

Report 10 of 2023

State finances and related matters



Report of the Auditor-General

Report 10 of 2023

State finances and related matters

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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.*



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13 November 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 10 of 2023 *State finances and related matters***

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

Content of the report

The 2023-24 State Budget was tabled in Parliament in June 2023. This report provides our observations on key trends and risks for the State's public finances based on our review of the Budget. This involved:

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

Our analysis is based on data provided in the 2023-24 Budget Papers, supplemented by information provided to us by the Department of Treasury and Finance.

Acknowledgements

The review team for this Report was Salv Bianco, Ken Anderson, Grace Lum and Ryan Tran.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'I. McGlen'.

Ian McGlen
Acting Auditor-General

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Audit snapshot

What we reviewed and why

The State Budget sets out the SA Government’s fiscal strategy, current and estimated future financial performance, policy priorities and new initiatives. It is also a key tool to manage and monitor government activities and performance.

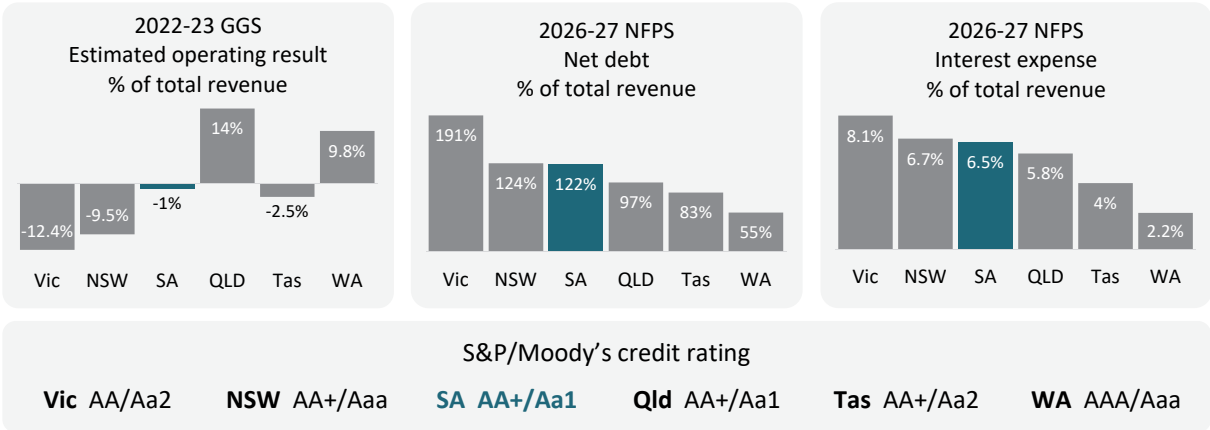
This report gives our insights into key trends and risks for the State’s public finances based on our review of the 2023-24 State Budget.

Our key insights

- Forecast net operating **surpluses may not be achieved** given several risk factors, including ongoing health and child protection funding pressures, wage agreement negotiations occurring during a period of high inflation, rising interest expenses and severe weather events.
- The challenging economic environment, including cost of living pressures on household budgets and the possibility of higher unemployment rates, increases the **risk of unfavourable revisions to budget forecasts** for GST revenue and payroll tax.
- There are **several risks attached to the SA Government’s very large capital program**, including delivering the Torrens to Darlington project and new Women’s and Children’s Hospital on time and budget given building industry capacity constraints.
- Rising debt and interest costs owing to the scale of the State’s capital program may **constrain the State’s fiscal capacity** and its ability to deliver services.

Key budget indicators

South Australia compares favourably to Victoria on key budget sustainability indicators, but is in a similar or less favourable position compared to the other states.



Note: GGS refers to the general government sector and NFPS to the non-financial public sector. Appendix 2 provides further details on what comprises these sectors.

1 Executive summary

1.1 What we reviewed and why

The State Budget sets out the SA Government's fiscal strategy, current and estimated future financial performance, policy priorities and new initiatives. It is also a key tool to manage and monitor government activities and performance.

This report provides our observations on key trends and risks for the State's public finances based on our review of the 2023-24 State Budget (2023-24 Budget).

Our analysis is based on data provided in the 2023-24 Budget Papers, supplemented by information provided to us by the Department of Treasury and Finance (DTF). The data and assumptions underlying this information were not subject to audit and no audit opinion is provided on the accuracy of historical or forecast figures in the 2023-24 Budget.

Appendix 1 provides further details on our review mandate, objectives and scope.

1.2 Our key observations

1.2.1 Several factors put forecast operating surpluses at risk

Expenditure forecasts in the 2023-24 Budget may not be achieved due to several risk factors. These include:

- ongoing health and child protection funding pressures
- wage negotiations with SA Government employees during periods of high inflation
- inflationary pressures on operating expenses
- rising interest rates and interest expenses
- severe weather events necessitating emergency response and assistance funding.

The challenging economic environment, including cost of living pressures on household budgets and the possibility of higher unemployment rates, increases the risk of unfavourable revisions to revenue budget forecasts, particularly for GST revenue and payroll tax.

Chapters 2, 3 and 4 provide further details on:

- the risks to achieving operating statement budget forecasts
- the net operating balance, expenditure and revenue trends.

1.2.2 Challenges in delivering very large capital program on time and on budget

The non-financial public sector (NFPS) capital program over the four years of the 2023-24 Budget totals \$21 billion. There are several risks associated with the SA Government's very large capital program, including risks of cost overruns, skilled labour shortages and project delays due to the record levels of infrastructure construction occurring across Australia.

These risks are evident for several major projects, with the North-South Corridor Torrens to Darlington (T2D) project, new Women’s and Children’s Hospital, new Mount Barker Hospital and Adelaide Aquatic Centre development project all revised up by 46% or more in the 2022-23 mid-year budget review (MYBR) and 2023-24 Budget. Chapter 5 provides further details on the SA Government’s capital program and associated risks.

1.2.3 Rising interest expenses may constrain the State’s fiscal capacity

Total NFPS interest expenses as a proportion of total revenue are expected to reach 6.5% in 2026-27, up from 4.6% in 2022-23. Rising debt and interest costs, mainly due to the scale of the State’s capital program, may limit the State’s fiscal capacity and its ability to deliver services. This is particularly the case beyond the forward estimates period when significant expenditure (\$11 billion) is expected for the T2D project and new Women’s and Children’s Hospital. Chapter 6 provides further details on net debt and interest expense trends and risks.

1.2.4 SA Government is generally ‘middle of the pack’ compared to other states on budget sustainability indicators

Figure 1.1 shows that South Australia compares favourably to Victoria on budget sustainability indicators, but is in a similar or less favourable position compared to the other states.

Figure 1.1: 2023-24 Budget sustainability indicators compared to other states

	2022-23 GGS Estimated operating result % of total revenue	2026-27 NFPS Net debt % of total revenue	2026-27 NFPS Interest expense % of total revenue	S&P/Moody’s credit rating
Vic	-12.4%	191%	8.1%	AA/Aa2
NSW	-9.5%	124%	6.7%	AA+/Aaa
SA	-1%	122%	6.5%	AA+/Aa1
Qld	+14%	97%	5.8%	AA+/Aa1
Tas	-2.5%	83%	4%	AA+/Aa2
WA	+9.8%	55%	2.2%	AAA/Aaa

Source: Audit calculations based on 2023-24 South Australian and interstate budget papers, and Standard & Poor’s (S&P’s) and Moody’s credit opinion reports.

Note: GGS refers to the general government sector and NFPS to the non-financial public sector. Appendix 2 provides further details on what comprises these sectors.

Credit rating agencies have indicated that their credit rating outlook for the SA Government is stable. S&P noted that the State’s financial management will help it deliver operating surpluses and moderate net lending deficits. Moody’s indicated that as the Australian economy slows, the stability of South Australia’s revenue will be supported by GST distributions, other Commonwealth grants and own-source revenues, underpinning the State’s capacity to fund expenditure and service its debt. Chapter 6 provides further details on budget sustainability indicators and credit rating agency reports issued on the 2023-24 Budget.

2 Net operating balance

2.1 Overview of key trends and risks

The 2022-23 estimated net operating balance has deteriorated by \$482 million since the 2022-23 Budget to a \$249 million deficit. This is mainly due to:

- additional expenditure on COVID-19 public health functions and the transition from pandemic response to the 'living with COVID' framework
- additional hospital activity funding
- support for the River Murray flood event response
- higher than expected interest expenses.

After four years of deficits, a return to net operating surpluses is expected from 2023-24 and the surpluses are forecast to gradually increase over the forward estimates.

Figure 2.1: Key operating statement trends for general government sector¹

	2023-24	2024-25	2025-26	2026-27
Net operating balance	+\$250 million	+\$512 million	+\$552 million	+\$639 million
	Forecast return to net operating surplus in 2023-24			
Revenue growth	↑ 7.9%	↑ 2%	↑ 3.3%	↑ 4.2%
	Average nominal growth of 4.3% p.a. over the four budget years			
Expenditure growth	↑ 5.8%	↑ 1.1%	↑ 3.3%	↑ 3.9%
	Average nominal growth of 3.5% p.a. over the four budget years			

A key driver of the forecast return to surpluses is revenue growth, particularly in 2023-24. Total revenue in 2023-24 is estimated to be 7.9% (\$1.945 billion) higher than 2022-23, due mainly to higher GST and other grant revenues.

Expenditure is budgeted to increase by 5.8% (\$1.446 billion) in 2023-24, partly reflecting higher levels of interest expenses as net debt levels and interest rates increase, and higher grant expenditure attributable to the energy bill relief plan.

Inflationary pressures and new recurrent expenditure increase the SA Government's vulnerability to unexpected reductions in revenue.

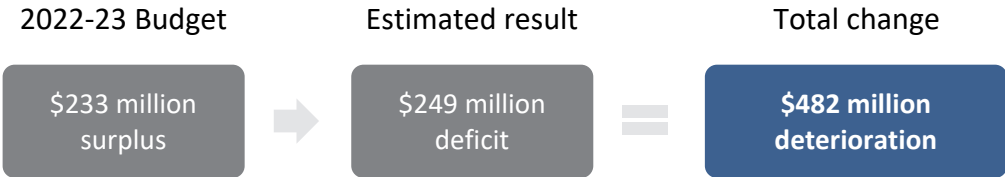
¹ Nominal growth is inclusive of inflation effects while real growth is not. All trend analysis in this report reflects nominal growth except where specifically stated otherwise.

2.2 2022-23 estimated result

2.2.1 The estimated 2022-23 result has deteriorated by \$482 million since the 2022-23 Budget

The estimated 2022-23 net operating result for the general government sector has deteriorated from a surplus to a deficit since the 2022-23 Budget.

Figure 2.2: 2022-23 Budget and estimated result for net operating balance



The estimated net operating balance at the time of the 2022-23 MYBR was a \$206 million surplus, indicating that most of the deterioration has occurred in the period between the 2022-23 MYBR and 2023-24 Budget.

Figure 2.3 summarises the key factors that have contributed to the 2022-23 estimated result.

Figure 2.3: Key factors contributing to the variance between the 2022-23 Budget and estimated result for net operating balance

	2022-23 Budget		2022-23 estimated result
Total revenue	\$23.8 billion	↑ 4%	\$24.7 billion
Taxation revenue	\$5.3 billion	↑ 6%	\$5.6 billion
GST revenue	\$7.4 billion	↑ 4%	\$7.7 billion
Total expenses	\$23.6 billion	↑ 6%	\$24.9 billion
Employee expenses	\$9.4 billion	↑ 4%	\$9.7 billion
Other operating expenses	\$7.6 billion	↑ 5%	\$8 billion

2.2.2 Increase in estimated 2022-23 expenses mainly due to additional health funding, flood response and higher interest expenses

Total estimated 2022-23 expenses are \$1.353 billion higher than the 2022-23 Budget. This is mainly due to parameter variations in the 2022-23 MYBR (\$538 million) and new policy measures in the 2023-24 Budget (\$667 million).²

Expenditure parameter variations in the 2022-23 MYBR included:

- upward revision to interest expense, reflecting latest estimates of interest rates and gross debt (\$244 million)
- operating expenditure carryovers from previous periods (\$144 million).

The new expenditure policy measures in the 2023-24 Budget mainly comprise:

- transition from pandemic response to 'living with COVID' framework (\$289 million)
- additional hospital activity funding (\$161 million)
- River Murray flood event – support, assistance and response (\$104 million).

Funding was also provided for COVID-19 public health functions (\$43 million) and the River Murray flood event (\$51 million) in the 2022-23 MYBR.

Total estimated grant expenses in 2022-23 are also \$293 million higher than estimated in the 2022-23 Budget, mainly due to the revised timing of grant payments.

2.2.3 Increase in estimated 2022-23 revenue mainly due to upward GST revisions and higher taxation and interest revenue

The estimated increase in total expenses is partly offset by higher than expected revenue (\$871 million), mainly due to upward revisions to GST revenue (\$324 million), higher taxation revenue (\$326 million) and higher interest income (\$182 million).

The estimated increase in GST revenue is primarily due to upward revisions at the time of the 2022-23 MYBR, reflecting upward revisions in the national GST pool and expected changes in South Australia's share of GST revenue. The upward revisions in the 2022-23 MYBR were partly offset by downward revisions in the 2023-24 Budget. Section 4.3 provides further details.

The estimated increase in taxation revenue³ is due to higher:

- conveyance duties (\$139 million), reflecting stronger than expected growth in residential and non-residential average prices, partially offset by lower than expected residential transaction volumes
- gambling tax revenue (\$103 million), reflecting higher than expected year-to-date collections from gaming machines in hotels and clubs and the betting operations tax

² Policy measures are attributable to decisions made by the SA Government to increase or decrease taxation, fees and charges and spending. Parameter variations are changes in the State's budget position that do not flow from policy choice changes, such as changes in taxation collections owing to economic conditions.

³ The estimated increases in taxation revenue listed reflect the total net impact of both 2022-23 MYBR and 2023-24 Budget parameter variations.

- payroll tax collections (\$50 million) supported by strong labour market conditions.

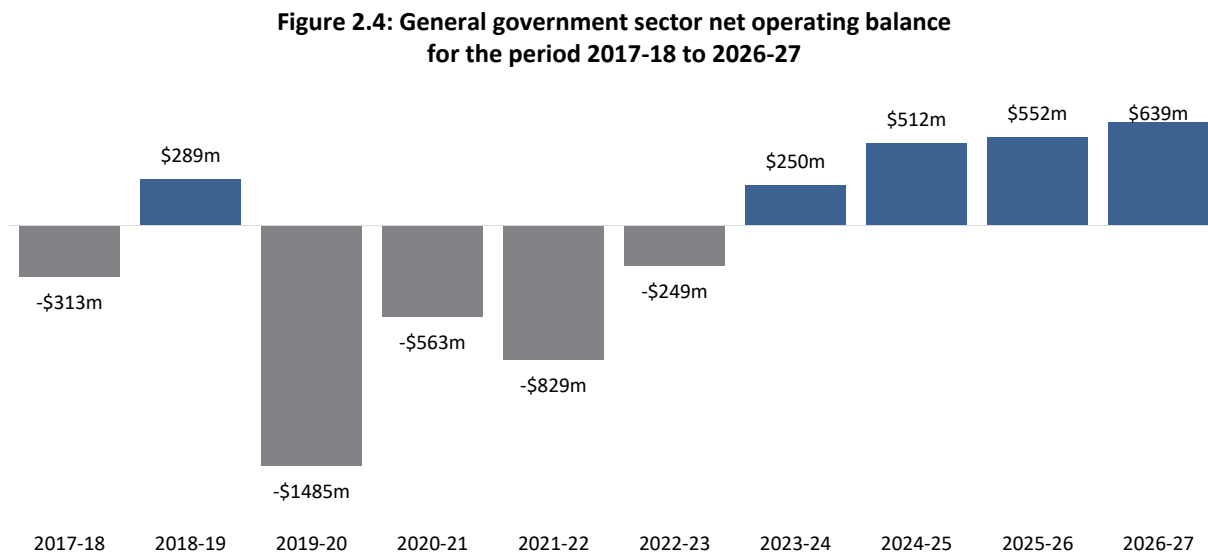
Interest income in 2022-23 is expected to be around \$182 million higher than estimated at the time of the 2022-23 Budget, mainly due to higher than expected interest rates.

