Report of the Auditor-General

Auditor-General's Department

Report 2 of 2023

Consolidated Financial Report review

Government of South Australia

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Consolidated Financial Report review

Tabled in the House of Assembly and ordered to be published, 21 March 2023

First Session, Fifty-Fifth Parliament

By authority: M. Dowling, Government Printer, South Australia

2023

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
Department

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20 March 2023

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 2 of 2023 *Consolidated Financial Report review*

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

Content of the report

The 2021-22 Consolidated Financial Report was published in February 2023. 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 2021-22 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 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. The 2021-22 CFR was published on the Department of Treasury and Finance (DTF) website in January 2023.[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 2022-23 State Budget in Auditor-General's Report 10 of 2022 *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 that we outline in section 1.4 of this Report.

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1 *Consolidated Financial Report 2021-22*, <www.treasury.sa.gov.au/budget/current-budget/previous-budgets/budget-2021-22>, viewed January 2023.

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 $1.114 billion net operating balance deficit for 2021-22, compared to a $1.441 billion deficit last year

The $327 million improvement was due mainly to higher grants from the Commonwealth Government and higher taxation revenue, offset by a higher use of goods and services and grants expenses.

1.3.2 The whole of government reported a net lending deficit of $2.493 billion in 2021-22, down from $2.849 billion in 2020-21

The $356 million decrease in the net lending deficit reflects a $29 million decrease in the net acquisition of non-financial assets, combined with the $327 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 2021-22. Section 4.4.4 provides detail on trends in grant revenue.

1.3.4 The State's total assets increased by $571 million in 2021-22, while total liabilities decreased by $4.868 billion

Total assets increased by $571 million (0.4%) to $145 billion, while total liabilities decreased by $4.9 billion (5%) to $92.6 billion. Section 4.2.1 provides further detail on this $5.4 billion increase in net worth.

Total assets increased mainly due to:

- a $2.069 billion (14%) increase in investments and placements, mainly as a result of an increase in securities held by the South Australian Government Financing Authority (SAFA) and the Superannuation Funds Management Corporation of South Australia (Funds SA)
- a $1.102 billion (7%) increase in land, mainly as a result of the revaluation of land under roads and land held by the South Australian Housing Trust (SAHT) and Department for Education
- a $671 million (1%) increase in buildings and structures, mainly as a result of additions/ capitalised expenditure, offset by depreciation charged for the year and revaluation decrements.

The increase in total assets was offset by a $3.192 billion (9%) decrease in other equity investments, which include superannuation investment assets managed by Funds SA.

Total liabilities decreased mainly due to:

- a $2.523 billion (26%) decrease in unfunded superannuation liabilities largely due to rising interest rates that increased discount rates used in calculating the liability
- a $2.244 billion (6%) decrease in superannuation fund deposits owed to members. This reflects total receipts from superannuation funds of $4.63 billion, offset by net investment income of -$2.052 billion and payments of $4.822 billion.

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 2021-22 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 2023. 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 2021-22, I drew attention to the inherent uncertainty associated with their care, support and claims liabilities.

1.4 What we recommended

Our management letter to DTF's Chief Executive recommended that Festival Centre Precinct assets ($198 million) to be sold/transferred to the Adelaide Festival Centre Trust or the Urban Renewal Authority be correctly reported as whole of government buildings and structures and land in future CFR reporting.

1.5 Response to our recommendations

DTF responded that it will correct the classification of the Festival Centre Precinct assets in the 2022-23 CFR.

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 2022 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 SAHT and South Australian Water Corporation (SA Water).
- PFCs – bodies primarily engaged in providing financial services. This includes financial institutions such as 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 2021-22 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 10 of 2022 *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 2021-22 review 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 2021-22 Consolidated Financial Report financial performance

Key points

- The whole of government reported a $1.114 billion net operating balance deficit for 2021-22, compared to a $1.441 billion net operating balance deficit in the prior year.
- The State's net worth increased by $5.439 billion, mainly because of the revaluation of financial assets and liabilities at fair value, defined benefit superannuation plans and non-financial assets, offset by the large net operating balance deficit.
- There was a $285 million difference between the whole of government and general government sector 2021-22 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 2021-22.
- Employee expenses were the largest component of expenditure in 2021-22, representing 36% of total expenditure.
- The whole of government reported a net lending deficit of $2.493 billion in 2021-22, compared to a net lending deficit of $2.849 billion in the prior year.

4.1 Net operating balance

4.1.1 The net operating balance has varied significantly over the past five 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 from transactions and can be attributed directly to government policies.

The whole of government reported a $1.114 billion net operating balance deficit for 2021-22, compared to a $1.441 billion net operating balance deficit for 2020-21.

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

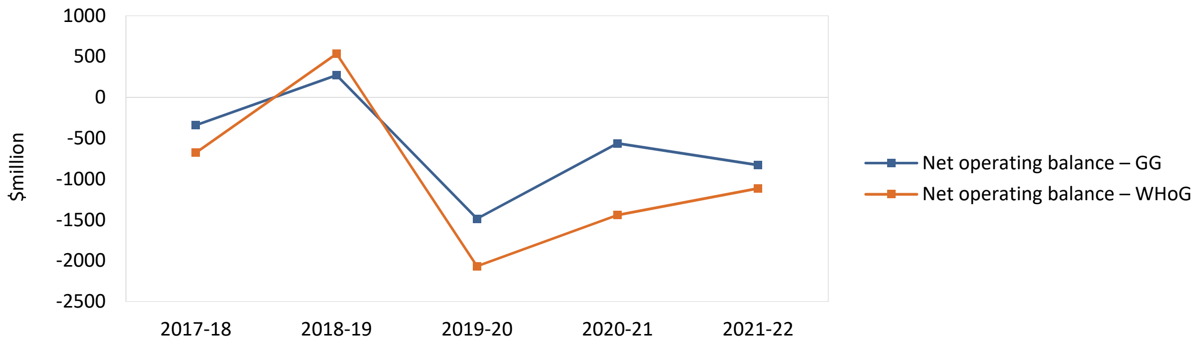


Figure 4.1 shows that apart from 2018-19, there have been deficits across the five years. The significant net operating balance deficit in 2019-20 includes the impact of the start of the COVID-19 pandemic. Section 4.4 provides further detail about changes in revenue and expenditure.

