energy and Mining for costs incurred to support early works on the Project EnergyConnect (the SA-NSW interconnector project) and $48 million of funding from the Commonwealth Government for hospital viability payments returned by private hospitals
- interest income – decreased by 30% or $164 million due mainly to decreased interest rates.

Auditor-General's Report 12 of 2021 *Annual Report for the year ended 30 June 2021, Part C: Agency audit reports* provides further details on major variations between years for individual agencies.

4.4.3 An increase in total expenditure mainly due to higher use of goods and services, other expenses and employee expenses, offset by lower grant and interest expenses

The main variations in total expenditure from the prior year were:

- use of goods and services – increased by 10% or $522 million. This was mainly due to an increase in contract services expenses of $199 million and other goods and services expenses of $266 million
- other expenses – increased by 10% or $277 million. This was mainly due to increases in National Disability Insurance Scheme contributions to the Commonwealth of $44 million, gambling prizes/dividends of $34 million and other expenses of $170 million
- employee expenses – increased by 3% or $228 million. This was due mainly to increases in salary and wages expenses of $229 million, primarily for enterprise agreement increases and additional FTEs mainly to help respond to COVID-19
- grant expenses – decreased by 11% or $356 million. This was primarily due to State and Commonwealth payments totalling $397 million to non-government schools being brought forward from 2020-21 to 2019-20 to help non-government schools meet cash flow requirements due to the impact of COVID-19 and other Commonwealth funding arrangements with non-government schools

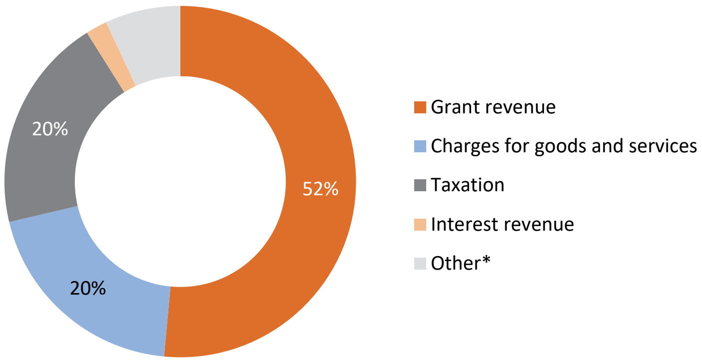
- interest expenses – decreased by 12% or $131 million. This was mainly due to decreased interest rates.

Auditor-General's Report 12 of 2021 *Annual Report for the year ended 30 June 2021, Part C: Agency audit reports* provides further details on major variations between years for individual agencies.

4.4.4 The State is heavily reliant on Commonwealth grant revenue

Figure 4.5 shows the composition of whole of government revenue in the 2020-21 CFR.

Figure 4.5: Composition of revenue

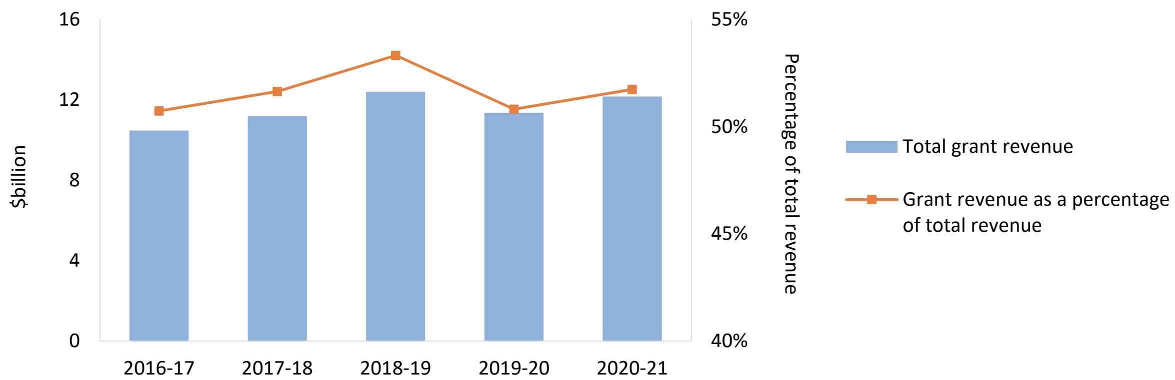


* Includes dividends and income tax equivalents and other revenues.

Figure 4.5 highlights that grant revenue, which is virtually all Commonwealth sourced, is the largest revenue stream for the State, representing more than half of total revenue from transactions in 2020-21.