2.3 Net operating balance fiscal target

2.3.1 The fiscal target of achieving a net operating surplus every year is expected to be met from 2023-24 after four years of deficits

The SA Government has a fiscal target of achieving a net operating surplus in the general government sector every year, so that operating expenditures can be funded from operating revenues.

Figure 2.4 shows the actual outcomes for the general government sector net operating balance for the period 2017-18 to 2021-22, the estimated result for 2022-23 and the expected outcomes for the four years of the 2023-24 Budget.

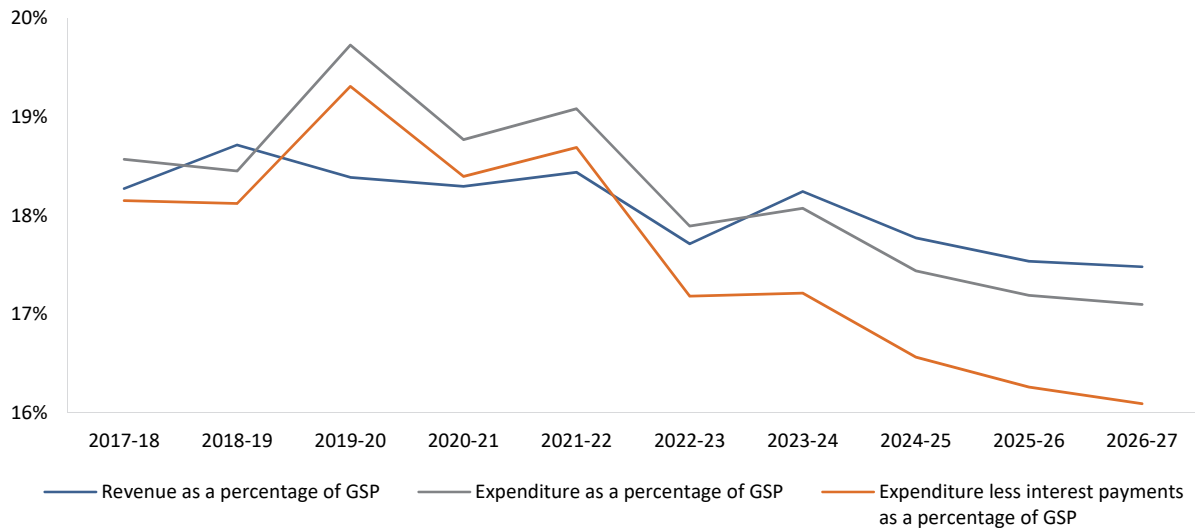


After a period of high volatility and four straight years of deficits since the onset of the COVID-19 pandemic in 2019-20, the general government sector net operating balance is forecast to return to a modest surplus in 2023-24, with projected surpluses rising each year over the forward estimates.

2.3.2 Revenue growth is key driver of the return to net operating surplus in 2023-24

Figure 2.5 shows revenue and expenditure for the general government sector as a percentage of gross state product (GSP) from 2017-18 to 2026-27. It also shows expenditure less interest payments as a percentage of GSP.

Figure 2.5: General government sector revenue and expenditure as a percentage of GDP



Source: Audit calculation based on 2023-24 Budget Paper 3 *Budget Statement* and information provided by DTF.

The forecast return to net operating surplus in 2023-24 largely relies on the expected 7.9% growth in revenue. Total revenue in 2023-24 is estimated to be \$1.945 billion higher than 2022-23, mainly due to higher GST revenues (\$1.086 billion) and other grant revenues (\$366 million).

The 2023-24 Budget notes upward revisions to GST revenue in 2023-24 are due to:

- the national GST pool being revised up, reflecting the extension of the Australian Taxation Office’s GST compliance program and the broader outlook for consumption and dwelling investment
- the Commonwealth Grants Commission’s 2023 update increasing South Australia’s GST grant share.

Other grant revenues are expected to increase mainly due to higher Commonwealth Quality Schools funding, reflecting additional enrolments in the non-government school sector, and an increase in Commonwealth funding for Health due to higher weighted activity levels.

2.3.3 SA Government’s expenditure and revenue as a proportion of State’s economy trending downwards over four years of Budget

The 2023-24 Budget notes that the South Australian economy experienced solid GDP growth in 2020-21 (4.7%) and 2021-22 (5.1%) and is estimated to grow by 3.5% in 2022-23. South Australia’s economy is expected to be supported in the near term by the recent reopening of the Chinese economy, a historically strong winter crop harvest and strong labour market conditions.

The 2023-24 Budget forecasts that GDP growth will moderate over the four years of the Budget, with levels ranging from 1% to 2%. Forecasts and projections for South Australia from 2023-24 onwards take into consideration a range of factors, including:

- the downgrading of growth forecasts for advanced economies globally
- the winter crop returning to normal levels after a strong year
- moderating household spending on account of lower real household disposable income
- declines in dwelling investment, reflecting a return to more normal building activity
- the expectation that inflation has peaked.

Figure 2.5 shows that general government sector:

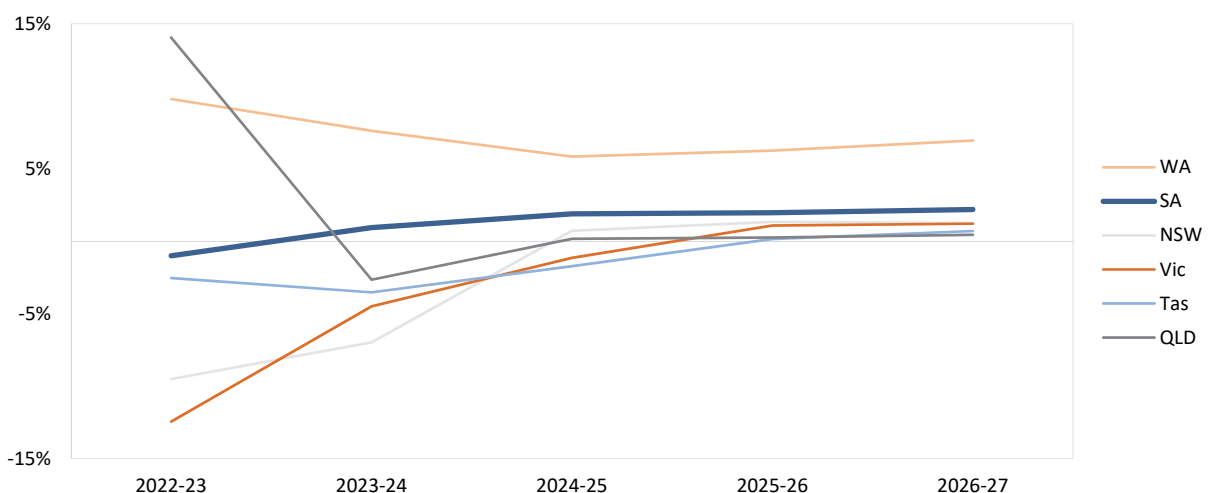
- expenditure as a percentage of GSP is forecast to drop by 2.6% from a high of 19.7% in 2019-20 to 17.1% by 2026-27
- expenditure as a percentage of GSP less interest payments is expected to decrease by 3.2% from 19.3% in 2019-20 to 16.1% in 2026-27
- revenue as a percentage of GSP is forecast to drop by 1.2% from a high in 2018-19 of 18.7% to 17.5% in 2025-26 and 2026-27.

This indicates that general government sector expenditure as a proportion of the State's economy is trending downwards more quickly than revenue, and an increasing proportion of that expenditure is expected to be spent on interest expenses rather than service delivery. Section 6 provides further details on trends and risks for net debt and interest expenses.

2.3.4 South Australia's forecast net operating balances over the four years of the budget generally compare favourably to other states

Figure 2.6 shows the expected trend in general government sector net operating balances as a percentage of total revenue⁴ compared to other Australian states.

Figure 2.6: Net operating balance as a share of total revenue for Australian states between 2022-23 and 2026-27



Source: 2023-24 South Australian and interstate budget papers.

⁴ Due to substantial differences in the revenue base of each state, net operating balance as a percentage of total revenue has been used as the basis for comparison.

There is significant variability in the estimated 2022-23 net operating results of the states. Queensland and Western Australia have estimated significant operating surpluses, South Australia and Tasmania have estimated relatively small operating deficits, while Victoria and New South Wales are expecting very large operating deficits.

Queensland’s large operating surplus in 2022-23 is largely due to ‘extraordinary strength in coal and oil prices leading to a \$10.5 billion increase in expected royalty revenue’.⁵ In Western Australia, the large surplus is mainly due to high iron ore prices.⁶

South Australia’s net operating balance trend over the four years of the 2023-24 Budget is more favourable than all other states except Western Australia.

South Australia’s net operating balance is forecast to return to surplus in 2023-24 and remain in surplus across the forward estimates. All states are forecast to be in surplus by 2025-26.

2.4 Other key trends and risks

2.4.1 Expenditure on new policy measures exceeds forecast improvements in net operating balance from parameter variations

Figure 2.7 shows how policy and parameter variations⁷ since the 2022-23 Budget cumulatively impact net operating balances for the period 2022-23 to 2025-26.

Figure 2.7: Total general government sector net operating balance policy and parameter variations since the 2022-23 Budget



⁵ The State of Queensland (Queensland Treasury) 2023, *2023–24 Queensland Budget*, viewed 1 September 2023, <<https://budget.qld.gov.au/overview/overview-summary>>.

⁶ Government of Western Australia 2023, *2023-24 Budget, Economic and Fiscal Outlook, Budget Paper No.3*, viewed 1 September 2023, <<https://www.ourstatebudget.wa.gov.au/2023-24/budget-papers/bp3/2023-24-wa-state-budget-bp3.pdf>>.

⁷ Policy changes are decisions made by the SA Government to increase or decrease taxation, fees and charges and spending. Parameter changes are variations that do not flow from policy choice changes, such as changes in taxation collection owing to economic conditions.

Figure 2.7 highlights that the impact of new policy measures in the 2022-23 MYBR and 2023-24 Budget (\$3.258 billion) is \$905 million higher than improvements in net operating balance forecasts due to parameter variations (\$2.353 billion). This explains the reduction in net operating balance surplus forecasts between the 2022-23 Budget and the 2023-24 Budget.

Expenditure on new policy measures in the 2023-24 Budget mainly relates to SA Health,⁸ the energy bill relief plan, the River Murray flood event response and Child Protection. Section 3.2.1 provides further details.

Parameter variations are mainly due to improved revenue forecasts, offset partly by revised interest expense estimates and contingency adjustments.

Figure 2.8: Significant parameter variations since the 2022-23 Budget impacting net operating balance for general government sector

Parameter variation	Impact on net operating balance	Key drivers
GST revenue	↑ \$2.383 billion	Upward revision to the national GST pool and South Australia's share of the national GST pool in the 2022-23 MYBR.
Taxation revenue	↑ \$1.591 billion	Higher than expected: <ul style="list-style-type: none"> conveyance duties and land tax due to stronger than expected growth in property prices and values gambling taxes due to greater than expected collections from gaming machines in hotels and clubs and the betting operations tax payroll tax collections supported by strong labour market conditions.
Commonwealth specific purpose grant revenue	↑ \$822 million	Higher than expected: <ul style="list-style-type: none"> Commonwealth Quality Schools funding, reflecting additional enrolments in the non-government school sector and higher than budgeted funding indexation health funding due to higher weighted activity levels.
Sales of goods and services	↑ \$613 million	Higher than expected Lotteries Commission gambling revenues and land services fees.
Interest expenses	↓ \$950 million	Higher than expected interest rates on borrowings.
Other variations	↓ \$1.734 billion	Contingency and other central adjustments.

⁸ SA Health comprises the Department for Health and Wellbeing, local health networks and the SA Ambulance Service Inc.

2.4.2 Challenging economic environment and natural disasters increase risk of unfavourable revisions to budget forecasts

The 2023-24 Budget notes that the performance of the Australian economy has been strong in recent years and the labour market has remained tight, with the unemployment rate falling to record low levels in recent months. As is the case globally, Australians have experienced high growth in inflation, with prices growing by 7% in the year to the March quarter 2023.

Interest rates have also risen sharply, with the Reserve Bank of Australia (RBA) raising the target cash rate by a cumulative four percentage points since May 2022, bringing the cash rate target to 4.1% in June 2023. The RBA attributes high inflation in Australia in 2022 to supply shocks and it is now widely believed that inflation in Australia peaked at the end of 2022.

Several global, national and local economic risk factors may impact South Australia’s economy and the budget forecasts in the 2023-24 Budget.

Figure 2.9: Economic risk factors for 2023-24 Budget



The current challenging economic environment, in particular the impact of ongoing inflationary pressures and potentially ‘higher for longer’ interest rates, increases the risk of unfavourable revisions to budget forecasts by placing upward pressure on operating expenditure and interest expenses.

The impact on consumption from a decline in real disposable household incomes may also reduce GST receipts.

The frequency and scale of the impact of further natural disasters is unpredictable and represents a risk to the budget through the provision of relief payments and funding to support recovery efforts. This risk was realised in 2022-23 with the Murray River flood event. The total support, assistance and response funding provided in the 2023-24 Budget for this event in 2022-23 (\$164 million) represents 66% of the estimated 2022-23 net operating deficit.

2.4.3 2023-24 Budget does not include a general provision for future natural disaster relief and recovery measures

DTF advised us that because the frequency and scale of natural disasters is unpredictable, the SA Government does not make a general budget provision for the potential costs of relief and recovery measures for disaster events that may occur, beyond the budgeted base capacity of agencies involved in emergency management. The 2023-24 Budget reflects the full cost of estimated expenditure on announced relief and recovery measures for disasters that have occurred, such the River Murray flood event support, assistance and response measures included in the 2022-23 MYBR and the 2023-24 Budget.

DTF indicated that a number of those response, relief and recovery measures are jointly funded with the Commonwealth Government under the Disaster Recovery Funding Arrangements. The amount of the Commonwealth reimbursement is subject to expenditure being finalised and an assurance process performed. Confirmed reimbursement amounts are included in revenue budgets, with anticipated reimbursements pending confirmation held in contingency.

DTF also indicated that the SA Government has a range of programs that are intended to mitigate the impacts of climate change, with the cost of these programs included in the budgets of relevant departments and agencies.

2.4.4 SAFA manages the SA Government's self-insurance arrangements for natural disasters

The South Australian Government Financing Authority (SAFA) manages the SA Government's insurance arrangements for natural disasters.

DTF advised us that the SA Government's self-insurance arrangements provide cover to government agencies for physical loss and civil liabilities arising out of natural catastrophe events. The financial risks of these events are reinsured in the commercial insurance market up to a limit of:

- \$2 billion for property-related losses with a deductible of \$40 million per event
- \$650 million for liability losses with a deductible of \$20 million.

DTF also advised us that the premiums SAFA charges to government agencies include provisions for catastrophe losses and conditions on the reinsurance program that may prevent a recovery being made. Should it eventuate that SAFA is unable to make a reinsurance recovery for the River Murray flood event, the claims are funded by retained capital in SAFA Insurance Fund 1. These claims have already been accounted for in SAFA's

outstanding claims liability and there are sufficient assets in Fund 1 to respond to the losses should there be no opportunity to recover on reinsurance.

Further details on SAFA and its natural disaster insurance arrangements are included in the section of Part C of the Auditor-General's 2022-23 annual report titled 'South Australian Government Financing Authority'.