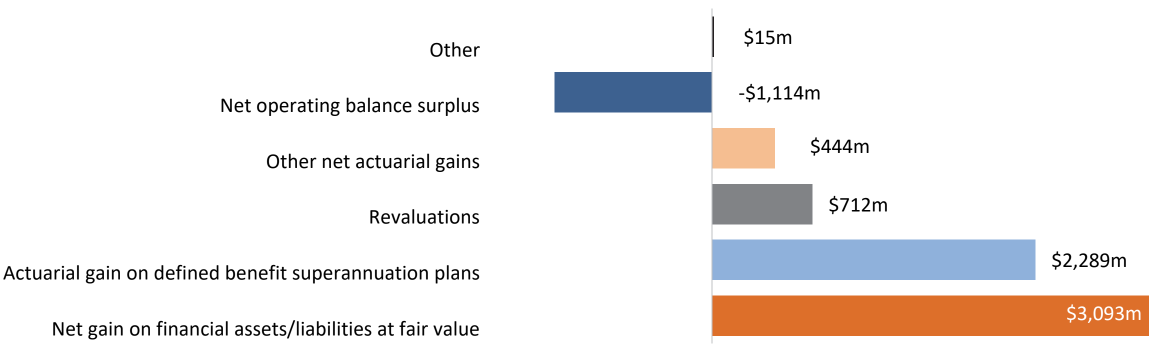
In 2021-22, there was a $327 million decrease in the whole of government net operating balance deficit compared to a $266 million increase in the general government sector net operating balance deficit. The $593 million variance reflects decreases in PFC ($568 million) and PNFC ($12 million) net operating balance deficits and a $14 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 $5.439 billion, mainly because of the revaluation of financial assets and liabilities, 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 $5.439 billion increase in net worth in 2021-22 for the whole of government in the Statement of Comprehensive Income.

Figure 4.2: Reasons for net worth increase in 2021-22



The change in net worth is mainly the result of:

- a net gain on financial assets/liabilities at fair value ($3.093 billion). This mainly comprised a gain by SAFA of $3.066 billion, offset by a loss by RTWSA of $271 million
- a net actuarial gain on defined benefit superannuation plans ($2.289 billion), primarily as a result of movement in the discount rate (from 2% in 2020-21 to 3.9% in 2021-22), that resulted in a decrease of $2.814 billion in the estimated value of the defined benefit obligation calculated by the actuary. There was also a $645 million decrease in the fair value of plan assets that was due mainly to benefits and expenses paid of $1.011 billion, and a negative return on plan assets of $171 million, offset by employer contributions of $528 million
- an increase in asset revaluation reserves ($712 million). The main revaluation increases were:
  - $371 million on SAHT land and buildings
  - $330 million on land under roads
  - $175 million on Department for Education land, buildings and improvements
  - $112 million on the State's share of the Murray-Darling Basin Authority joint operation property, plant and equipment
  - $89 million on Museum Board heritage collections
  - $63 million on Office for Recreation, Sport and Racing land, buildings and improvements.

  These revaluation increases were offset by a revaluation decrease of $526 million on SA Water infrastructure, plant and equipment
- other net actuarial gains ($444 million) primarily driven by an increase in agency long service leave liabilities ($269 million) and the RTWSA Compensation Fund outstanding claims liability ($243 million), offset by a decrease in agency workers compensation liabilities ($30 million) and agency annual leave liabilities ($22 million).

The change in net worth was also influenced by the net operating balance deficit ($1.114 billion).

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

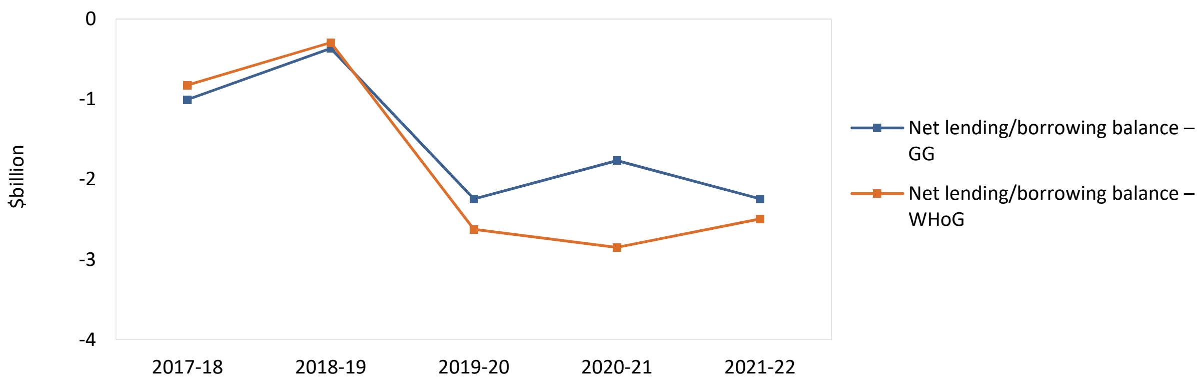


Figure 4.3 shows the significant variability in the net lending/borrowing position over the past five years, with a significant increase in the net lending/borrowing deficit in 2019-20 when compared to the previous two years.