Figure 4.6 shows the State's reliance on grant revenue over the past five years.

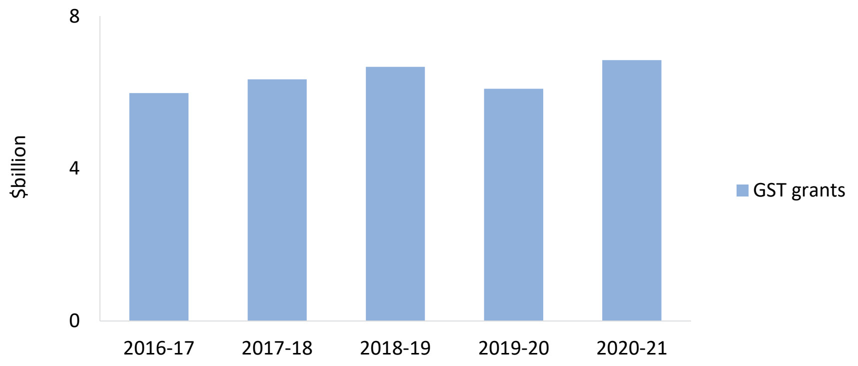
Figure 4.6: Grant revenue as a percentage of total revenue



Grant revenue, as a percentage of total revenue, increased from 51% in 2016-17 to 53% in 2018-19, before falling to 51% in 2019-20 and then increasing to 52% in 2020-21. This increase in 2020-21 largely reflects the movement in GST grants from the Commonwealth Government, which made up 56% of total grant revenue in 2020-21.

Figure 4.7 shows the movement in GST grants over the last five years.

Figure 4.7: GST grants

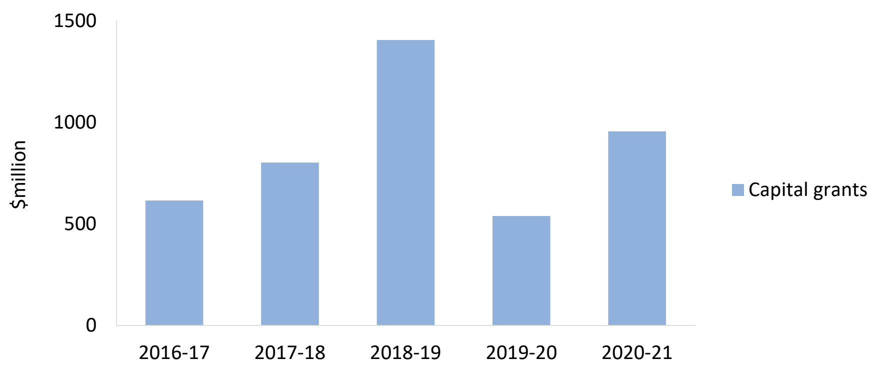


The 12% or $753 million increase in GST grants in 2020-21 was due mainly to the strong rebound in national consumption subject to GST, following a decline in 2019-20 due to COVID-19 restrictions reducing the total GST pool.

The increase in grant revenue in 2020-21 also reflects increased capital funding from the Commonwealth Government of $417 million.

Figure 4.8 shows the movement in capital funding over the last five years.

Figure 4.8: Capital grants



The other major revenue streams for the State are goods and services charges (20%) and taxation (20%).

4.4.5 Taxation revenue increased by 11% in 2020-21

Taxation revenue was $4.652 billion in 2020-21, compared to $4.182 billion in the prior year. The $470 million increase mainly reflected:

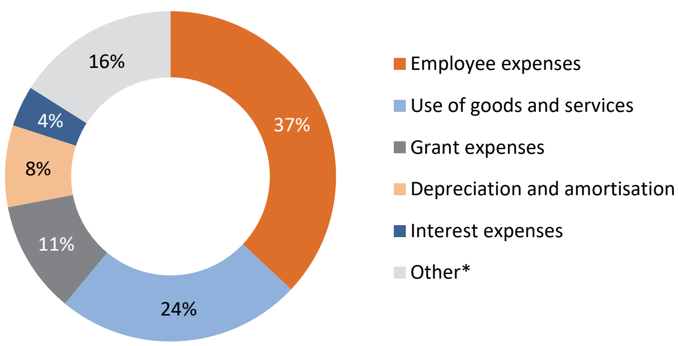
- a $202 million (25%) increase in stamp duties on property, reflecting heightened residential property market activity due to the Commonwealth Government's HomeBuilder grants and broader strength in the property market
- a $162 million (50%) increase in gambling taxes, primarily from higher gaming machine collections due to venues reopening following the easing of COVID-19 restrictions, higher distribution from the Lotteries Commission of South Australia and higher betting operations tax collections
- a $70 million (6%) increase in payroll tax
- a $58 million (9%) increase in motor vehicle registration fees.