3 Expenses

3.1 Overview of key trends and risks

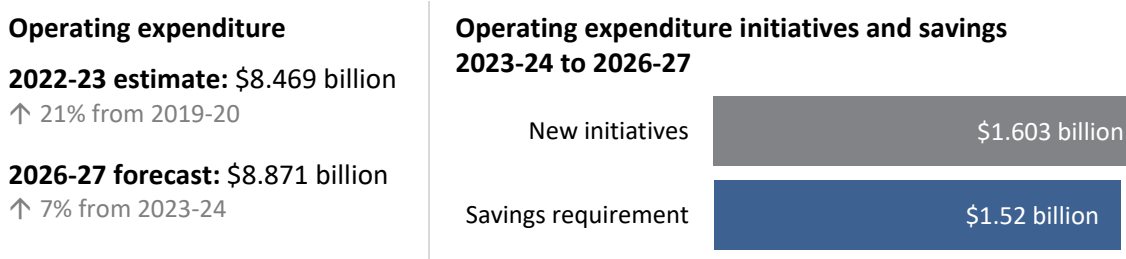
3.1.1 New operating expenditure initiatives

New operating expenditure initiatives are considerably higher in the 2023-24 Budget (\$3.621 billion) than in recent years (\$2.864 billion in the 2022-23 Budget and \$1.636 billion in the 2021-22 Budget). New SA Health operating expenditure initiatives in the 2023-24 Budget total \$2.073 billion and represent 57% of total new operating expenditure initiatives.

3.1.2 SA Health expenditure

Figure 3.1 provides details on key trends for SA Health’s operating expenditure in the 2023-24 Budget.

Figure 3.1: Overview of SA Health’s operating expenditure in the 2023-24 Budget⁹



Total actual SA Health expenditure has increased by \$1.457 billion (21%) in the three years between 2019-20 and 2022-23. The 2023-24 Budget forecasts that total SA Health expenditure for the next three years between 2023-24 and 2026-27 will only grow by \$592 million (7%). Achieving these expenditure forecasts will present a significant challenge for SA Health, given:

- ongoing COVID-19 impacts
- that higher weighted activity levels and patient complexity experienced in 2022-23 may continue in future years
- inflationary pressures on health operating costs
- SA Health’s ongoing inability to meet its savings targets.

This is particularly the case given that new operating initiatives in SA Health between 2023-24 and 2026-27 (\$1.603 billion) are largely offset by expected savings (\$1.52 billion).

The 2023-24 Budget also notes that the State’s health system is currently operating well above the national efficient price. The SA Government intends that the health system pursue efficient service delivery to work towards achieving the national efficient price by 2026-27. In working towards this objective, it is important that robust monitoring and evaluation

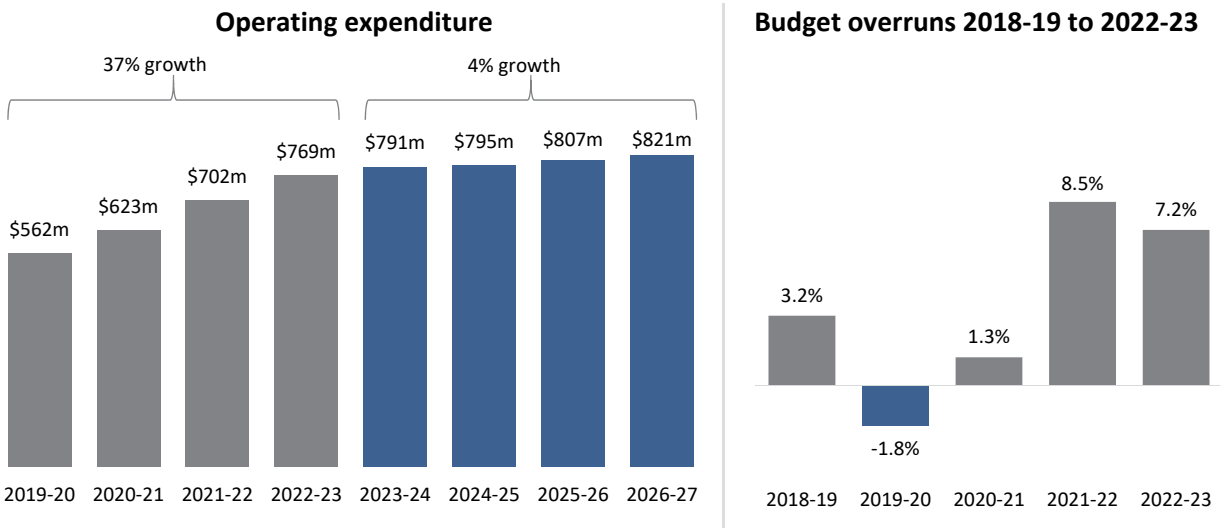
⁹ Operating expenditure for SA Health in figure 3.1 excludes payments to the SA Government.

frameworks are in place to assess whether initiatives being implemented are improving the efficiency of health system operations and reducing budget overruns.

3.1.3 Child Protection expenditure

Figure 3.2 provides details on Child Protection’s operating expenditure trends and variations between original budget and actuals for 2018-19 to 2022-23.

Figure 3.2: Overview of Child Protection’s operating expenditure in the 2023-24 Budget¹⁰



The unfavourable variation between original budget and actual total expenditure for Child Protection has trended significantly upwards in 2021-22 (8.5%) and 2022-23 (7.2%). Child Protection will face challenges in meeting its operating expenditure targets in the 2023-24 Budget as it will need to constrain expenditure growth between 2023-24 and 2026-27 to 4%, after a 37% increase between 2019-20 and 2022-23. This will require an effective strategy to grow the number of children placed in family-based care compared to higher cost non-family-based care.

3.1.4 Wage negotiations

The current high inflation environment will create challenges for the SA Government in negotiating wages agreements to meet employee expense forecasts in the 2023-24 Budget, particularly given that:

- the 2023-24 Budget forecasts a 2% decrease in real terms for employee expenses between 2022-23 and 2026-27 at the same time as FTEs are expected to increase
- wage negotiations are planned to occur in 2023-24 for a significant proportion (32%) of general government sector employees, including teachers.

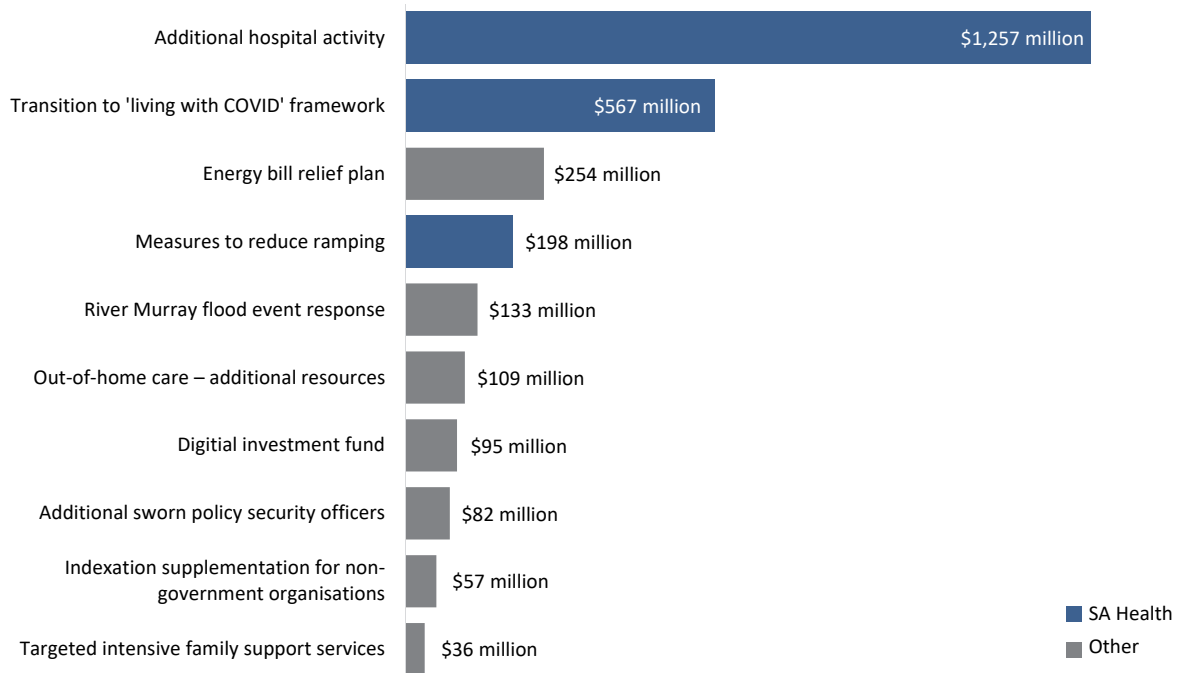
¹⁰ Operating expenditure for Child Protection in figure 3.2 excludes payments to the SA Government. The Budget overrun for 2019-20 is negative as actual total expenditure after excluding payments to the SA Government in that year was less than that budgeted.

3.2 New operating expenditure initiatives

3.2.1 Over half of new operating expenditure policy initiatives in the 2023-24 Budget are for SA Health

Several of the most significant new operating expenditure initiatives in the 2023-24 Budget are for SA Health.

Figure 3.3: Major new general government sector operating expenditure measures in the 2023-24 Budget for the period 2022-23 to 2026-27¹¹



New SA Health operating expenditure initiatives total \$2.073 billion and represent 57% of total new operating expenditure initiatives.

The 2023-24 Budget states that the SA Government has invested heavily as part of the 2022-23 and 2023-24 Budgets to improve the capacity and effectiveness of the State's health system, and it continues to support the overall objective of striving towards delivering public hospital services at the national efficient price over the medium term. Section 3.3.3 provides further details on the new SA Health initiatives.

The most significant operating expenditure initiatives outside of SA Health are the energy bill relief plan (\$254 million) and the River Murray flood event – support, assistance and response initiative (\$133 million).

¹¹ The indexation supplementation for non-government organisations (NGOs) provides \$14 million per annum (indexed) from 2023-24 to support NGOs in meeting the costs associated with wage and inflation pressures in 2023. These pressures impact a range of NGOs that provide services in the social, community, home care, child protection, homelessness and disability sectors.

The energy bill relief plan is jointly funded (50%) by the Commonwealth Government. All other initiatives are fully funded by the State.

New operating expenditure initiatives are considerably higher than last year’s budget (\$3.621 billion in the 2023-24 Budget compared to \$2.864 billion in the 2022-23 Budget and \$1.636 billion in the 2021-22 Budget).

3.2.2 Significant savings expected over the four years of the 2023-24 Budget are mainly in SA Health

There are limited new savings initiatives in the 2023-24 Budget (\$35 million) compared to the 2022-23 Budget (\$714 million). The only new savings initiative in the 2023-24 Budget relates to executive reductions. This measure will save \$5 million in 2023-24 and \$10 million per year from 2024-25 through a reduction of 50 executives across government.

However, the 2023-24 Budget reflects the commencement of previously approved efficiencies and savings measures totalling \$1.944 billion over the four years of the Budget. The expected total savings in each year are similar in size to the estimated net operating surpluses in each year as shown in figure 3.4.

Figure 3.4: Comparison of forecast net operating balances and total expected savings in 2023-24 Budget

	Forecast net operating balance	Total expected savings
2023-24	\$250 million	\$284 million
2024-25	\$512 million	\$454 million
2025-26	\$552 million	\$590 million
2026-27	\$639 million	\$651 million

This highlights the importance of meeting savings targets to ensure forecast net operating surpluses are achieved.

Total savings are expected to increase steadily over the forward estimates, rising from \$284 million in 2023-24 to \$651 million in 2026-27. The savings total in 2026-27 represents 2.3% of total forecast expenditure in that year.

Most of the expected savings over the four years of the 2023-24 Budget relate to SA Health (\$1.52 billion or 78%). Infrastructure and Transport has the second highest savings target (\$81 million or 4%).

The 2023-24 Budget notes that, with the exception of SA Health, agencies have to date generally achieved efficiency savings requirements and will be required to continue to find efficiencies to deliver future savings.

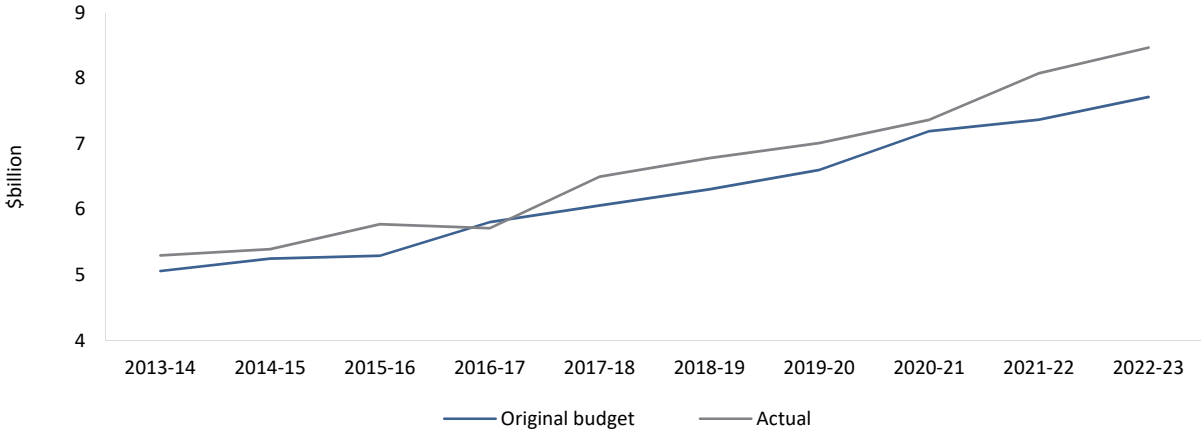
SA Health’s savings reflect the overall objective of improving health system efficiency and working towards delivering public hospital services at the national efficient price over the forward estimates. Section 3.3.4 provides further details on SA Health’s progress against its savings targets.

3.3 SA Health expenditure

3.3.1 SA Health’s total actual expenditure significantly higher than original budget in 2021-22 and 2022-23

Figure 3.5 shows that the unfavourable variation between SA Health’s original budget and actual total expenditure¹² has trended significantly upwards in 2021-22 (9.6%) and 2022-23 (9.8%).

Figure 3.5: Comparison of SA Health’s original budget and actual total expenditure for the period 2013-14 to 2022-23¹³



Total actual SA Health expenditure has increased by \$1.457 billion (21%) in the three years between 2019-20 and 2022-23, which includes the impacts of responding to the COVID-19 pandemic. The 2023-24 Budget estimates that total SA Health expenditure for the next three years between 2023-24 and 2026-27 will only grow by \$592 million (7%).

3.3.2 SA Health’s weighted activity well above trend in 2022-23 due to first full year of unrestricted COVID-19 spread and increasing patient complexity

The 2023-24 Budget notes that demand for public health services was estimated to grow by more than 4% in 2022-23, well above the historical average growth (around 2%).

¹² Figure 3.5 excludes payments to the SA Government.

¹³ The 2022-23 actual total expenditure in figure 3.5 reflects the 2022-23 estimated result for SA Health in the 2023-24 Budget, as the final budget outcome for 2022-23 was not available at the time of this report.

DTF advised us that this demand trend is based on a weighted activity measure that considers both volume and complexity of patient treatment, called the national weighted activity unit. SA Health provides weighted activity data to DTF monthly. This provides a year-to-date position compared against budget and the previous year, and a year-end projection compared against budget and the previous year.

DTF indicated that the additional funding provided to SA Health in 2022-23 and subsequent years of the Budget was based on the portfolio's estimated weighted activity projection at end of January 2023, as reported in its monthly monitoring return. Activity projections provided by SA Health are informed by advice from the local health networks and analysis of prior year trends. DTF then monitored the weighted activity position in subsequent monthly returns throughout the 2023-24 Budget process to ensure the projection provided in January 2023 remained broadly accurate.

DTF also indicated that the drivers behind the additional weighted activity in 2022-23 are likely multi-faceted. 2022-23 was the first full year of the unrestricted spread of COVID-19 in the community and the average length of hospital stays also increased generally (both in South Australia and nationally), which is likely an indication of increasing patient complexity.