The $356 million improvement in the whole of government net lending/borrowing position in 2021-22 reflects the $327 million increase in the net operating balance discussed in section 4.1.1, offset by a $29 million decrease in the net acquisition of non-financial assets. The decrease in the net acquisition of non-financial assets was due mainly to higher asset acquisitions ($120 million) and lower asset sales ($60 million), offset by an increase in depreciation ($48 million) and a decrease in inventories ($161 million).

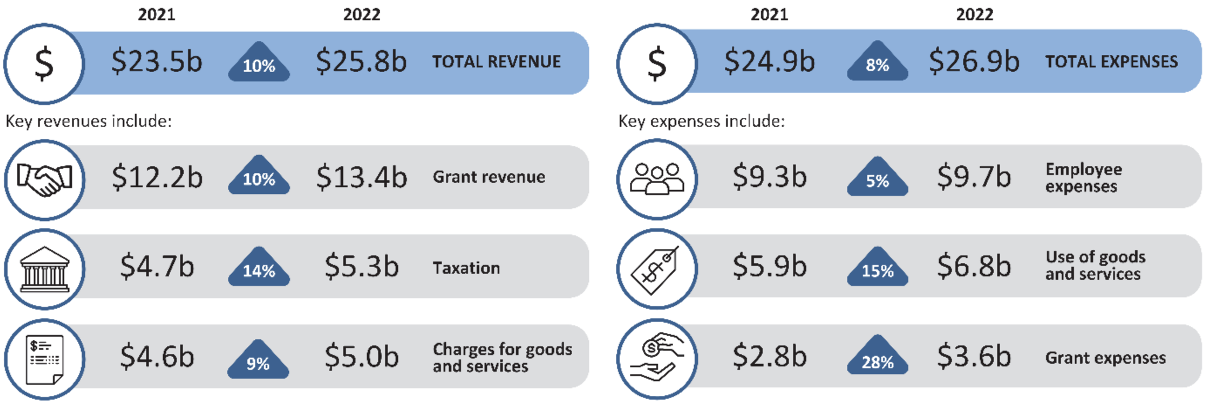
In 2021-22 asset purchases were mainly by the Department for Infrastructure and Transport (DIT), SA Water, the Department for Education, local health networks, the Department for Correctional Services and the SAHT. Asset sales were mainly by DIT, the SAHT and SAFA. Further details of asset purchases and sales are contained in agency financial statements.

4.4 Revenue and expenditure

4.4.1 A 10% increase in total revenue and an 8% increase in total expenditure

Figure 4.4 shows changes in revenue and expenditure between 2020-21 and 2021-22 for key items.

Figure 4.4: Analysis of variations in revenue and expenditure



Total revenue increased by $2.27 billion (10%) in 2021-22. Total expenditure increased by $1.943 billion (8%).

4.4.2 An increase in total revenue mainly due to higher grants, taxation revenues and charges for goods and services

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

- grant revenue – increased by 10% or $1.256 billion. This was mainly a result of higher specific purpose and national partnership grants and GST grant revenue from the Commonwealth Government
- taxation revenue – increased by 14% or $640 million, mainly due to increases in stamp duties on property ($346 million), payroll tax ($143 million), stamp duties on insurance ($47 million), gambling taxes ($45 million) and motor vehicle registrations ($36 million)
- charges for goods and services – increased by 9% or $400 million, mainly due to increases in RTWSA workers compensation levies ($84 million), Urban Renewal Authority land sales ($80 million) and other regulator fees/levies ($125 million).

Auditor-General's Report 8 of 2022 *Annual Report for the year ended 30 June 2022, 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, grant expenses and employee expenses, offset by lower other expenses

The main variations in total expenditure from last year were:

- use of goods and services – increased by 15% or $915 million. This was mainly due to an increase in contract services expenses of $290 million and other goods and services expenses of $506 million
- grant expenses – increased by 28% or $799 million. This was primarily due to increases in other current transfer payment expenses of $408 million, recurrent grants of $240 million and subsidies of $102 million

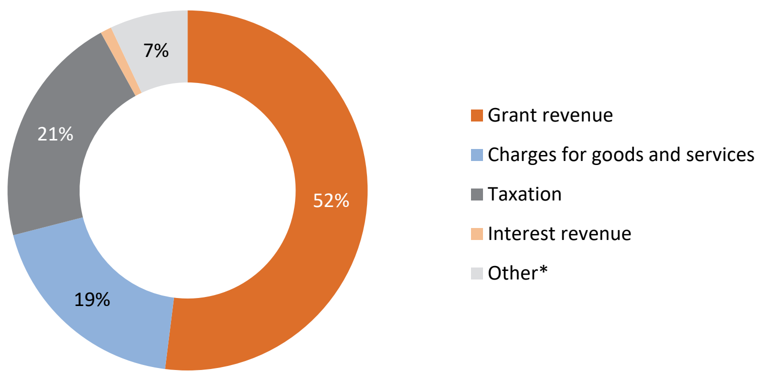
- employee expenses – increased by 5% or $427 million. This was due mainly to increases in salaries and wages of $320 million, primarily for enterprise agreement increases and additional FTEs mainly to help respond to COVID-19, and annual leave expense of $61 million
- other expenses – decreased by 10% or $288 million. This was mainly due to decreases in other expenses of $364 million, offset by increases in National Disability Insurance Scheme contributions to the Commonwealth of $28 million, and RTWSA income/ redemption related workers compensation payments of $25 million.