These increases were offset by a $53 million (13%) decrease in land tax, reflecting lower collections due to land tax reforms introduced from July 2020 and delays in invoicing more complex land owners for 2020-21.

4.4.6 Employee expenses as a percentage of total expenditure remained steady in 2020-21

Figure 4.9 shows the composition of whole of government expenses in the CFR.

Figure 4.9: Composition of expenditure



* Includes other superannuation expenses, superannuation interest cost and other expenses.

Figure 4.9 highlights that employee expenses were the largest component of expenditure for the State, representing 37% of total expenses from transactions in 2020-21. The other major components of expenditure were the use of goods and services expenses (24%) and grant expenses (11%).

Figure 4.10 shows whole of government employee expenses over the past five years and as a percentage of total expenses.

Figure 4.10: Employee expenses as a percentage of total expenses

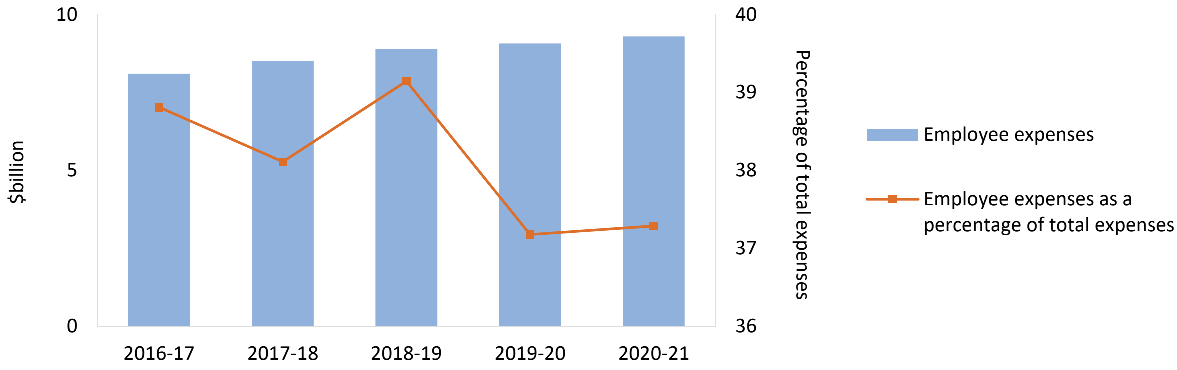


Figure 4.10 highlights that except in 2018-19, employee expenses as a percentage of total expenses trended downwards between 2016-17 and 2019-20 and then remained steady in 2020-21.

The higher percentage of employee expenses as a percentage of total expenses in 2018-19 reflected lower growth in the use of goods and services and interest expenses and reduced grant expenses.

The result in 2020-21 reflects similar increases in employee expenses and total expenses.

Figure 4.11 shows the year on year percentage change in total whole of government employee expenses over the past five years.

Figure 4.11: Year on year percentage change in employee expenses

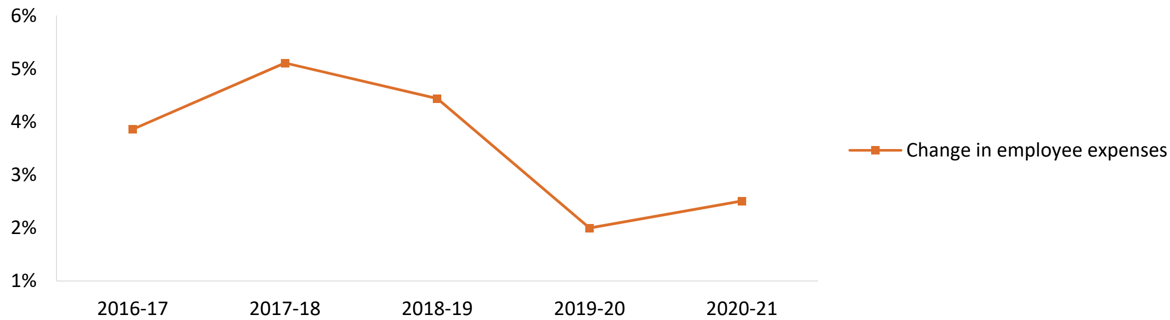


Figure 4.11 highlights that there was percentage year on year growth in employee expenses.