Further details on SA Health's 2022-23 budget performance and activity are provided in the section of Part C of the Auditor-General's 2022-23 annual report titled 'Health sector overview'.

3.3.3 New operating expenditure initiatives for SA Health mainly relate to funding for additional weighted activity and transition to 'living with COVID' framework

The main SA Health operating expenditure initiatives in the 2023-24 Budget are as follows:

- Additional hospital activity (\$1.257 billion): This initiative provides additional funding to meet weighted activity demand pressures in the public health system (section 3.2.2 provides further details).
- Additional resources – transition from pandemic response to 'living with COVID' framework (\$567 million): This initiative provides support to SA Health as it transitions from the height of a pandemic response to a 'living with COVID' framework.
- Measures to reduce ramping (\$198 million): This initiative provides funding for a range of programs that seek to assist in the reduction of ramping.

DTF advised us that the \$567 million provided from 2022-23 to 2025-26 represents the component of SA Health's projected 2022-23 financial outcome that is not driven by additional weighted hospital activity pressures, but by other financial pressures being placed on the system that have been heavily influenced by COVID-19, and which SA Health will strive to phase out over time. The funding provided in this measure reflects the health system continuing to target a phased improvement in efficiency as it transitions from the

height of the pandemic and aims to deliver services at the national efficient price¹⁴ by the end of the forward estimates period.

DTF noted that it is becoming increasingly challenging to separate out direct COVID-19-related functions and costs from the indirect impact COVID-19 has had on the day-to-day functioning of the State’s hospital system. Examples of the indirect impact of COVID-19 include increased sick leave and enhanced infection control measures.

DTF also advised us that the operating funding provided for measures to reduce ramping is ongoing beyond the forward estimates.

3.3.4 SA Health continues to have difficulties meeting its savings targets

Figure 3.6 shows SA Health’s savings targets in the 2023-24 Budget, as advised by DTF.

Figure 3.6: Summary of SA Health’s savings targets

	2022-23 \$million	2023-24 \$million	2024-25 \$million	2025-26 \$million	2026-27 \$million
Revised existing savings targets	-	90	177	184	191
Phase-out of additional resources provided to transition from pandemic response to ‘living with COVID’ framework	-	130	183	276	289
Total savings targets	-	220	360	460	480

SA Health’s savings targets total \$1.52 billion over the four years of the 2023-24 Budget. This compares to a savings target of \$720 million over the four years of the 2022-23 Budget.

DTF advised us that the savings targets in the 2023-24 Budget reflect both:

- the revision of SA Health’s existing savings targets (\$642 million)
- the separate budgeted annual phase-out of the additional funding provided for COVID-19 practices and supports (\$878 million).

DTF also advised us that the SA Government has not levied any additional efficiency targets on SA Health over the 2022-23 and 2023-24 Budgets. It has, however, revised existing targets given that SA Health has not achieved its 2021-22 or 2022-23 targets. SA Health continued to face significant operational pressures throughout 2022-23, including ongoing COVID-19 pressures and significant demand on public health resourcing.

¹⁴ The national efficient price is used to work out the funding for a public hospital activity. A public hospital service operating at the national efficient price will be able to provide episodes of patient care (on average, across all types of care, as measured using agreed classifications) and other services (including teaching, training and research) at or below the national benchmark price. The Independent Health and Aged Care Pricing Authority determines the national efficient price for public hospital services through the analysis of data on actual activity and costs in public hospitals. Costing information used to determine the national efficient price is drawn from the National Hospital Cost Data Collection. This data is submitted to the Independent Health and Aged Care Pricing Authority by states and territories.
<<https://www.ihacpa.gov.au/about-ihacpa/faqs>>.

3.3.5 The target of achieving national efficient price has been delayed by two years to 2026-27

The 2023-24 Budget notes that SA Health has been provided with substantial additional resources as part of the 2023-24 Budget to support the State's health system. The system is currently operating well above the national efficient price¹⁵ and it is therefore intended that the system pursue efficient service delivery to work towards achieving the national efficient price by the end of the current forward estimates period in 2026-27.

This represents a two-year delay from the planned time frame of achieving national efficient price by 2024-25 set in the 2022-23 Budget.

3.3.6 SA Health will face challenges in reducing total expenses between 2022-23 and 2023-24 to meet budget

The 2023-24 Budget for SA Health's total expenses is \$8.279 billion, compared to a 2022-23 estimated result of \$8.469 billion.¹⁶ This represents an expected \$190 million (2%) decrease in total expenses between 2022-23 and 2023-24. SA Health's total expenses are also forecast to be lower than 2022-23 in 2024-25 (\$8.35 billion).

This is due partly to one-off or time-limited expenditure initiatives that are expected to phase out over the four years of the Budget. This includes additional resources for transitioning to the 'living with COVID' framework, which peaks at \$289 million in 2022-23 before reducing to \$159 million in 2023-24 and \$106 million in 2024-25.

DTF also advised us that from 2023-24, activity growth is budgeted to revert back to the historical trend of 2% per annum on the basis that there is insufficient evidence at this point that activity will continue to grow at the accelerated rate experienced in 2022-23.

Expenditure constraint will present a significant challenge for SA Health in 2023-24, given ongoing COVID-19 impacts, inflationary pressures on health costs and its history of not achieving savings targets. As SA Health represents such a significant proportion of the SA Government's total budget (31% of total expenses), this may put forecast net operating balance surpluses in the 2023-24 Budget at risk.

3.3.7 Robust monitoring and evaluation framework needed to assess efficiency and effectiveness of health budget initiatives

DTF advised us that the Health Cabinet Committee has oversight of the implementation of the SA Government's policy and reform agenda for health. SA Health reports to that Committee on its delivery of the agenda.

¹⁵ DTF advised us that South Australia performed at 118% of the national efficient price in 2019-20. This reflects the latest available official data that has been released by the Independent Health and Aged Care Pricing Authority.

¹⁶ The 2022-23 estimated result for SA Health is based on table 2.6 in 2022-23 Budget Paper 3 *Budget Statement*.

SA Health also provides DTF with:

- a monthly portfolio performance report outlining the savings program required to achieve national efficiency and performance against key KPI targets for the year
- a quarterly update on the progress made against savings targets.

It is important that DTF works with SA Health to assess whether the health system is appropriately and permanently resourced to have capacity to deliver necessary services to South Australians. This assessment should be informed by reliable data and sound activity modelling, and should seek to identify root causes for budget overruns.

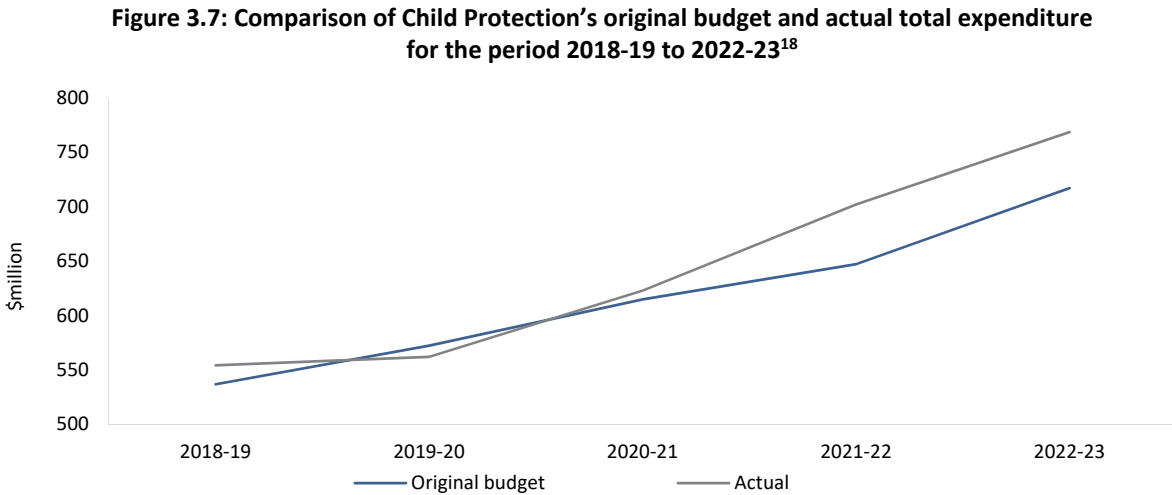
Robust monitoring and evaluation frameworks are also needed to assess whether significant budget initiatives are:

- improving the efficiency of health system operations and actually reducing budget overruns
- effective in delivering intended outcomes (for example, whether funded measures have been effective in reducing ramping).

3.4 Child Protection expenditure

3.4.1 Child Protection’s total actual expenditure significantly higher than original budget in 2021-22 and 2022-23

Figure 3.7 shows that the unfavourable variation between Child Protection’s original budget and actual total expenditure¹⁷ has trended significantly upwards in 2021-22 (8.5%) and 2022-23 (7.2%).



¹⁷ Figure 3.7 excludes payments to the SA Government.

¹⁸ The 2022-23 actual total expenditure in figure 3.7 reflects the 2022-23 estimated result for the Department for Child Protection in the 2023-24 Budget, as the final budget outcome for 2022-23 was not available at the time of this report.

DTF advised us that over recent years, funding in addition to the original budget has been provided to Child Protection for a variety of reasons, including:

- more children and young people in care in higher cost placements than budgeted. This is being driven by reduced growth in family-based care placements and difficulties for the NGO sector in providing budgeted non-family-based placements due to challenges associated with the availability of staffing and housing
- more children and young people in care than budgeted require specialist residential care due to increasing levels of disability and complexity
- policy decisions, including increasing carer payments and additional funding for family group conferences, family reunification and post-18 years support.¹⁹

Further details on Child Protection's 2022-23 budget performance are provided in the section of Part C of the Auditor-General's 2022-23 annual report titled 'Department for Child Protection'.

3.4.2 Child Protection's placement mix creates challenges in meeting expenditure forecasts

The 2023-24 Budget provides \$167 million to Child Protection for new operating initiatives between 2022-23 and 2026-27. Most of this funding (65% or \$109 million) relates to additional resources for out-of-home care. It also includes \$32 million to increase carer payments for family-based carers from 1 July 2023. This increase includes indexation of payments to support carers to help meet costs associated with inflation pressures in 2023.

DTF advised us that:

- during the 2023-24 Budget process, it worked with Child Protection to review out-of-home care placement growth and family and non-family-based placement mix assumptions for the average number of children and young people in care
- the 2022-23 growth and placement mix was based on actual year-to-date activity and Child Protection's forecast for the remainder of the year at a point in time
- the forward estimates reflect the SA Government's strategy, agreed with Child Protection, that continued effort will be made to grow the proportion of children and young people in family-based care
- the 2023-24 Budget initiatives to increase carer payments and to provide additional kinship care assessment staff will support this strategy.

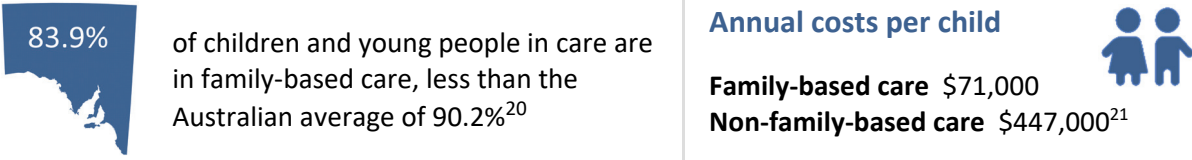
DTF also indicated that although the growth of children and young people entering care is relatively low when compared to recent years, the continued decline in family-based care, in particular general foster care, has meant that it has been challenging for Child Protection to align actual placements to the budgeted placement mix. DTF noted that the decline in foster care is being experienced across a number of jurisdictions in Australia. Child Protection is

¹⁹ Auditor-General's Report 10 of 2022 *State Finances and related matters*, pp. 20-21, provides further details on funding for additional resources provided to Child Protection between the 2018-19 and 2022-23 Budgets.

actively seeking to support and expand the foster care sector, including through growing NGO foster care providers.

The Commonwealth Productivity Commission’s *Report on Government Services 2023* highlights that a lower proportion of children and young people are in family-based care in South Australia than the national average.

Figure 3.8: Child protection placement mix and care costs per child



This puts significant pressure on Child Protection’s budget as more children are placed in higher cost non-family-based care.

DTF advised us that, based on cost and volume data as at the time of the 2023-24 Budget, the average cost per child in 2022-23 was \$376,000 higher for children in non-family-based care than family-based care.

Total actual Child Protection expenditure increased by \$207 million (37%) in the three years between 2019-20 and 2022-23. However, the 2023-24 Budget estimates that total Child Protection expenditure will only grow for the next three years between 2023-24 and 2026-27 by \$30 million (4%).

Given the issues with placement mix, we expect Child Protection will face challenges meeting its operating expenditure targets in the 2023-24 Budget. An effective strategy will need to be implemented to grow the percentage of children placed in family-based care.

3.5 Other key trends and risks

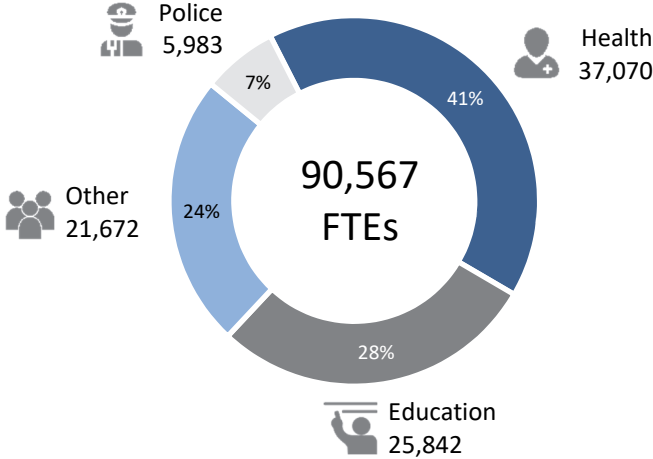
3.5.1 Meeting SA Health and Education FTE targets is important to achieving forecasts for employee expenses

Employee expenses are the largest expenditure type in the 2023-24 Budget, representing 37% of total general government sector expenses.

²⁰ Commonwealth Productivity Commission’s *Report on Government Services 2023*, <<https://www.pc.gov.au/ongoing/report-on-government-services/2023/community-services/child-protection>>. Information in this report is based on data as at 30 June 2022.
²¹ Annual costs per child reflect the average cost per child in 2022-23 for the family-based care and non-family-based care placement types. This information was provided by DTF and is based on cost and volume data at the time of the 2023-24 Budget.

The number of employees (FTEs) in general government sector agencies is a key driver of employee expenses. Figure 3.9 shows the estimated 2023-24 breakdown of general government sector employees by agency.

Figure 3.9: Estimated general government sector FTEs by agency in 2023-24



Note: Totals may not add due to rounding.
 Source: 2023-24 Budget Paper 3 *Budget Statement*.

Almost 70% of general government sector FTEs are employed by SA Health and the Department for Education (Education). This highlights the importance of meeting SA Health and Education FTE targets in ensuring the total budget for employee expenses is achieved.

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

The FTE impact of new policy measures in the 2023-24 Budget is shown in figure 3.10.

Figure 3.10: Estimated FTE impacts of 2023-24 Budget measures²²

	2023-24 FTE impact	2024-25 FTE impact	2025-26 FTE impact	2026-27 FTE impact
Total FTE impact of new policy measures	1,011	1,056	1,035	1,033
SA Health	787	710	699	702
Police	89	209	209	220
Other agencies	185	187	177	161
Savings measures	(50)	(50)	(50)	(50)

Source: 2023-24 Budget Paper 3 *Budget Statement*, table 2.11 and audit calculation using data from 2023-24 Budget Paper 5 *Budget Measures Statement*.

The increase in FTEs from 2023-24 Budget policy measures is mostly due to new initiatives in SA Health and Police, in particular:

- the additional hospital activity initiative (528 additional FTEs in each of the four years of the Budget)

²² The FTE impact in figure 3.10 reflects the number of additional FTEs funded in each year by the new policy measures and is not cumulative across the four years of the Budget.