Auditor-General's Report 8 of 2022 *Annual Report for the year ended 30 June 2022, 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 2021-22 CFR.

Figure 4.5: Composition of revenue

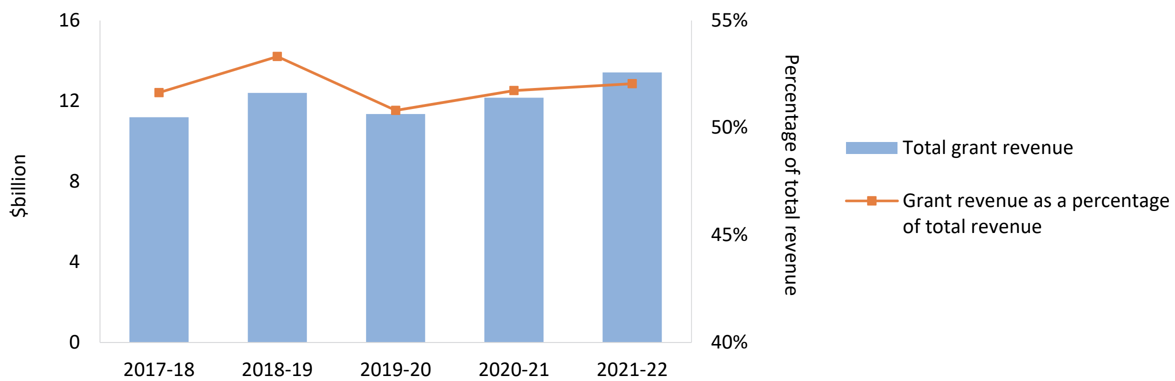


* Includes dividends and income tax equivalents and other revenues.

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 2021-22.

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

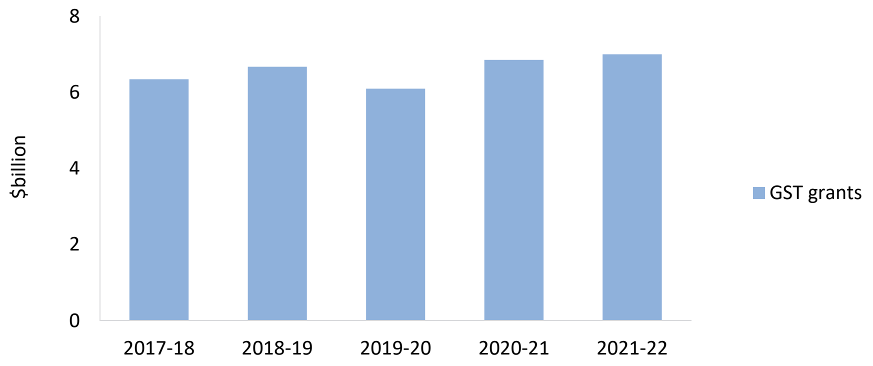
Figure 4.6: Grant revenue as a percentage of total revenue



The increases in grant revenue, as a percentage of total revenue, since 2019-20 largely reflect the movement in GST grants from the Commonwealth Government, which made up 52% of total grant revenue in 2021-22.

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

Figure 4.7: GST grants

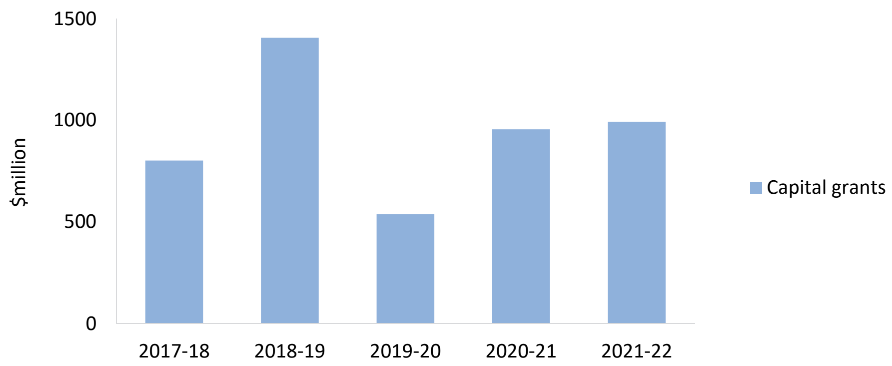


GST grants increased by 2% or $150 million in 2021-22.

The $1.256 billion (10%) increase in grant revenue in 2021-22 also reflects increases in national partnership grants ($198 million), specific purpose grants ($402 million) and specific purpose grants for on-passing ($449 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 (19%) and taxation (21%).