The rise in 2017-18 to 3% was mainly due to enterprise agreement increases and additional FTEs.

The sharp decrease from 2018-19 (4.4%) to 2019-20 (2% was due mainly to constrained enterprise agreement increases and a minor decrease in FTEs.

The rise in 2020-21 to 2.5% was due mainly to enterprise agreement increases and additional FTEs, mainly as part of COVID-19 response measures.

Figure 4.12 shows the growth in FTEs for the whole of government over the past five years.

Figure 4.12: Whole of government FTEs[3]

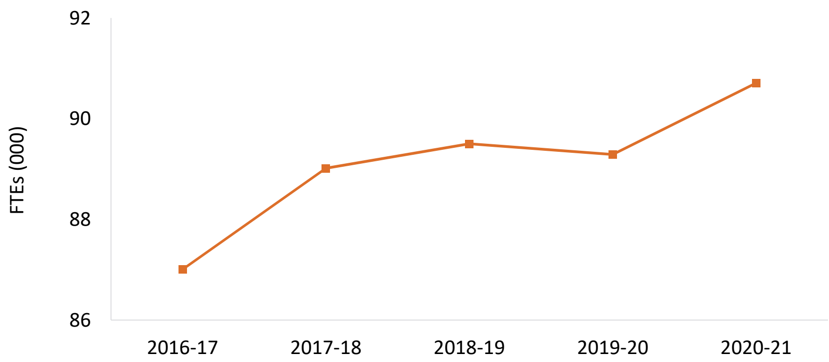


Figure 4.12 highlights that apart from 2019-20 there has been an upward trend in total FTE numbers since 2016-17, reaching the highest level of 90,713 FTEs in 2020-21.

The 1,420 (1.6%) increase in FTEs in 2020-21 was primarily due to an increase in positions in local health networks to respond to COVID-19. The total FTE increase in local health networks was 1,006. This was partially offset by an overall decrease of 734 FTEs in DIT, including reductions as a result of outsourcing heavy rail services to private contractors.

4.5 Further commentary and analysis

4.5.1 Variations in other economic flows included in the net result primarily due to actuarial gains and losses and gains and losses on financial assets and financial liabilities at fair value

The CFR Statement of Comprehensive Income discloses and explains some items that affect financial position balances under the heading of other economic flows.

The main variations in other economic flows from the prior year were:

- gains (losses) on financial assets and financial liabilities at fair value – increased by $1.511 billion to a gain of $1.182 billion
- the net actuarial gain (loss) on defined benefit superannuation plans – increased by $1.427 billion to a gain of $2.569 billion. This was mainly a result of the changes in the discount rate used by the actuary to value the defined benefit superannuation obligation liability and strong investment performance for superannuation fund assets, as explained in section 4.2.1
- other net actuarial gains (losses) – increased by $480 million to a loss of $786 million. This was primarily driven by a revaluation increase in the RTWSA Compensation Fund outstanding claims liability ($530 million), offset by a revaluation decrease in long service leave liabilities ($90 million).

[3] Sourced from annual Workforce Information Reports prepared by the Office of the Commissioner for Public Sector Employment.

4.5.2 The difference between the whole of government and general government sector net operating balances is $878 million

The net operating balance for the whole of government in 2020-21 was a deficit of $1.441 billion. This compares to a $563 million net operating balance deficit for the general government sector, a $878 million difference.

The whole of government result reflects the elimination of all transactions between all government entities, only reporting transactions with the 'rest of the world'. The general government sector result only reflects the elimination of transactions that occur within the general government sector.

The resulting differences between the whole of government and general government sector are:

- the transactions the general government sector has with the PNFC and PFC sectors
- any transactions the PNFC and PFC sectors have with non-SA Government entities.

The significant transactions the general government sector had with the PNFC and PFC sectors in 2020-21 are outlined in note 10.5 of the CFR on related party transactions. The following revenue was received by the general government sector from the PNFC and PFC sectors:

- land tax received from SAHT ($139 million)
- guarantee fees from PNFCs and PFCs ($126 million)
- dividend revenue from SA Water ($82 million).