- the measures to reduce ramping initiative (additional 156 to 159 FTEs in each of the four years of the Budget)
- the additional sworn police security officers initiative (additional 69 FTEs in 2023-24, increasing to an additional 189 FTEs in each year of the forward estimates).

The savings measures relate to the reduction of 50 executives across SA Government from 2023-24.

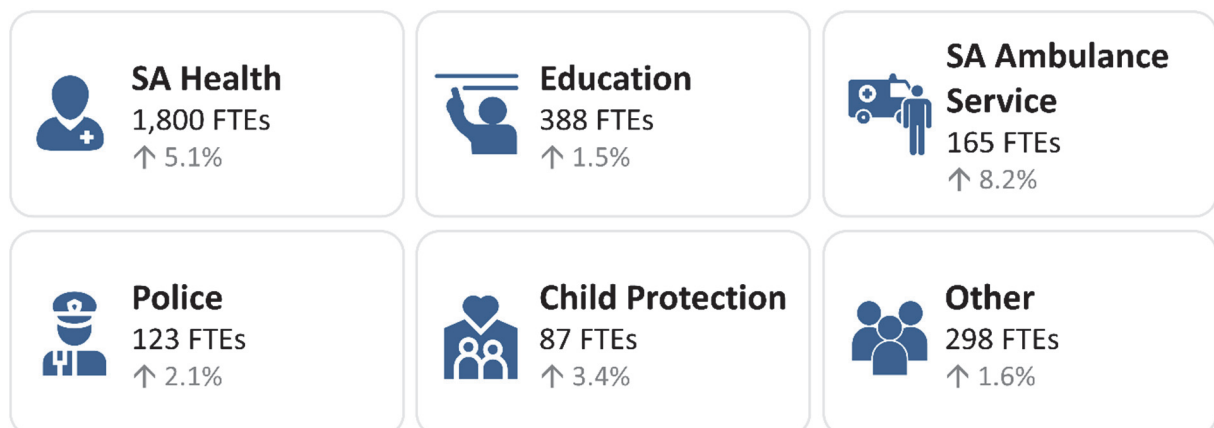
3.5.3 Total FTE estimates expected to rise gradually over forward estimates after slight fall in 2023-24

Total estimated FTEs for 2022-23 in the 2023-24 Budget are 2,965 FTEs (3.4%) higher than those originally estimated in the 2022-23 Budget.

Total general government sector employment levels are expected to fall slightly by 103 FTEs between 2022-23 (90,669) and 2023-24 (90,566), before rising by 2,861 (3.2%) over the three years between 2023-24 (90,566) and 2026-27 (93,427).

Figure 3.11 shows the breakdown of the additional 2,861 FTEs by agency between 2023-24 and 2026-27.

Figure 3.11: Budgeted new FTEs by agency for period 2023-24 to 2026-27



Note: Totals may not add due to rounding.

Source: 2023-24 Budget Paper 3 *Budget Statement*.

The 2023-24 Budget indicates that the higher FTE estimates are primarily due to a rebasing of FTEs in SA Health, as well as additional new policy initiatives announced in the 2023-24 Budget.

DTF advised us that in the 2023-24 Budget process, an adjustment was processed for SA Health that reclassified its expenditure budget between supplies and services and salaries and wages and increased its FTE cap. This reallocation of its existing budget more closely reflected its actual expenditure pattern and level of FTEs, as observed consistently in its monthly monitoring position to that point.

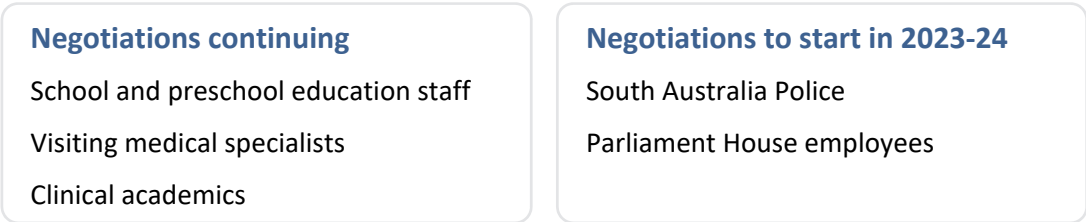
The 2023-24 Budget also notes that 655 FTEs in 2022-23 related to COVID-19 and time-limited programs in SA Health. No FTEs are included for this in FTE estimates from 2023-24 onwards, contributing to the decrease in FTEs between 2022-23 and 2023-24.

3.5.4 Wage negotiations in high inflation environment create challenges for achieving employee expense forecasts

General government sector employee expenses in the 2023-24 Budget are expected to decrease in real terms in 2022-23 (-3.9%), 2023-24 (-2.3%) and 2024-25 (-0.6%). Employee expenses are then expected to rise slightly in real terms in 2025-26 (0.8%) and 2026-27 (0.1%). The 2% overall decrease in real terms between 2022-23 and 2026-27 is occurring at the same time as FTEs are expected to increase.

The 2023-24 Budget notes that wage negotiations will start in 2023-24 for a range of employee groups.

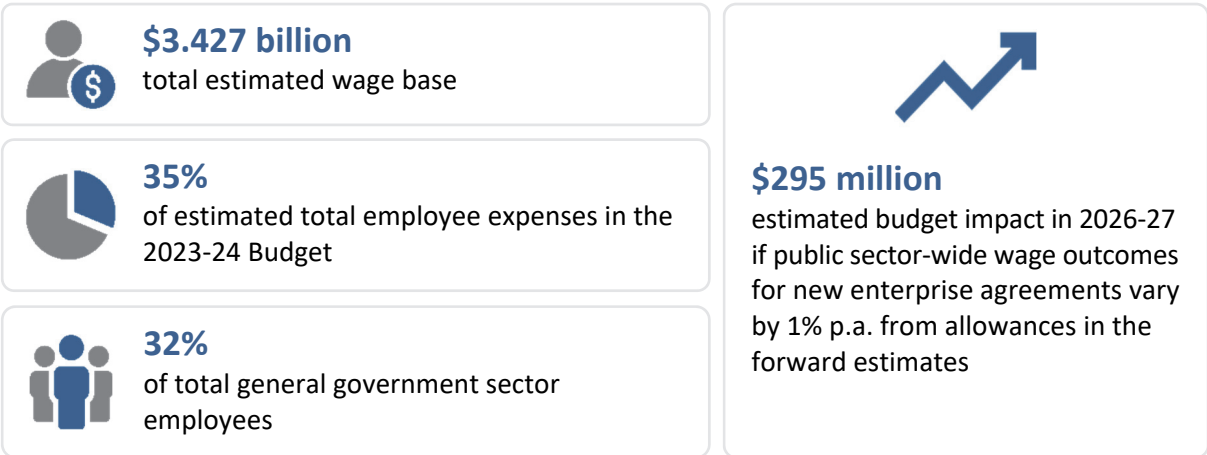
Figure 3.12: Largest general government sector employee groups²³ subject to enterprise agreement negotiations in 2023-24



School and preschool education staff (including teachers) are the most significant employee group to be subject to wage negotiations in 2023-24, with DTF advising us that they comprise 27% of estimated total employee expenses.

The 2023-24 Budget indicates that the outcomes of future wage negotiations will be crucial in determining whether expenditure forward estimates in this Budget can be achieved and the planned level of government services can be delivered. Figure 3.13 highlights the significance of the wage negotiations.

Figure 3.13: Wage negotiations that are continuing or starting in 2023-24 for general government sector employees



Source: 2023-24 Budget Paper 3 *Budget Statement* and information provided by DTF.

²³ Negotiations are also continuing and starting for other employee groups. Negotiations for Rail Commissioner tram operations and State Theatre Company of South Australia workshop and props staff continue in 2023-24. Negotiations for Rail Commissioner Train Operations employees will start in 2023-24.

DTF advised us that the estimated budget impact in 2026-27 increases to \$445 million if outcomes vary by 1.5% per annum and \$596 million if outcomes vary by 2% per annum.

The 2023-24 Budget provides for anticipated wage increases from enterprise agreement outcomes over the forward estimates, both in individual agency budgets and in the total of the contingency items in DTF's administered items.

The current high inflation environment and cost of living pressures will create challenges for the SA Government in negotiating wage agreements to meet employee expense forecasts in the 2023-24 Budget.

3.5.5 FTE monitoring transitioning from quarterly to monthly reporting in 2023-24 to better inform decision making

DTF advised us that its Budget Monitoring System has been updated to collect FTE data monthly instead of quarterly from August 2023. Agencies must explain any variances between FTE caps and actuals at the end of the reporting period. This data should be consistent with financial monitoring results, in particular employee expense variances, with any discrepancies to be investigated, resolved and/or explained.

DTF indicated that the monthly monitoring of agency FTEs will allow for the early identification of trends, patterns and inconsistencies to inform decision making.

4 Revenue

4.1 Overview of key trends and risks

4.1.1 GST revenue

GST revenue has been revised up by a net total of \$2.383 billion in the 2022-23 MYBR and 2023-24 Budget. This mainly reflects upward revisions in the national GST pool and expected changes in South Australia's share of GST revenue in the 2022-23 MYBR.

Rising interest rates and cost of living pressures may limit growth in household consumption spending across the country and put forecast growth in the national GST pool and South Australia's GST revenues at risk. South Australia's share of the national GST pool is also trending down, from an estimated 10.1% in 2023-24 to 8.9% in 2026-27.

The 2023-24 Budget indicates that without the 'no worse off' guarantee under current transitional GST distribution arrangements, South Australia's GST revenue in 2023-24 would be \$372 million lower than under the previous distribution arrangements. This guarantee is currently scheduled to expire in 2026-27 but is subject to ongoing negotiation between the states and the Commonwealth Government.

4.1.2 National partnership grants for infrastructure

National partnership grants for infrastructure are an important driver of the increasing operating surpluses forecasted over the four years of the 2023-24 Budget. Revenue from these grants is expected to rise by 240% between 2022-23 and 2026-27, from \$779 million to \$1.87 billion. The grants mainly relate to Commonwealth funding for the T2D project and other road projects.

4.1.3 Payroll tax

Payroll tax is expected to grow consistently by about 5% each year in the four years to 2026-27. The current challenging economic environment poses a risk to the achievement of the payroll tax forecasts. The RBA expects the unemployment rate to rise in late 2024, with the economy and employment forecast to grow below trend.

4.1.4 Conveyance duty

Conveyance duty is expected to decrease by 5.2% between 2022-23 and 2023-24. This is due to an expected 6% decline in residential property transfers in 2023-24 following recent strength in the property market and the expectation that some new home building activity was brought forward into previous years.

Growth in conveyance duty collections is forecast to return to more long-term trend levels by the end of the forward estimates, reflecting a return to moderate growth in transaction volumes and property prices.

4.2 New revenue measures

The 2023-24 Budget notes that it includes no new taxes or tax increases.

The only new taxation revenue measure in the 2023-24 Budget results in a reduction to revenue, as it abolishes stamp duty for first home-owners building or buying newly constructed homes. This measure reduces revenue by \$129 million over the four years of the Budget.

The most significant non-taxation-related revenue measure is cheaper hospital car parking and free public transport for metropolitan hospital workers, which reduces revenue by \$56 million between 2022-23 and 2026-27.

The fact that there are no new policy measures for raising revenue in the 2023-24 Budget removes one potential avenue for achieving net operating surpluses if prevailing economic conditions do not drive forecast revenue increases or expenditure growth is greater than expected.

4.3 Grant revenue

4.3.1 South Australia continues to be more reliant on Commonwealth grant revenue than any other state except Tasmania

South Australia is expected to rely on Commonwealth grant revenue for about 57% of its total revenue over the four years of the 2023-24 Budget. Over half of this Commonwealth revenue relates to GST revenue grants.

South Australia continues to be the second most reliant state on Commonwealth grant revenue. This mainly reflects its lesser ability to generate its own revenue (that is, weaker fiscal capacity²⁴) compared to most other states, and therefore its greater need for Commonwealth revenue to provide public services.

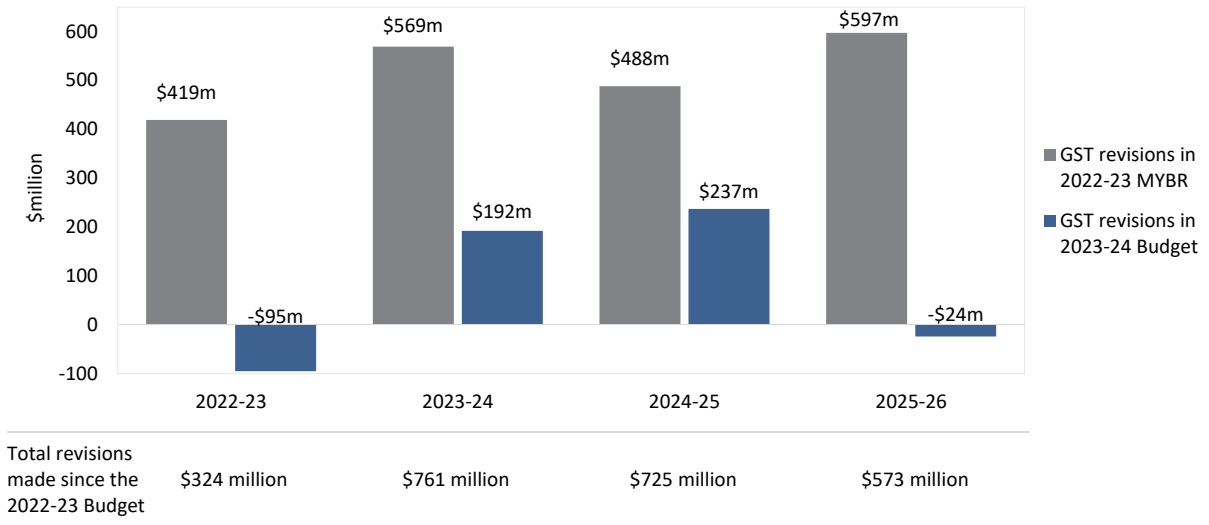
Given the significance of Commonwealth grant revenue to South Australia's revenue base, future trends in Commonwealth grant revenue, and in particular GST revenue, will be critical to the SA Government's ability to generate operating surpluses and pay down its significantly increased net debt.

4.3.2 Estimated GST revenue revised significantly upwards since the 2022-23 Budget

GST revenue has been revised up by a net total of \$2.383 billion in the 2022-23 MYBR and 2023-24 Budget.

²⁴ States have different fiscal capacities due to differences in economic, social and demographic characteristics that affect their expenditure and revenues. Some of the main reasons for the differences are mining production, property sales, taxable payrolls, remoteness, Indigenous status and population growth.

Figure 4.1: GST revenue revisions in the 2022-23 MYBR and the 2023-24 Budget



The upward revisions to GST revenue since the 2022-23 Budget are mainly attributable to the 2022-23 MYBR (\$2.073 billion).

The 2022-23 MYBR noted that GST revenue estimates were revised up in all years, reflecting upward revisions in the national GST pool and expected changes in South Australia’s share of GST revenue. The 2022-23 MYBR indicated that population estimates in the 2021 Census had the effect of increasing South Australia’s share of the national population and resulted in it receiving a higher share of the national GST pool.

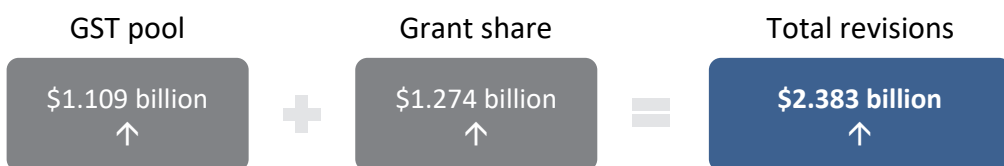
In the 2023-24 Budget, South Australia’s GST revenue grants have been revised down in 2022-23 and 2025-26, and up in 2023-24 and 2024-25. The 2023-24 Budget notes that the downward revision in 2022-23 mainly reflects a downward revision to the national GST pool forecast in the Commonwealth Government’s 2023-24 Budget.