4.4.5 Taxation revenue increased by 14% in 2021-22

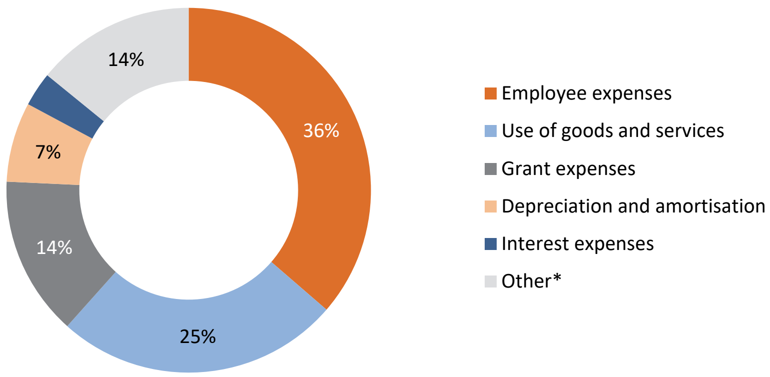
Taxation revenue was $5.292 billion in 2021-22, compared to $4.652 billion in the prior year. The $640 million increase mainly reflected:

- a $346 million (34%) increase in stamp duties on property, reflecting ongoing heightened residential property market conditions, with strong growth in residential property transactions and prices
- a $143 million (11%) increase in payroll and labour force taxes, reflecting strong labour market conditions in 2021-22 and the exemption of JobKeeper payments from payroll tax in 2020-21
- a $45 million (9%) increase in gambling taxes, reflecting the resumption in gambling activity since gaming venues reopened in June 2020 after COVID-19 restrictions were eased
- a $36 million (5%) increase in motor vehicle registration fees, reflecting annual indexation of registration fees and a higher level of registration transfers.

4.4.6 Employee expenses as a percentage of total expenditure decreased in 2021-22

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

Figure 4.9: Composition of expenditure

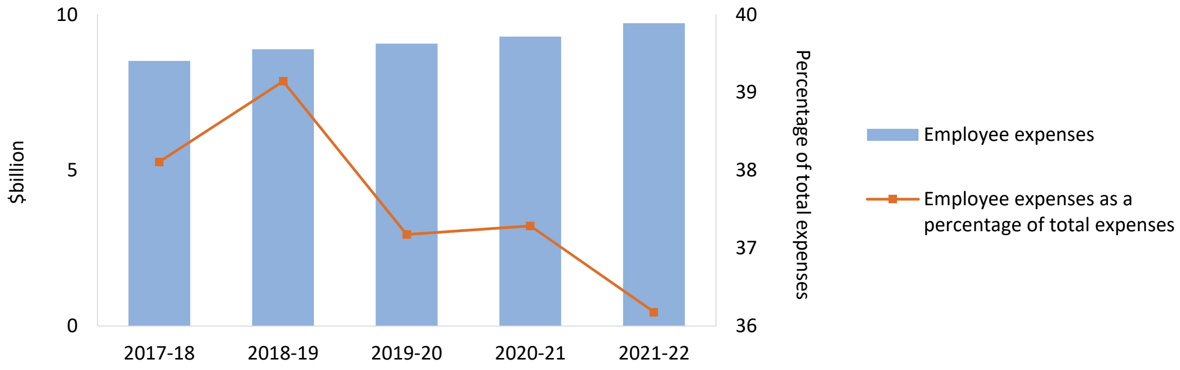


* Includes other superannuation expenses, superannuation interest cost and other expenses.

Figure 4.9 highlights that employee expenses (36%) were the largest individual component of expenditure in 2021-22. The other major components of expenditure, collectively accounting for 39%, were the use of goods and services expenses (25%) and grant expenses (14%).

Figure 4.10 shows whole of government employee expenses over the past five years and as a percentage of total expenses has trended down since 2018-19.

Figure 4.10: Employee expenses as a percentage of total expenses



The decrease in 2021-22 mainly reflects higher growth in use of goods and services and grant expenses and reduced other expenses, as explained in section 4.4.3.

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.

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

Figure 4.11: Percentage change in employee expenses

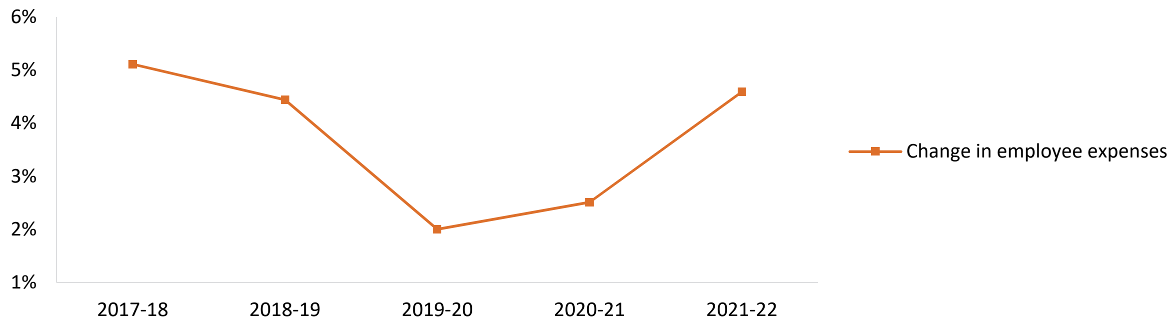


Figure 4.11 highlights that the percentage growth in employee expenses from 2017-18 to 2019-20 trended down to 2% in 2019-20, before the higher growth of 2.5% in 2020-21 and 4.6% in 2021-22.