The impact of these revenue transactions on the general government sector net operating balance was offset by the following significant expense transactions paid by the general government sector to the PNFC and PFC sectors:

- loan interest paid to SAFA ($264 million)
- community service obligation payments to SA Water ($132 million)
- equity capital contributions to SAHT ($129 million)
- equity capital contributions to the Urban Renewal Authority ($59 million).

Dividends and income tax equivalents received by the general government sector are driven by the operating profits of the agencies in the PNFC and PFC sectors. As a result, a portion of the activity of PNFCs and PFCs is, in effect, reflected in the general government sector financial report as dividends and income tax equivalents revenue.

Operating losses in the PNFC and PFC sectors also drive differences between the whole of government and general government sector net operating balances. The only significant operating losses for the PNFC and PFC sectors in 2020-21 were by RTWSA ($419 million), SAHT ($343 million) and LSA ($270 million).

5 2020-21 Consolidated Financial Report financial position

Key points

- Total assets increased by $11.887 billion (9%) to $144.443 billion.
- The State's major non-financial assets are buildings, structures and land.
- The State's buildings and structures increased by $3.04 billion (5%) to $61.129 billion.
- The State's investments increased by $9.152 billion (22%) to $51.622 billion.
- Total liabilities increased by $8.59 billion (10%) to $97.437 billion.
- The State's major liabilities are superannuation fund deposits, borrowings and unfunded superannuation liabilities.
- The State's superannuation fund deposits increased by $6.812 billion (21%) to $39.182 billion.
- The State's borrowings increased by $3.811 billion (13%) to $32.895 billion, mainly to fund capital expenditure in 2020-21 and respond to COVID-19.
- Unfunded superannuation liabilities decreased by $2.886 billion (23%) primarily as a result of changes in the discount rate used by the actuary to value the defined benefit obligation and strong investment performance by Funds SA, as explained in section 4.2.1.
- The State's net assets and net worth were $47 billion, which is a $3.296 billion (8%) increase from the prior year.

5.1 Assets and liabilities

5.1.1 The State's total assets and liabilities both increased in 2020-21

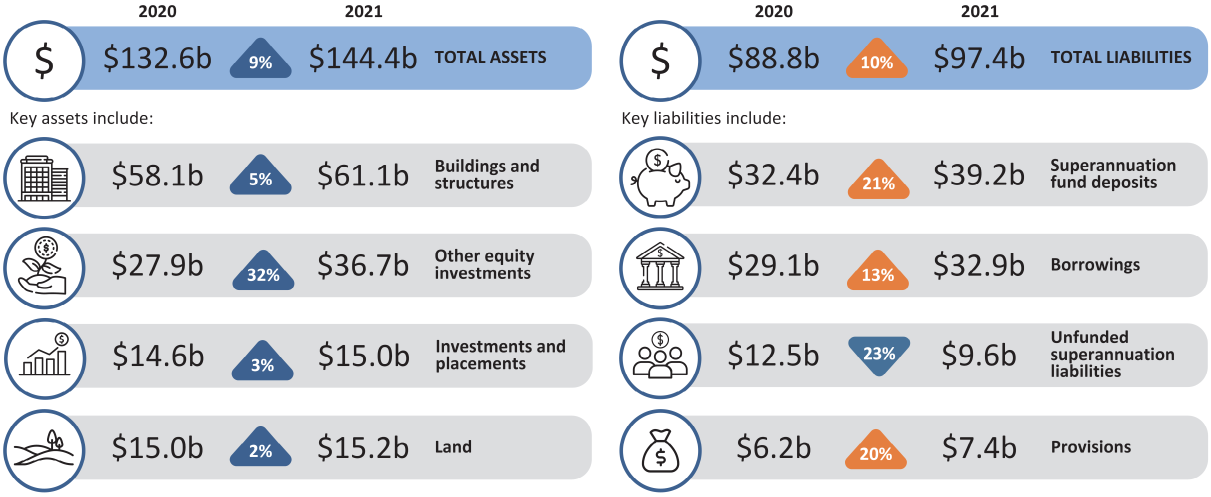
Total assets increased by $11.887 billion (9%) to $144.443 billion in 2020-21, while total liabilities increased by $8.59 billion (10%) to $97.437 billion.

Assets and liabilities change mainly due to:

- acquisitions and disposals
- revaluations, often involving management judgements and market references that can significantly influence variables from year to year.

Figure 5.1 shows changes in assets and liabilities between 2019-20 and 2020-21 for key items.