The 2023-24 Budget also notes that the national GST pool has been revised up from 2023-24, reflecting the extension of the Australian Taxation Office’s GST compliance program and the broader outlook for consumption and dwelling investment. Combined with a higher grant share impact from the Commonwealth Grants Commission’s 2023 update, this supports the upward revisions to GST revenue in 2023-24 and 2024-25.

4.3.3 GST revenue upward revisions due to increases in both grant share and GST pool

Changes in the size of the national GST pool and South Australia’s share of the pool have each had a similar impact on GST revisions in the 2022-23 MYBR and the 2023-24 Budget.

Figure 4.2: Factors contributing to GST revenue revisions in the 2022-23 MYBR and the 2023-24 Budget



Source: Information provided by DTF.

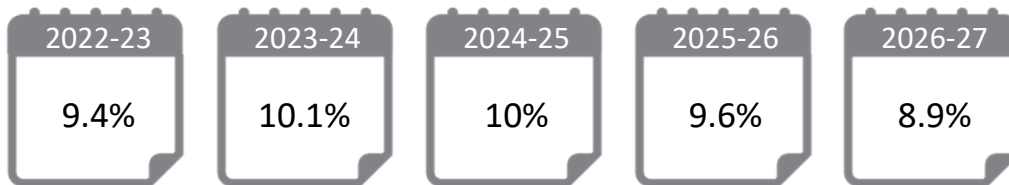
47% of the upward GST revisions are attributable to changes in the GST pool, while the remaining 53% is attributable to changes in South Australia’s grant share.

The 2023-24 Budget notes that the size of the national GST pool is impacted by the amount of GST collected across Australia and is directly influenced by national trends in consumer spending and housing construction. Section 4.3.4 provides further details on factors influencing South Australia’s share of the GST pool.

4.3.4 South Australia’s share of the national GST pool is expected to trend down over the forward estimates

South Australia’s share of the national GST pool is expected to peak in 2023-24, before trending downwards over the forward estimates.

Figure 4.3: South Australia’s estimated GST grants share from 2022-23 to 2026-27



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

South Australia’s share is expected to drop below 9% in 2026-27.

DTF advised us that the estimated grant shares for 2022-23 and 2023-24 were calculated based on Commonwealth population estimates consistent with the 2023-24 Commonwealth Budget and the GST distribution relativities recommended by the Commonwealth Grants Commission in its 2022 and 2023 update reports. Grant share estimates for 2024-25 to 2026-27 are based on Commonwealth population estimates and DTF’s GST relativity forecasts.

The 2023-24 Budget notes that the main factors that have contributed to the increase in South Australia’s GST relativity in 2023-24 are:

- stronger growth in the value of mining production in other states compared to South Australia
- a lower share of Commonwealth Government payments in 2021-22 compared to 2018-19 (the year that dropped out of the Commonwealth Grants Commission’s assessment period for the 2023 update)
- below average growth in property sales, which decreased the State’s assessed capacity to raise revenue and increased its assessed GST requirement
- stronger population growth relative to the national average in 2021-22 compared to 2018-19, which increased South Australia’s need for new infrastructure.

DTF advised us that South Australia's share of the national GST pool is expected to decline over the forward estimates period, reflecting a projected increase in the State's relative fiscal capacity. This increased fiscal capacity reflects the expected moderation in mining royalties in other states across the Commonwealth Grants Commission's assessment period.

4.3.5 Cost of living pressures may limit household spending and reduce growth in the national GST pool

GST revenue is a large component of South Australia's revenue base. It is expected to represent 33% of total revenue between 2023-24 and 2025-26, dropping to 31% in 2026-27.

The Budget Papers highlight the importance of GST revenue to the Budget projections and note that the Budget is particularly exposed to changes in growth in the national GST pool. Risk analysis in the Budget indicates that a 1% change in GST pool growth has a revenue impact for South Australia of about \$88 million per annum.

Rising interest rates and cost of living pressures may limit growth in household consumption spending across the country and put forecast growth in the national GST pool at risk.

4.3.6 State exposed to potentially significant reduction in GST revenue from 2027-28 following expiry of 'no worse off' guarantee

New arrangements for distributing the national GST pool to the states started in 2021-22 and are being introduced over a six-year transitional period that ends in 2026-27. States will be equalised based on the fiscal capacity of New South Wales or Victoria, depending on which has a higher fiscal capacity in each year. A legislated 'no worse off' guarantee for each year up to 2026-27 ensures that, cumulatively, no state will receive a lower GST share than it would have received under the previous distribution arrangement.

The 2023-24 Budget notes that, consistent with the legislated transition to the new GST distribution arrangements, the 2023-24 relativities represent half of the old horizontal fiscal equalisation system relativities and half of the new GST distribution relativities.

The 2023-24 Budget indicates that without the 'no worse off' guarantee, South Australia's GST revenue would be \$372 million lower under the new arrangements in 2023-24 than under the previous arrangements.

The 2024-25 Budget will be the first budget to show the impact of the expiry of the 'no worse off' guarantee on GST revenue, as it will reflect 2027-28 forecasts in the forward estimates.

The Budget Papers highlight that the SA Government supports the previous system of full equalisation where all jurisdictions were equalised to the same fiscal capacity. If the Commonwealth Government is not prepared to support a return to full equalisation then the SA Government advocates that, at a minimum, the 'no worse off' guarantee should be made permanent. The need for the guarantee to be permanently extended has been raised with the Commonwealth Treasurer by the board of state and territory treasurers.

4.3.7 National partnership funding from Commonwealth for infrastructure is important driver of forecast operating surpluses

National partnership grant revenue from the Commonwealth Government for infrastructure is expected to increase in each year of the 2023-24 Budget, rising by 240% between 2022-23 and 2026-27, from \$779 million to \$1.87 billion.

The 2023-24 Budget notes that this mainly reflects the timing of funding for infrastructure projects including future T2D project works, regional road projects, Hahndorf traffic improvements, the Truro Bypass project, the Strzelecki Track upgrade and the South Eastern Freeway upgrade.

National partnership grants for infrastructure are an important driver of forecast increasing operating surpluses over the four years of the 2023-24 Budget.

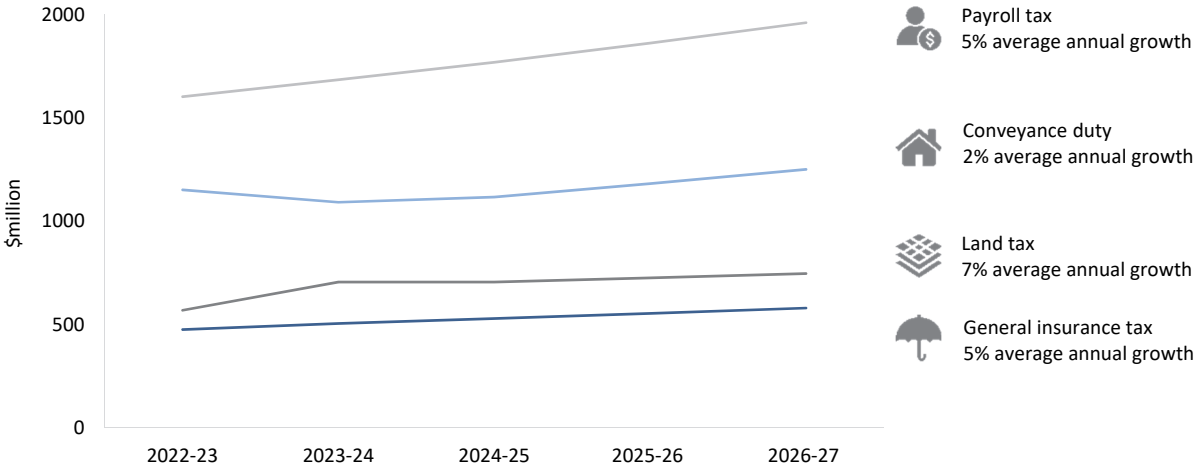
The capital expenditure related to this funding is reflected in the ‘purchases of non-financial assets’ line item, which impacts directly on the net lending balance as it is spent. The net operating balance is only impacted once assets are complete and in use through the annual charging of depreciation expense over their useful life.

4.4 Taxation revenue

4.4.1 Forecast increases in taxation revenue mainly due to payroll tax, land tax and general insurance taxes

Taxation revenue as a proportion of total revenue is expected to remain steady at 22% over the four years of the 2023-24 Budget. It is forecast to grow by an average of 3.7% between 2022-23 and 2026-27, increasing by \$876 million from an estimated \$5.612 billion in 2022-23 to \$6.488 billion in 2026-27.

Figure 4.4: Key taxation revenue trends from 2022-23 to 2026-27



A key driver of growth in taxation revenue is payroll tax. This is expected to grow consistently by about 5% each year in the four years to 2026-27, rising by \$358 million from an estimated \$1.603 billion in 2022-23 to \$1.961 billion in 2026-27.

DTF advised us that forecast payroll tax revenue estimates are based on estimated underlying growth in both employment and wages in South Australia. Employment is forecast to grow by between 0.75% and 1% each year over the four years of the 2023-24 Budget, with assumed average wages growth of around 3.5% per annum.

The current challenging economic environment poses a risk to the achievement of payroll tax forecasts. The RBA expects the unemployment rate to rise in late 2024, with the economy and employment forecast to grow below trend.²⁵

Land tax is expected to rise, increasing by \$178 million between 2022-23 (\$569 million) and 2026-27 (\$747 million). Most of this increase is in 2023-24, when land tax is expected to increase by \$137 million (24%). This reflects strong growth in property site values over the 2022 calendar year as determined by the Valuer-General, which informs valuations for the 2023-24 land tax year.

The 2023-24 Budget notes that in 2023-24, residential site values are estimated to increase by around 22% and non-residential site values by around 27%. Land tax revenue estimates assume that site values subject to land tax will remain flat in 2024-25 following higher than average growth in recent years. Site value growth of around 3% per annum is then forecast from 2025-26.

General insurance taxes are expected to grow by an average 5% per annum over the four years to 2026-27, rising from \$476 million in 2022-23 to \$580 million in 2026-27. This mainly reflects expected growth in insurance premiums.

4.4.2 Conveyance duty forecasts based on expected return to longer term trends in property prices and transaction volumes

Conveyance duty revenue is affected by variations in the local property market. Trends in property market values and activity levels can be difficult to predict, particularly transaction numbers which can change significantly from one year to the next. For example, the 2023-24 Budget notes that residential transactions in 2021-22 were 47% above 2019-20 transaction levels, but were forecast to decline by around 22% in 2022-23, contributing to significant volatility in conveyance duty collections.

Conveyance duty is expected to decrease by \$60 million (5.2%) between 2022-23 and 2023-24. It is then estimated to grow by an average of 4.6% per annum over the forward estimates, rising from \$1.092 billion in 2023-24 to \$1.251 billion in 2026-27.

²⁵ Reserve Bank of Australia 2023, *Statement by Philip Lowe, Governor: Monetary Policy Decision*, media release number 2023-19, 1 August, <<https://www.rba.gov.au/media-releases/2023/mr-23-19.html>>.

The 2023-24 Budget notes that residential property transfers are expected to decline by 6% in 2023-24 following the recent strength in the market and the expectation that some new home building activity was brought forward into previous years.

Conveyance duty revenue growth in 2023-24 is also impacted by the introduction of the SA Government's stamp duty relief for first home buyers initiative, which provides a stamp duty exemption for eligible first home buyers. This will reduce conveyance duty by \$129 million over the four years of the Budget, including a \$26 million reduction in 2023-24.

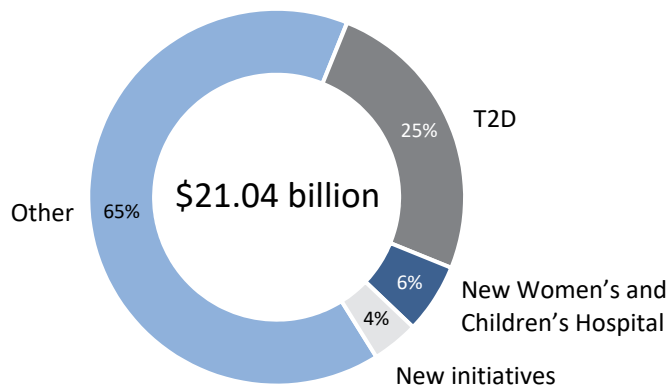
The 2023-24 Budget indicates that residential property prices are expected to be flat, on average, over 2023-24 and 2024-25 after the strong growth experienced across 2021-22 and 2022-23. Average residential property prices are expected to return to long-term growth of around 3% per annum from 2025-26. Residential transactions are forecast to gradually return to long-term trend levels by the end of the forward estimates, reflecting moderate growth in transaction volumes.

5 Capital program

5.1 Overview of key trends and risks

The NFPS capital program²⁶ is \$21.04 billion over the four years of the 2023-24 Budget, an increase of \$2.444 billion compared to the four years of the 2022-23 Budget. The expanded capital program will see land and fixed assets increase by \$10.6 billion between 2024 and 2027.

Figure 5.1: NFPS purchases of non-financial assets in the 2023-24 Budget for the period 2023-24 to 2026-27



While there are limited new investing initiatives in the 2023-24 Budget, capital expenditure increases across the forward estimates due to the large pipeline of existing infrastructure investments and upward cost revisions for some existing major projects.

Around a third of the capital program in the 2023-24 Budget relates to the T2D project and new Women's and Children's Hospital. As both are long-term projects still in their early stages, much of their capital expenditure (around 60%) is expected to be incurred beyond the forward estimates.

The SA Government is pursuing a significant capital program in a heated construction market, where infrastructure projects nation-wide are competing for resources.

Figure 5.2: Construction industry labour demand and construction prices



Shortage of 248,000 skilled workers for public infrastructure projects across Australia in 2023²⁷

SA construction price indexes²⁸

Change between June 2022 and June 2023

Non-residential building ↑ 6.1%

Road and bridge ↑ 11%

²⁶ The capital program is referred to as investing expenditure in the Budget papers and comprises the State's infrastructure projects.

²⁷ Infrastructure Australia 2023, *Infrastructure Market Capacity 2022 Report*, April 2023, p. 62.

²⁸ Australian Bureau of Statistics 2023, *Producer Price Indexes*, June, cat. no. 6427.0, table 17. Output of the construction industries, subdivision and class index numbers, Index No 3020: Non-residential building construction South Australia, Series ID: A2333742K, Index No 3101: Road and bridge construction South Australia, Series ID: A2333748X, accessed 7 August 2023.

It will face significant challenges in ensuring its capital program is completed on time and on budget given capacity constraints, shortages of key building materials and skilled labour, and cost pressures. This risk is heightened by some very large and complex projects in the infrastructure program that are inherently prone to cost overruns and delays.

Costs to deliver the T2D and new Women’s and Children’s Hospital projects were revised significantly up in the 2022-23 MYBR. Election commitment projects, such as the Mount Barker Hospital and new Adelaide Aquatic Centre development, have also been subject to substantial cost revisions since the 2022-23 Budget.

Figure 5.3: Major cost revisions to capital projects

Revised in the 2022-23 MYBR		Revised in the 2023-24 Budget	
T2D	New Women’s and Children’s Hospital	New Mount Barker Hospital	Adelaide Aquatic Centre development
↑ 55% to \$15.4 billion	↑ 59% to \$3.25 billion	↑ 46% to \$321 million	↑ 69% to \$135 million

It is important to re-evaluate the business case when major scope and cost revisions occur for capital projects, to confirm that the expected benefits continue to outweigh expected costs.

Proper planning, management and control of projects will also be essential to achieving budgeted outcomes for capital projects in the 2023-24 Budget, including ensuring project budgets contain realistic allowances for unexpected cost increases.