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 rises in 2020-21 and 2021-22 were 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]

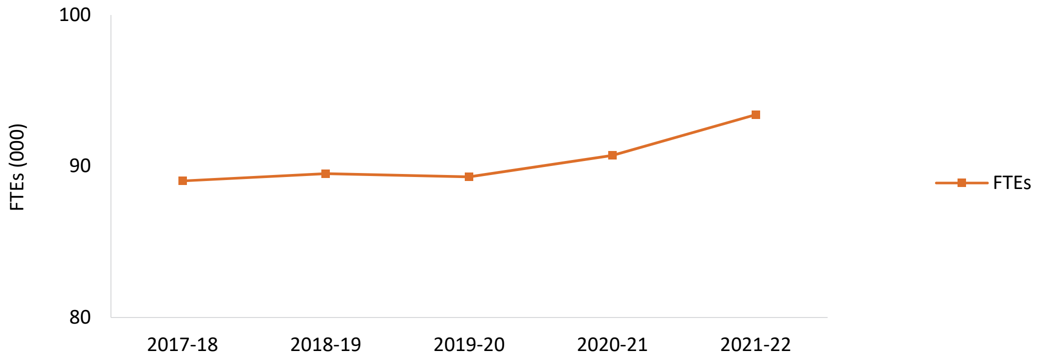


Figure 4.12 highlights that except in 2019-20 there was an upward trend in total FTE numbers from 2017-18 reaching the highest level of 93,406 FTEs in 2021-22.

The 2,693 (3%) increase in FTEs in 2021-22 was primarily due to an increase in positions in local health networks to respond to COVID-19 and disability services positions in the Department of Human Services. This was offset by a decrease in FTEs in DIT due to outsourcing facility management services to private contractors.

4.5 Further commentary and analysis

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

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 last year were:

- gains (losses) on financial assets and financial liabilities at fair value – increased by $1.911 billion to a gain of $3.093 billion
- other net actuarial gains (losses) – increased by $1.23 billion to a gain of $444 million. This was primarily driven by a revaluation increase in the RTWSA Compensation Fund outstanding claims liability ($1.03 billion) and an increase in the revaluation of agency long service leave liabilities ($182 million)
- the net actuarial gain (loss) on defined benefit superannuation plans – decreased by $280 million to a gain of $2.289 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, offset by negative investment performance for superannuation fund assets, as explained in section 4.2.1.

[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 $285 million

The net operating balance for the whole of government in 2021-22 was a deficit of $1.114 billion. This compares to an $829 million net operating balance deficit for the general government sector, a $285 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 2021-22 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 from the SAHT ($149 million)
- guarantee fees from PNFCs and PFCs ($119 million)
- dividend revenue from SAFA ($51 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 ($318 million)
- community service obligation payments to SA Water ($134 million)
- equity capital contributions to the SAHT ($106 million)
- equity capital contributions to the Adelaide Festival Centre Trust ($102 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 2021-22 were by the SAHT ($338 million) and LSA ($64 million).

5 2021-22 Consolidated Financial Report financial position

Key points

- Total assets increased by $571 million (0.4%) to $145.014 billion.
- The State's major non-financial assets are buildings, structures and land.
- The State's buildings and structures increased by $671 million (1%) to $61.8 billion.
- The State's investments decreased by $1.123 billion (2%) to $50.499 billion.
- Total liabilities decreased by $4.868 billion (5%) to $92.569 billion.
- The State's major liabilities are superannuation fund deposits, borrowings, provisions (other than employee benefits) and unfunded superannuation liabilities.
- The State's superannuation fund deposits decreased by $2.244 billion (6%) to $36.938 billion, reflecting total receipts from superannuation funds of $4.63 billion, offset by net investment income of -$2.052 billion and payments of $4.822 billion.
- The State's borrowings increased by $308 million (1%) to $33.203 billion.
- Unfunded superannuation liabilities decreased by $2.523 billion (26%) primarily as a result of changes in the discount rate used by the actuary to value the defined benefit obligation and a decrease in defined benefit plan assets due to a negative returns on plan assets by Funds SA, as explained in section 4.2.1.
- The State's net assets and net worth were $52.444 billion, which is a $5.439 billion (12%) increase from the prior year.

5.1 Assets and liabilities

5.1.1 A modest growth in the State's total assets and a significant decrease in the State's total liabilities

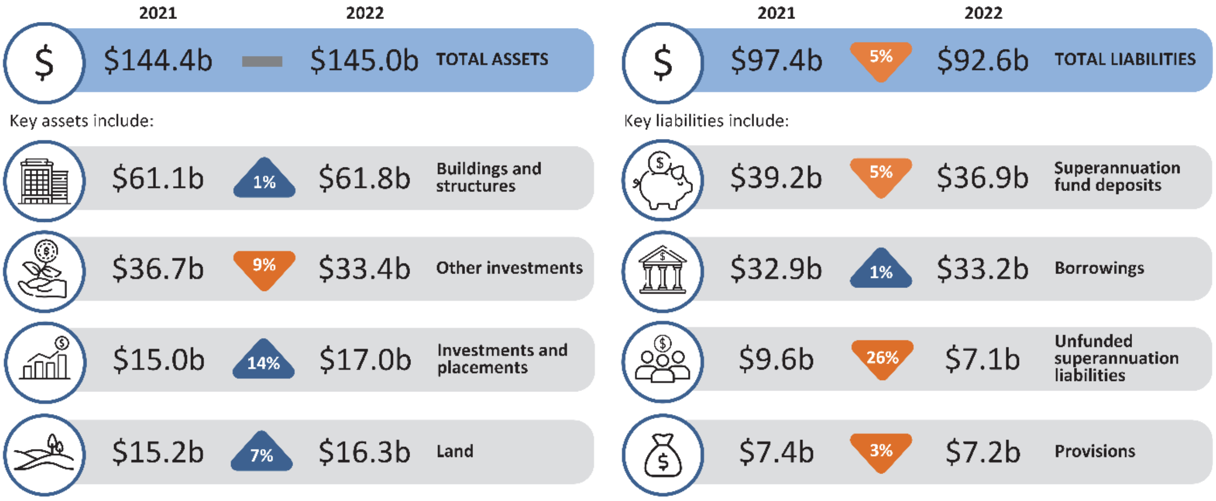
Total assets increased by $571 million (0.4%) to $145.014 billion in 2021-22, while total liabilities decreased by $4.868 billion (5%) to $92.569 billion.