Figure 5.1: Analysis of variations in assets and liabilities



5.1.2 Increase in total assets mainly due to increases in other equity investments, buildings and structures and receivables, offset by a decrease in cash and deposits

The main variations in total assets from the prior year were:

- other equity investments – increased by 32% or $8.789 billion. This comprises increases of $7.376 billion in equities in unlisted entities and $1.413 billion in listed entities, mainly held by Funds SA
- buildings and structures – increased by 5% or $3.04 billion. This was mainly due to additions/capitalised expenditure of $2.95 billion (mainly relating to the road network, bus and rail tracks, the Sustainable Enrolment Growth and new schools work programs and water, sewerage and drainage assets) and revaluation increments of $1.31 billion (mainly relating to the road network, buildings and water, sewerage and drainage assets), offset by $1.348 billion in depreciation charged for the year
- receivables – increased by 58% or $762 million. This was mainly due to increases in other contractual receivables ($221 million), other taxes collectable ($191 million), charges for goods and services ($176 million) and foreign exchange derivatives receivable held by SAFA ($120 million)
- cash and deposits – decreased by 33% or $1.154 billion. This was mainly due to a $1.117 billion decrease in cash and cash equivalents held by SAFA.

Auditor-General's Report 12 of 2021 *Annual Report for the year ended 30 June 2021, Part C: Agency audit reports* provides further details on major variations between years for individual agencies.

5.1.3 Increase in total liabilities mainly due to increases in superannuation fund deposits, borrowings and provisions, offset by a decrease in unfunded superannuation liabilities and other liabilities

The main variations in total liabilities from the prior year were:

- superannuation fund deposits – increased by 21% or $6.812 billion. This was mainly due to the strong investment performance of superannuation funds managed by Funds SA
- borrowings – increased by 13% or $3.811 billion. This was mainly due to a $3.77 billion increase in debt securities held by SAFA to fund the Treasurer's overall funding requirement in 2020-21
- provisions – increased by 20% or $1.235 billion. This was mainly due to an $802 million increase in the RTWSA Compensation Fund outstanding claims liability and a $591 million increase in the LSA provision for participant treatment, care and support, offset by a $140 million decrease in Motor Accident Commission motor vehicle insurance claim provisions
- unfunded superannuation liabilities – decreased by 23% or $2.886 billion. This reflects a $1.591 billion decrease in the defined benefit superannuation plans obligation and a $1.296 billion increase in defined benefit plan assets. The decrease in the defined benefit obligation was primarily a result of changes in the assumptions used by the actuary to value the obligation. In particular, the discount rate increased from 1.5% to 2%, which resulted in a decrease in the defined benefit obligation of $1.122 billion. The increase in plan assets was due mainly to a $1.644 billion return on fund assets by Funds SA and employer contributions of $615 million, offset by $966 million in benefits paid to members
- other liabilities – decreased by 25% or $825 million. This was mainly due to an $800 million decrease in unearned revenue, mainly relating to $450 million in GST grants overpaid by the Commonwealth in 2019-20 and a $240 million decrease in Commonwealth Government revenue received in advance for capital projects for DIT and the Department for Health and Wellbeing.

Auditor-General's Report 12 of 2021 *Annual Report for the year ended 30 June 2021, Part C: Agency audit reports* provides further details on major variations between years for individual agencies.

5.1.4 State assets primarily comprise buildings, structures and land

Figure 5.2 shows the composition of whole of government assets in the 2020-21 CFR.

Figure 5.2: Composition of assets

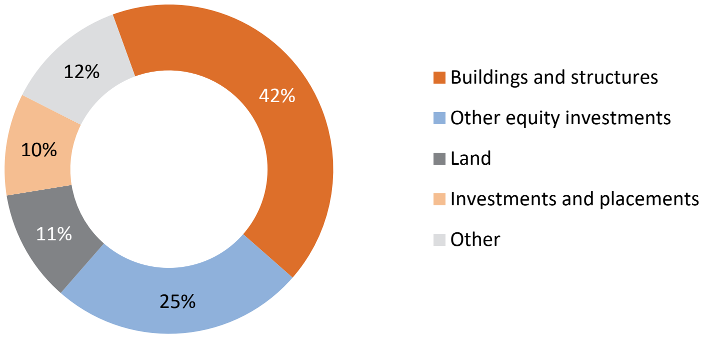


Figure 5.2 shows that the State's assets primarily comprise buildings and structures (42%), other equity investments (25%), land (11%) and investments and placements (10%).