5.2 New capital expenditure initiatives

5.2.1 Limited new capital expenditure initiatives in the 2023-24 Budget compared to recent budgets

The new capital expenditure initiatives in the 2023-24 Budget total \$867 million and mainly relate to the Attorney-General’s Department, SA Health and the Department for Infrastructure and Transport.

Figure 5.4: New NFPS capital expenditure initiatives by agency

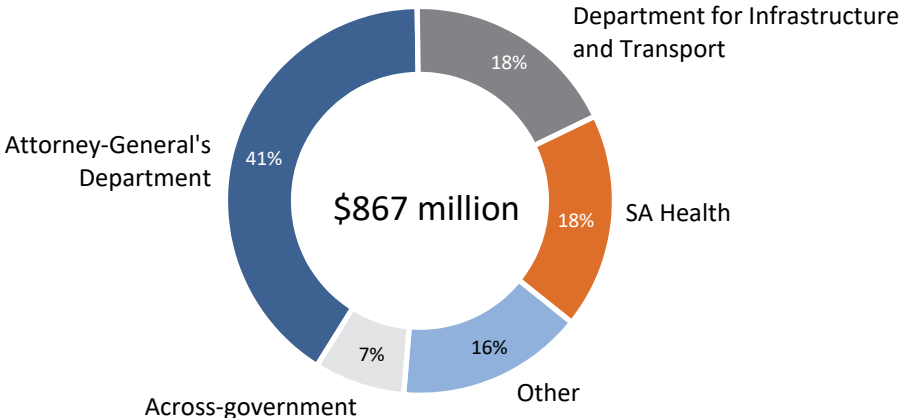
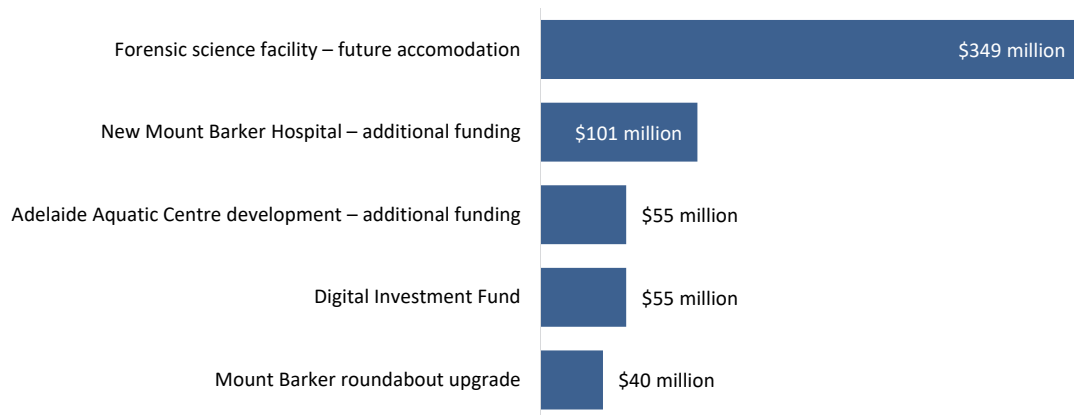


Figure 5.5 shows the most significant new capital expenditure initiatives in the 2023-24 Budget.

Figure 5.5: Major new capital expenditure initiatives in the 2023-24 Budget for the period 2022-23 to 2026-27



The largest new capital expenditure initiative, the Forensic Science Facility, provides \$349 million over the four years of the Budget to complete the design and construction of a new purpose-built facility for Forensic Science SA and the South Australia Police Forensic Services Branch²⁹ by June 2027.

The total project cost for the new Mount Barker Hospital has increased by 46%, from \$220 million to \$321 million, since the 2022-23 Budget. The 2023-24 Budget provides \$101 million in funding to support increased community and allied health services and to deliver integrated clinical support services such as pathology and pharmacy services.³⁰ The hospital is expected to be completed by December 2027.

The total project cost for the Adelaide Aquatic Centre development has increased by 69% since the 2022-23 Budget due to an expanded project scope. This followed end user and public consultation to include a range of new design features. The 2023-24 Budget provides an additional \$55 million funding, bringing total project funding to \$135 million. The project is expected to be completed by December 2025.

Supply constraints and high demand for construction materials and labour have led to an increase in construction costs and contributed to cost revisions for the new Mount Barker Hospital and Adelaide Aquatic Centre development. Sections 5.5.1 and 5.5.2 discuss the capacity constraints being experienced by the construction industry and associated risks to the State.

New NFPS capital expenditure initiatives in the 2023-24 Budget are significantly lower than in the 2022-23 Budget, down by \$2.316 billion (73%) to \$867 million. There were several major new infrastructure initiatives in the 2022-23 Budget including the Hydrogen Jobs Plan (\$593 million), Marion Road – Anzac Highway to Cross Road upgrade (\$350 million), public housing improvement program (\$178 million), five new technical colleges (\$175 million) and Flinders Medical Centre upgrade and expansion (\$161 million).

²⁹ The \$349 million provided for this initiative in the 2023-24 Budget excludes land acquisition costs.

³⁰ Barossa Hills Fleurieu Local Health Network Incorporated 2023, *New Mount Barker Hospital Development Engagement Framework*, SA Health, page 5.

5.2.2 A Better Housing Future measure includes funding for capital expenditure initiatives

The measure titled 'A Better Housing Future' in the 2023-24 Budget aims to deliver more social and affordable houses, improved rental protection and affordability, and assistance to first home buyers. It provides \$325 million from 2022-23 to 2026-27 for a range of revenue, operating and capital expenditure initiatives. The capital expenditure initiatives include \$97 million to construct 152 houses (127 by 30 June 2026) and a \$158 million provision for other housing projects that are yet to be developed and specified.

5.2.3 2023-24 Budget provides \$445 million funding package to support the creation of Adelaide University

In July 2023, the SA Government announced that it had entered into an agreement with the University of Adelaide and University of South Australia (UniSA) to create a university to be called Adelaide University.

DTF advised us that the 2023-24 Budget includes a \$444.5 million funding package to support the creation of Adelaide University. The funding package provides for:

- the SA Government's purchase of UniSA's Mawson Lakes campus occupation rights (\$50 million) and land at UniSA's Magill campus (\$64.5 million) in 2023-24
- the establishment of a research fund to support research initiatives (\$200 million) and student support fund to support the enrolment of students from low socio-economic groups (\$100 million) in 2024-25
- \$30 million in operating expenditure between 2024-25 and 2026-27 for initiatives to attract international students to Adelaide University.

5.2.4 Capital expenditure parameter variations mainly reflect changed timing of expected capital project expenditure

Total NFPS net lending parameter variations for capital expenditure are significantly lower in the 2023-24 Budget (total \$527 million improvement in net lending over the four years of the Budget) than they were in the 2022-23 Budget (\$2.915 billion).

NFPS net lending parameter variations in the 2023-24 Budget mainly reflect deferrals in the expected timing of expenditure for the new Women's and Children's Hospital to beyond the forward estimates.

Net lending parameter variations in the 2022-23 Budget mainly reflected investing contingency adjustments and the changed timing of expected capital project expenditure. This included contingency and timing adjustments for the T2D project and new Women's and Children's Hospital.

5.3 Non-financial public sector capital program

5.3.1 The scale of the NFPS capital program has increased in the 2023-24 Budget

Purchases of non-financial assets for the NFPS are projected to total \$21.04 billion over the four years of the 2023-24 Budget, compared to \$18.596 billion over the four years of the 2022-23 Budget.

The 2023-24 Budget indicates that the SA Government’s capital program is focused on building key economic and social infrastructure, including significant investment in health, road networks and schools. It includes:

- \$867 million in new NFPS capital expenditure initiatives (see section 5.2.1 for details of them)
- capital expenditure of \$5.3 billion for the T2D project and \$1.2 billion for the new Women’s and Children’s Hospital.

Figure 5.6 shows the purchases of non-financial assets for the NFPS over the 10 years to 2026-27 compared to the asset replacement ratio.³¹

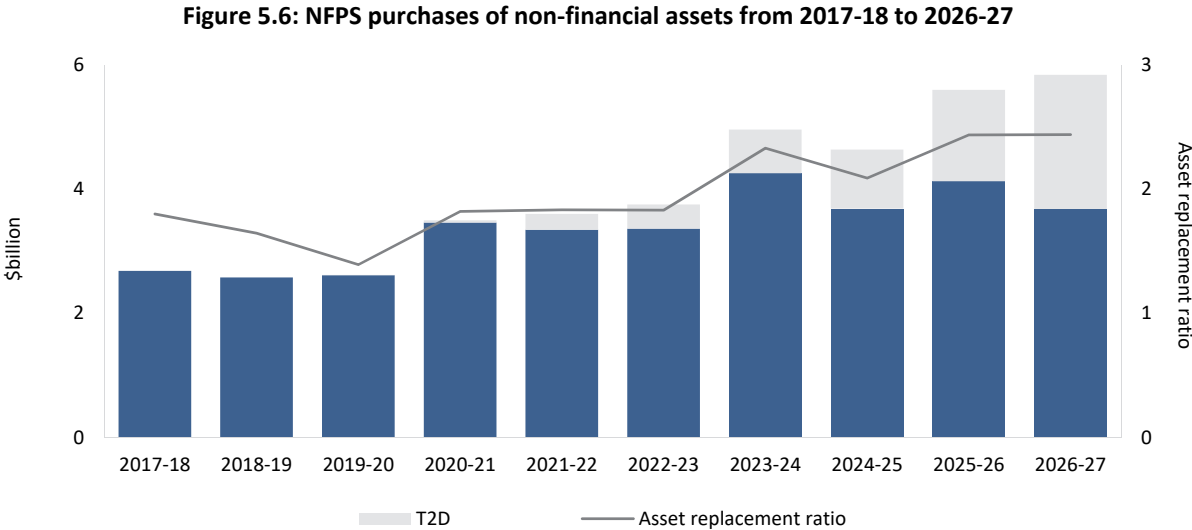


Figure 5.6 shows that purchases of non-financial assets for the NFPS over the four years of the 2023-24 Budget are substantially larger than prior years, mainly due to the T2D project which forms an increasingly significant component over the forward estimates period.

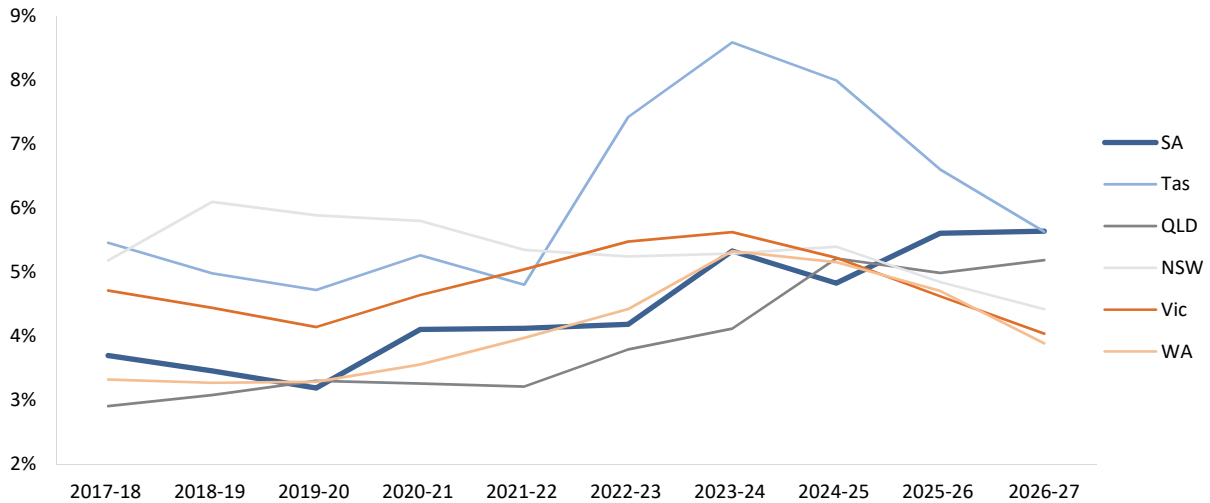
Figure 5.6 also highlights that since 2019-20 the asset replacement ratio has generally been trending higher. It ranged between 1 and 2 for the period 2017-18 to 2022-23 and rises to 2 or higher from 2023-24 onwards. This indicates that the SA Government has spent or expects to spend more on replacing and renewing assets each year than the consumption of assets through depreciation.

³¹ The asset replacement ratio compares capital expenditure to depreciation to assess whether assets are being consumed at a rate consistent with their replacement. Ratios higher than 1:1 indicate that assets are being replaced faster than they are consumed.

5.3.2 South Australia’s planned capital program as a percentage of its asset base is largely consistent with most other states

Figure 5.7 highlights that in 2023-24, each state’s NFPS capital program as a percentage of its land and fixed assets base increases from that in 2022-23.

Figure 5.7: South Australia’s NFPS purchases of non-financial assets as a percentage of its land and fixed assets compared to other Australian states from 2017-18 to 2026-27



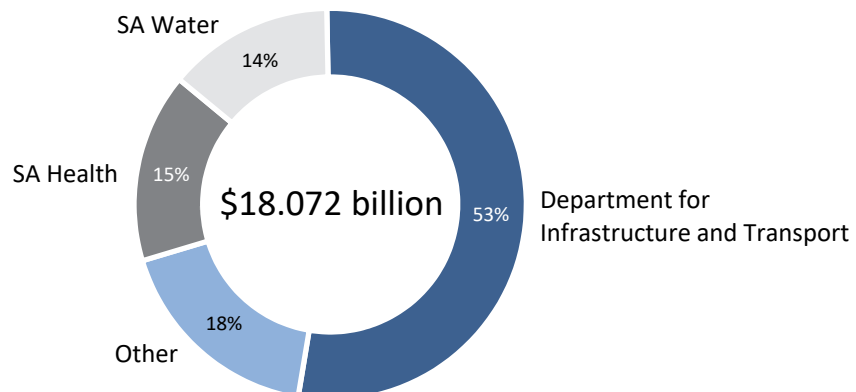
Source: South Australian and interstate budget papers and financial reports.

It also highlights that the SA Government’s annual NFPS capital program as a percentage of its land and fixed assets base over the four years of the 2023-24 Budget is largely consistent with most other states, averaging 5.4%.

5.3.3 Infrastructure and Transport, SA Health and SA Water have the largest capital programs

Figure 5.8 provides a breakdown of the capital program by agency over the four years of the 2023-24 Budget.

Figure 5.8: Breakdown of NFPS capital program by agency³²



³² The \$18.072 billion total reflects the portion of the NFPS capital program that has been allocated to agencies. The total NFPS capital budget over the four years of the budget is \$21.04 billion.

Most of the capital program over the four years of the Budget is attributable to the Department for Infrastructure and Transport (DIT) (\$9.561 billion), SA Health (\$2.829 billion) and the South Australian Water Corporation (SA Water) (\$2.477 billion).

The NFPS capital program also includes \$2.968 billion over the four years of the 2023-24 Budget that has not been allocated to agencies (14% of the total NFPS capital budget). This includes contingency provisions that are allocated to specific capital projects and general contingencies.³³ The portion allocated to general contingencies provides the SA Government with some flexibility over the nature and timing of its capital program.