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 2020-21 and 2021-22 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 investments and placements, land, buildings and structures, offset by a decrease in other equity investments

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

- investments and placements – increased by 14% or $2.069 billion. This was mainly due to increases in securities held by SAFA ($1.344 billion) and Funds SA ($539 million)
- land – increased by 7% or $1.102 billion. This was mainly due to the revaluation of land under roads ($330 million) and land held by the SAHT ($519 million) and the Department for Education ($176 million)
- buildings and structures – increased by 1% or $671 million. This was mainly due to additions/capitalised expenditure of $2.931 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), offset by $1.387 billion in depreciation charged for the year and revaluation decrements of $525 million (mainly relating to water, sewerage and drainage assets and SAHT rental properties)
- other equity investments – decreased by 9% or $3.192 billion. This comprises a decrease of $4.385 billion in equities in listed entities, offset by an increase of $1.193 billion in equities in unlisted entities, mainly held by Funds SA.

Auditor-General's Report 8 of 2022 *Annual Report for the year ended 30 June 2022, Part C: Agency audit reports* provides further details on major variations between years for individual agencies.

5.1.3 Decrease in total liabilities mainly due to decreases in unfunded superannuation liabilities, superannuation fund deposits, employee benefits and other liabilities, offset by an increase in borrowings and deposits held

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

- unfunded superannuation liabilities – decreased by 26% or $2.523 billion. This reflects a $3.168 billion decrease in defined benefit superannuation plan obligations and a $645 million decrease in defined benefit plan assets. The decrease in the defined benefit obligation was primarily a result of changes in assumptions used by the actuary to value the defined benefit obligation. In particular the discount rate increased from 2% to 3.9%, which resulted in a decrease in the defined benefit obligation of $2.814 billion. The decrease in plan assets was due mainly to $1.011 billion in benefits paid to members and a -$171 million return on fund assets by Funds SA, offset by employer contributions of $528 million
- superannuation fund deposits – decreased by 6% or $2.244 billion. This reflects total receipts from superannuation funds of $4.63 billion, offset by net investment income of -$2.052 billion and payments of $4.822 billion. The negative investment income in the current year was primarily due to a significant decrease in the value of investments leading to unrealised losses, compared to significant unrealised gains in the prior year
- employee benefits – decreased by 10% or $339 million. This was mainly due to a $299 million decrease in long service leave, which was primarily the result of changes in assumptions used to value the liability. In particular, the discount rate increased from 1.25% to 3.5%. The net financial effect of all actuarial assumptions is a decrease in the liability of $269 million
- other liabilities – decreased by 12% or $302 million. This was mainly due to a $260 million decrease in unearned revenue, mainly relating to a $206 million decrease in Commonwealth revenue received in advance for capital projects, mainly for DIT and the Department for Health and Wellbeing
- borrowings – increased by 1% or $308 million. This was mainly due to a $373 million increase in debt securities held by SAFA, offset by a $70 million decrease in lease liabilities
- deposits held – increased by 198% or $273 million. This was mainly due to a $212 million increase in SAFA deposits.

Auditor-General's Report 8 of 2021 *Annual Report for the year ended 30 June 2022, 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 2021-22 CFR.

Figure 5.2: Composition of assets

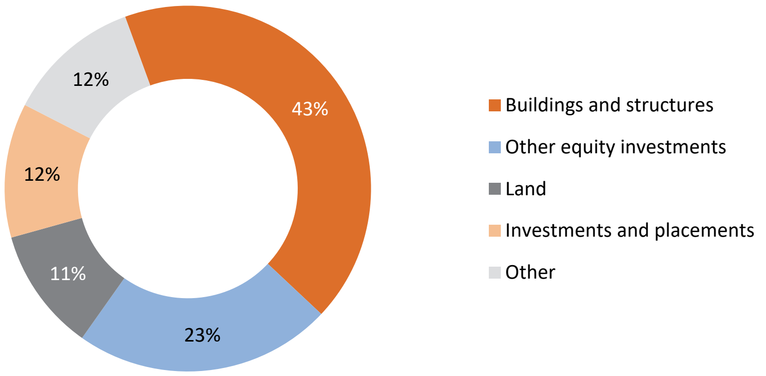


Figure 5.2 shows that the State's assets primarily comprise buildings and structures (43%), other equity investments (23%), land (11%) and investments and placements (12%).

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 2021-22 CFR.

Figure 5.3: Composition of liabilities

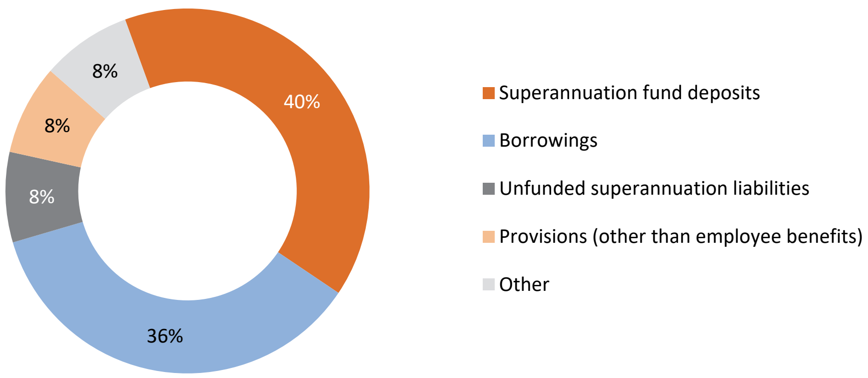


Figure 5.3 shows that the State's liabilities primarily comprise superannuation fund deposits (40%), borrowings (36%), unfunded superannuation liabilities (8%) and provisions (other than employee benefits) (8%).