Other equity investments mainly relate to superannuation investments held by Funds SA on behalf of members of the various State superannuation schemes. Funds SA has a corresponding liability to the members of these schemes that is reflected under superannuation fund deposits.

5.1.5 State liabilities primarily comprise borrowings and unfunded superannuation liabilities

Figure 5.3 shows the composition of whole of government liabilities in the 2020-21 CFR.

Figure 5.3: Composition of liabilities

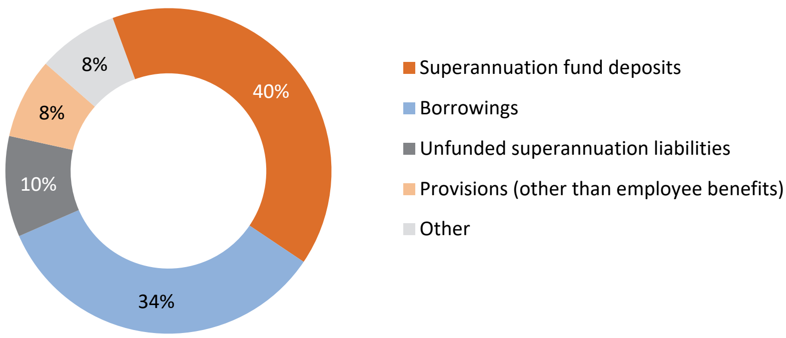


Figure 5.3 shows that the State's liabilities primarily comprise superannuation fund deposits (40%), borrowings (34%) and unfunded superannuation liabilities (10%).

The superannuation fund deposits relate to the funds invested by the various State superannuation schemes with Funds SA. Funds SA has a liability to the members of these schemes for the funds deposited. The corresponding superannuation fund investments held by Funds SA on behalf of members are reflected under assets in other investments.

Figure 5.4 shows whole of government borrowings over the past five years.

Figure 5.4: Borrowings

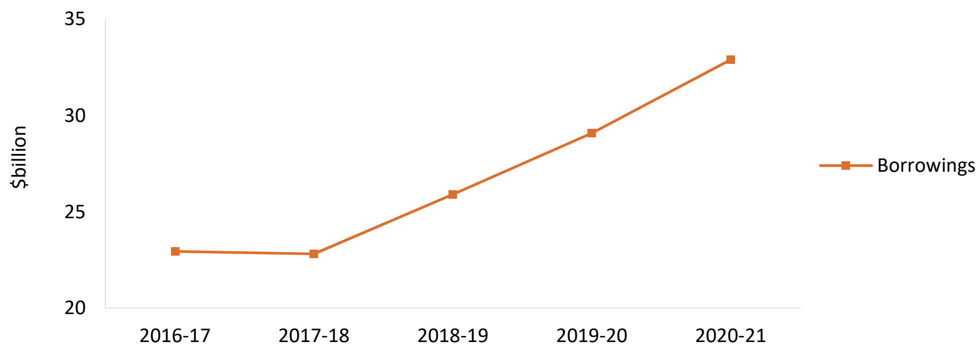


Figure 5.4 highlights that borrowings increased significantly from 2018-19 to 2020-21.

The $3.088 billion increase in 2018-19 was due mainly to a $3.163 billion increase in debt securities held by SAFA, reflecting increased funding for capital works.

The $3.176 billion increase in 2019-20 was due mainly to a $1.757 billion increase in debt securities held by SAFA to fund the Treasurer's overall funding requirement in 2019-20, and a $1.384 billion increase in liabilities associated with leases, reflecting new lease accounting requirements.

The $3.811 billion increase in 2020-21 was due mainly to a $3.77 billion increase in debt securities held by SAFA to fund the Treasurer's overall funding requirement in 2020-21.

5.2 Further commentary and analysis

5.2.1 Net worth increased in 2020-21

Net worth is an economic measure of wealth and provides an indication of a government's overall financial position. For the whole of government, net worth is calculated as total assets less total liabilities and shares/contributed capital.

Figure 5.5 shows the net worth for the whole of government over the past five years.