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.

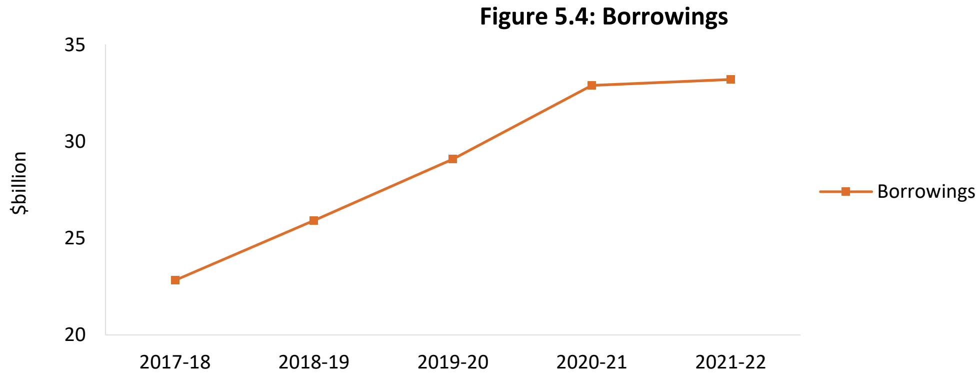


Figure 5.4 shows that borrowings increased significantly from 2017-18 to 2020-21 and remained steady in 2021-22.

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, 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.

The $308 million increase in 2021-22 was due mainly to a $373 million increase in debt securities held by SAFA, offset by a $70 million decrease in lease liability.

5.2 Further commentary and analysis

5.2.1 Net worth increased in 2021-22

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.

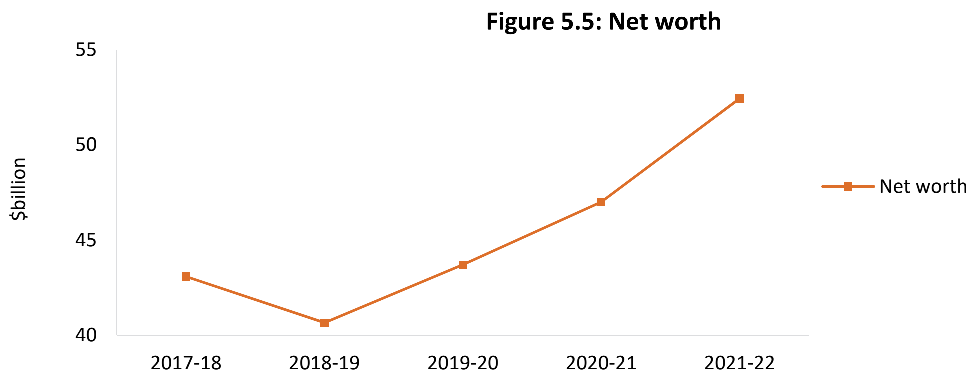


Figure 5.5 highlights a trend of increasing State net worth, except in 2018-19.

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 asset and liability drivers of the $5.439 billion increase in net worth in 2021-22 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

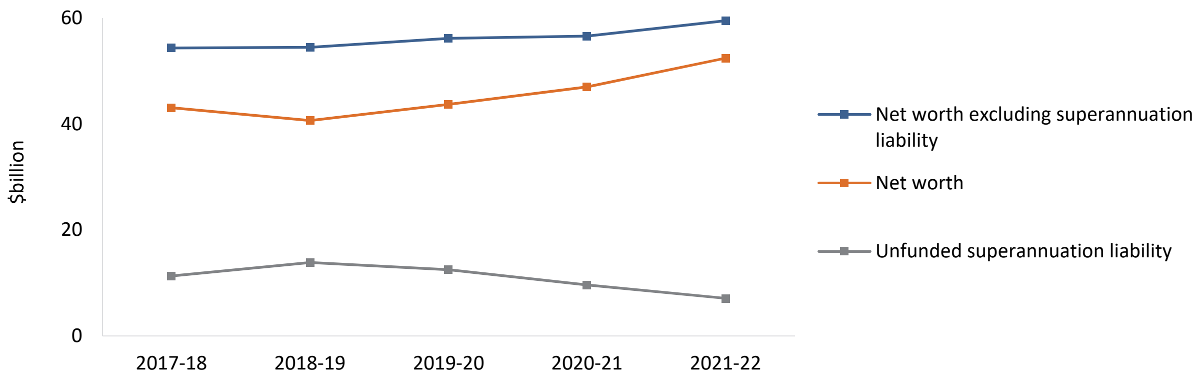


Figure 5.6 shows that the movement in net worth over the past five years was the opposite of movements in the unfunded superannuation liability. It also shows that without the unfunded superannuation liability, there was a slight upward trend in net worth over the past five years.

The unfunded superannuation liability is a long-term liability to current and past members of closed defined benefit superannuation schemes. The 2021-22 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 was 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 2021-22 Budget Paper 3 *Budget Statement*, p 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
SAHT	South Australian Housing Trust
SA Water	South Australian Water Corporation


Summary sale