Figure 5.5: Net worth

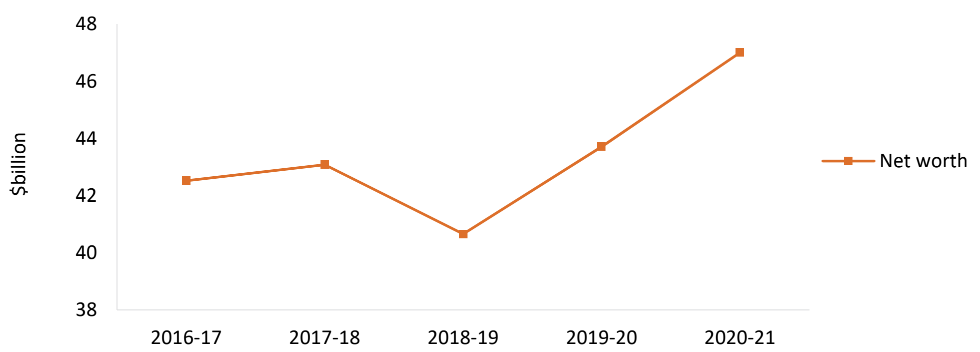


Figure 5.5 highlights a trend of increasing State net worth, except in 2018-19.

The $2.426 billion decrease in net worth in 2018-19 was mainly due to an increase in borrowings, unfunded superannuation liabilities and superannuation fund deposits, partially offset by growth in superannuation funds, cash, buildings and structures and land.

The major drivers of the $3.296 billion increase in net worth in 2020-21 are discussed in sections 5.1.2 and 5.1.3.

5.2.2 Unfunded superannuation liability is a key driver of net worth

Figure 5.6 shows the unfunded superannuation liability, net worth and net worth excluding the unfunded superannuation liability over the past five years.

Figure 5.6: Unfunded superannuation liability and net worth

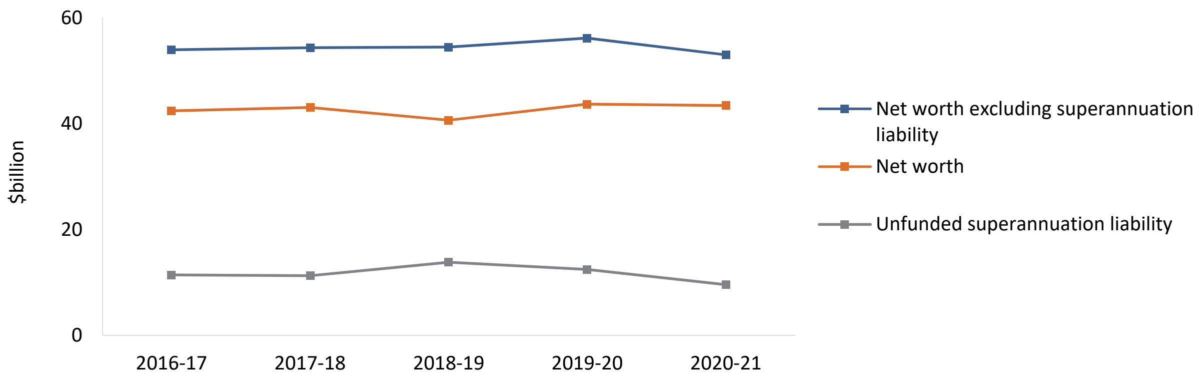


Figure 5.6 shows that the movement in net worth over the past five years has been the inverse of movements in the unfunded superannuation liability. It also shows that without the unfunded superannuation liability, there has been a slight upward trend in net worth over the past five years, except for 2020-21.

The unfunded superannuation liability is a long-term liability to current and past members of closed defined benefit superannuation schemes. The 2020-21 State Budget reported that while financial market and interest rate volatility in the recent past has resulted in multi-billion dollar revisions to the value of the liability recorded on the balance sheet, there has been no material change in the actual expected payments to beneficiaries underlying the liability.[4]

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

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

Note 7.6 of the CFR provides further information on the actuarial calculation of the unfunded superannuation liabilities.

4 2020-21 Budget Paper 3 *Budget Statement*, page 59.

Appendix – Abbreviations used in this Report

Abbreviation	Description
AASB 1049	Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*
ABS	Australian Bureau of Statistics
CFR	Consolidated Financial Report
DIT	Department for Infrastructure and Transport
DTF	Department of Treasury and Finance
FTE	Full-time equivalent
Funds SA	Superannuation Funds Management Corporation of South Australia
GST	Goods and services tax
LSA	Lifetime Support Authority of South Australia
PFC	Public financial corporation
PNFC	Public non-financial corporation
RTWSA	Return to Work Corporation of South Australia
SAFA	South Australian Government Financing Authority
SAGERP	South Australian Government Employee Residential Properties
SAHT	South Australian Housing Trust
SA Water	South Australian Water Corporation