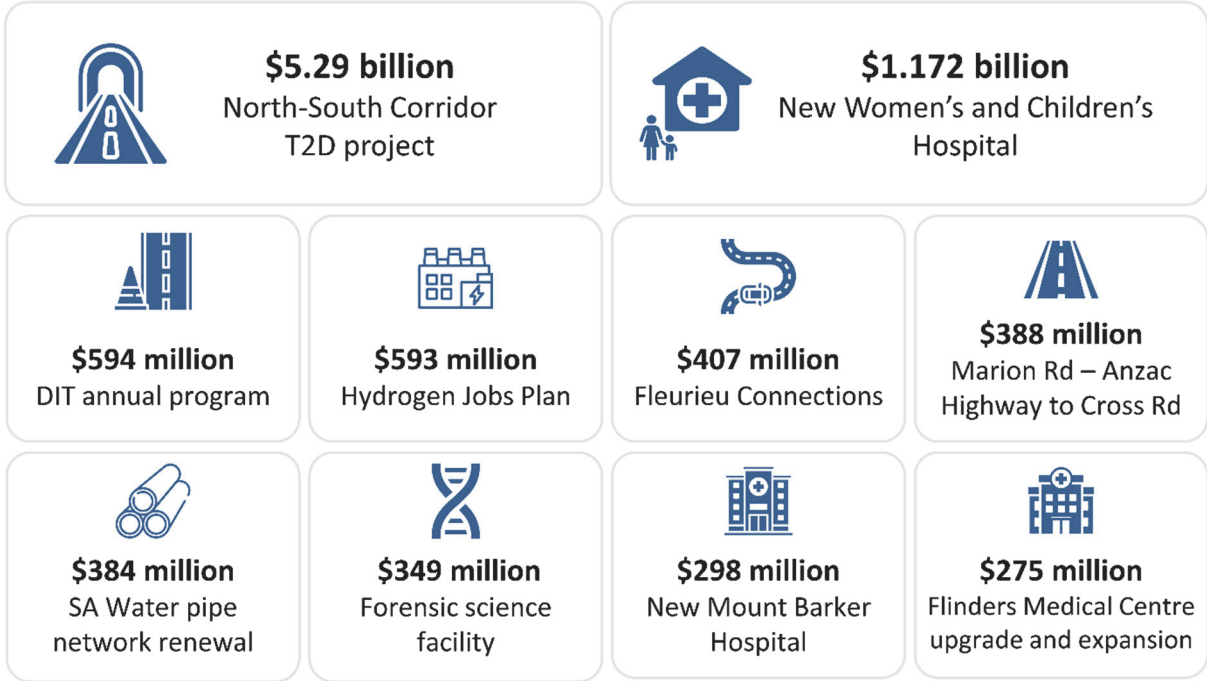
There is also a provision for capital slippage to reflect the tendency, on a whole-of-government basis, for underspending due to some projects slipping from their budgeted expenditure profile. On average over the past five years, actual capital expenditure has been 12% less than what was budgeted. Standard & Poor’s notes that market capacity constraints will make it difficult for the State to spend the full amount budgeted and assumes in its credit opinion report that the State will only spend 80% of its capital program budget each year.

5.4 Major capital projects

5.4.1 T2D project and new Women’s and Children’s Hospital expected to incur the most expenditure over the four years of the Budget

Figure 5.9 details the most significant capital projects over the four years of the 2023-24 Budget.

Figure 5.9: Major capital projects over the four years of the 2023-24 Budget³⁴



³³ This amount also includes consolidation adjustments to eliminate inter-agency transactions and recognise contributed assets.

³⁴ Includes amounts held in contingencies for these projects.

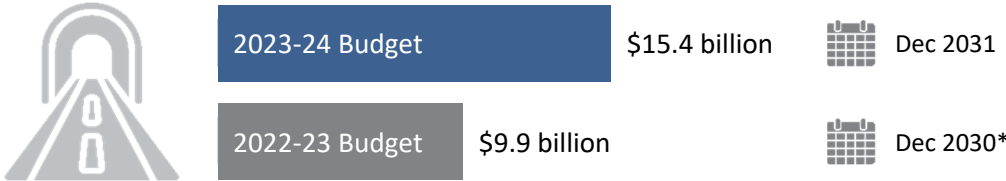
The T2D project and new Women’s and Children’s Hospital account for a third of the total capital program in the 2023-24 Budget. Other projects with significant capital expenditure include the DIT annual program, Hydrogen Jobs Plan³⁵ and Fleurieu Connections.³⁶

5.4.1.1 T2D project estimated cost increased significantly following review

A summary of the status of the T2D project in the 2023-24 Budget is shown in figure 5.10.

Figure 5.10: Changes in T2D project estimated cost and time frame between 2022-23 Budget and 2023-24 Budget

Estimated total project cost ↑55% and project completion date revised



* As advised by DTF.

In March 2022, the SA Government requested that DIT review key elements of the T2D project, which led to an updated reference design and the total estimated project cost increasing by 55% to \$15.4 billion in the 2022-23 MYBR. DTF advised us that the \$5.5 billion cost increase mainly relates to:

- design development
- construction costs
- principal contractor costs
- project risks and contingency
- escalation in construction costs.

DTF also advised us that:

- the current estimated completion date for the project is December 2031, which is one year later than the original planned completion date of December 2030
- the revised estimated project cost, scheduled completion date and robustness of the estimating approach have been subject to external independent peer review.

DTF advised us that the Commonwealth and SA Governments have agreed in principle to fund the T2D project on a 50:50 basis. In the 2023-24 Budget, the SA Government committed to its full contribution of \$7.7 billion, subject to the Commonwealth Government providing the matching funding. The Commonwealth Government has committed \$4.975 billion to date.

³⁵ The Hydrogen Jobs Plan involves establishing a new hydrogen facility including electrolysers, a combined cycle turbine plant and a hydrogen storage capacity in the Whyalla region.

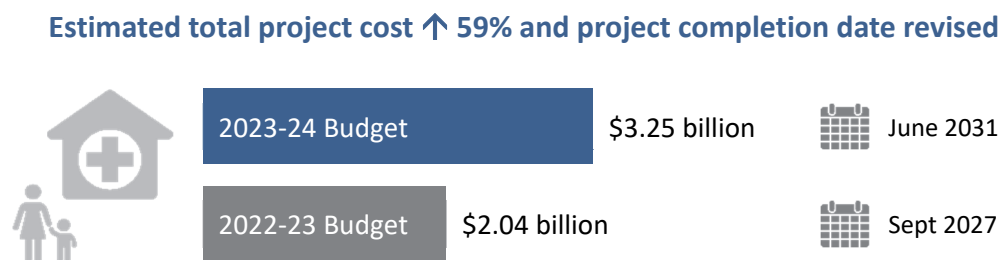
³⁶ Fleurieu Connections involves duplicating Main South Road from Seaford to Sellicks Beach and Victor Harbor Road.

DTF also indicated that the Commonwealth Government is expected to confirm its commitment to the balance of funding required in its Mid-Year Economic and Fiscal Outlook process in December 2023.

5.4.1.2 Project cost increases and delays for new Women’s and Children’s Hospital

The cost and time frame for completing the new Women’s and Children’s Hospital was revised in the 2022-23 MYBR. The status of the project in the 2023-24 Budget is summarised in figure 5.11.

Figure 5.11: Changes in New Women’s and Children’s Hospital estimated cost and time frame between 2022-23 Budget and 2023-24 Budget



Following a review of the planned site location by the SA Government in 2022, it was determined that the new hospital would be built at the Thebarton Police Barracks site located near the Royal Adelaide Hospital, instead of west of the Royal Adelaide Hospital as originally planned.

The total cost of the project is now \$3.25 billion, up \$1.21 billion from the \$2.04 billion estimate in the 2022-23 Budget. The expected completion date has been extended by around four years to June 2031. The new hospital will be entirely State funded.

DTF advised us that it is more costly to build the new hospital on the barracks site than the original location because of the additional time added to the project to adjust the design and the construction program for the new site. The hospital itself is also expected to be larger because the non-clinical functions that were expected to be shared with the Royal Adelaide Hospital will now all be needed at the new site.

DTF also advised us that the current estimated cost and time frames for the project have been informed by advice from both independent cost consultants and Lendlease under the SA Government’s early contractor involvement contract.

5.5 Key capital program risks

5.5.1 Infrastructure market has reached capacity across Australia

The large pipeline of public and private infrastructure investments across Australia has resulted in massive demand for workers, materials and equipment. With supply chain disruptions and skilled labour shortages continuing to persist, Infrastructure Australia has

warned that the infrastructure market has reached capacity and project slippage is now expected:

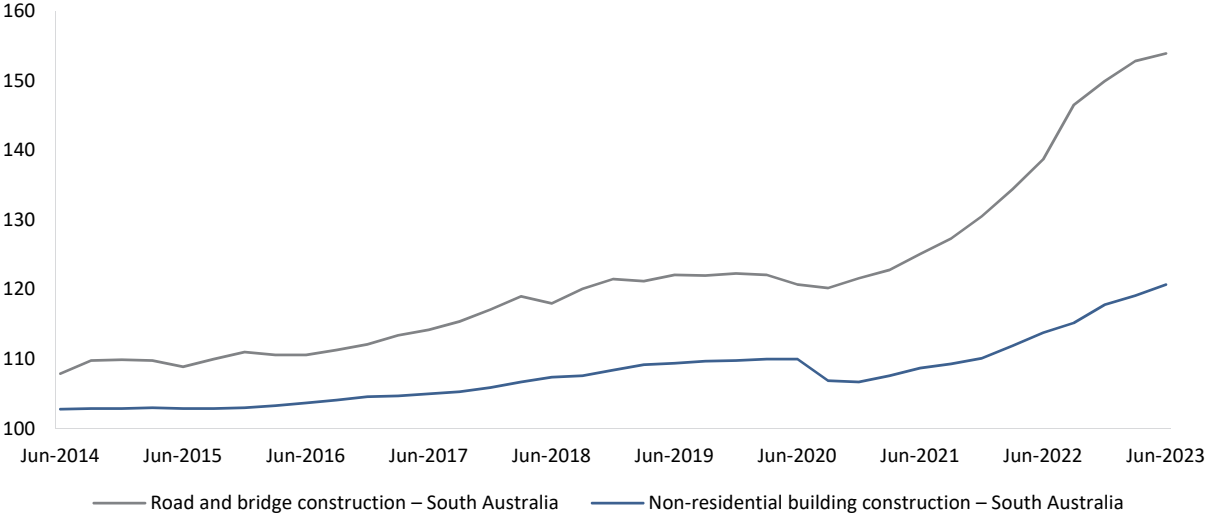
The pressure the industry is experiencing to supply labour and materials in step with demand creates unprecedented uncertainty on project outcomes, and the opportunities to adapt and pivot will take time to realise. As such, it is no longer a question of if a project will slip, but more likely when, by how long and at what cost.³⁷

Industry surveys and interviews performed by Infrastructure Australia identify labour scarcity as the single biggest issue facing construction companies. There is a projected shortage of 248,000 skilled workers for public infrastructure projects across Australia in 2023 and this shortage is expected to continue until at least early 2026.³⁸ Infrastructure Australia highlights the need for workforce training to address these labour supply issues and enable infrastructure programs to be achieved.³⁹

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

Supply chain disruptions, skilled labour shortages and increased activity driving demand for trades and materials have seen a sharp increase in construction costs over the last two years. Figure 5.12 highlights the increase in non-residential building and road and bridge construction costs currently being experienced in South Australia.

Figure 5.12: Construction price indexes – South Australia – June 2014 to June 2023



Source: Australian Bureau of Statistics 2023, *Producer Price Indexes*, June, cat. no. 6427.0, table 17. Output of the construction industries, subdivision and class index numbers, Index No 3020: Non-residential building construction South Australia, Series ID: A2333742K, Index No 3101: Road and bridge construction South Australia, Series ID: A2333748X, accessed 7 August 2023.

³⁷ Infrastructure Australia 2023, *Infrastructure Market Capacity 2022 Report*, April 2023, p. 7.

³⁸ Infrastructure Australia 2023, *Infrastructure Market Capacity 2022 Report*, April 2023, pp. 61-62.

³⁹ Infrastructure Australia 2023, *Infrastructure Market Capacity 2022 Report*, April 2023, p. 61.

Figure 5.12 shows that in the 12 months to June 2023, non-residential building construction costs increased by 6.1% and road and bridge construction costs increased by 11%.

The 2023-24 Budget recognises that the current high demand for infrastructure-related labour and materials increases the risks of cost escalations for the capital program. It also notes that project estimates include prudent allowances for cost escalations.

DTF advised us that the allowances for major project cost escalations are determined by agencies on a project-by-project basis and embedded in individual project budgets. As such, the size of the allowance for cost escalations is dependent on the nature of the project and any project-specific risk factors identified at the time the budget is developed.

Significant increases in construction costs above the allowances provided for in the agency project estimates pose the risk of projects exceeding forecast cost estimates.

5.5.3 Capital projects are being delivered in an environment that is very different to that planned

Infrastructure Australia notes that the current difficult market conditions for the construction industry mean that capital projects are being delivered in an environment that is very different to that planned.⁴⁰

Where upward cost revisions or scope changes for capital projects are significant, it is appropriate for the SA Government to revisit business cases to reassess how expected benefits compare to the revised costings and the impact on project viability.

The RBA has also raised concerns that with current infrastructure investment in Australia, governments are 'seeking to do too much, in too short a time'.⁴¹ The SA Government may need to consider the timing of its capital expenditure in view of infrastructure capacity constraints and forecast debt levels.

5.5.4 Commonwealth Government's strategic infrastructure review may impact funding of planned road and rail projects

The Commonwealth Government has noted that market capacity issues and an inflationary environment have created budgetary pressures and deliverability challenges for infrastructure projects across the nation. As a result, it has initiated a strategic review into Commonwealth-funded road and rail projects to determine whether they should continue and to create a sustainable pipeline of projects.

This review may potentially impact the Commonwealth Government's funding, and hence the financial viability, of some major South Australian road and rail projects, including the T2D project.

⁴⁰ Infrastructure Australia 2023, *Infrastructure Market Capacity 2022 Report*, April 2023, p. 18.

⁴¹ Reserve Bank of Australia 2023, *Statement by Philip Lowe, Governor: Some Closing Remarks*, 7 September, <<https://www.rba.gov.au/speeches/2023/pdf/sp-gov-2023-09-07.pdf>>.

DTF advised us that the outcome of this review will be reflected in the 2023-24 MYBR, pending formal advice from the Commonwealth Government.

5.5.5 Robust controls and appropriate skills and expertise needed to deliver capital program on time and on budget

Major capital projects carry high inherent risks associated with estimating costs, complex contract arrangements, cost escalations⁴² and timeliness of completion. These risks have been evident for the T2D project and new Women's and Children's Hospital, with significant cost and timing revisions made in the 2022-23 MYBR.

Infrastructure Australia has noted that inadequate public sector procurement expertise, including oversight of projects during delivery, can result in the taxpayer being exposed to inappropriate risks or costs and compromise the achievement of intended user outcomes.⁴³

Proper planning, management and control of large capital projects, including the engagement of appropriate expertise, will be critical to achieving budgeted outcomes.

⁴² The Grattan Institute analysed all public road and rail projects costing more than \$20 million completed between quarter 1, 2001 and quarter 1, 2020. It found that 45% of projects with an initial estimated cost above \$1 billion had a cost overrun, and that the average cost overrun for these projects was \$1.05 billion. Terrill M, Emslie O and Moran G 2020, *The rise of mega projects: counting the costs*, Grattan Institute, 8 November 2020, p. 17.

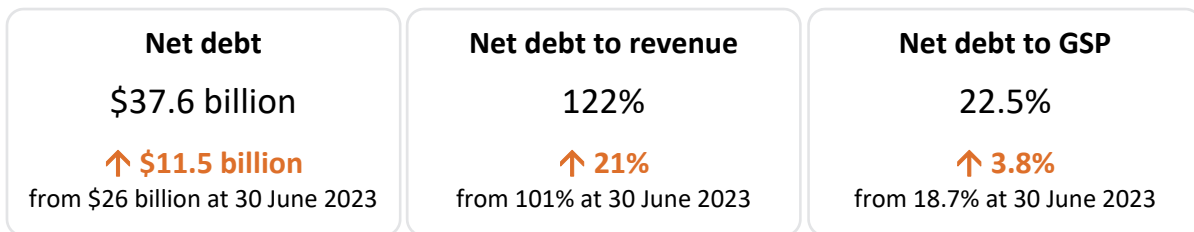
⁴³ Infrastructure Australia 2019, *An Assessment of Australia's Future Infrastructure Needs: Australian Infrastructure Audit 2019*, June, p. 236.

6 Net debt and interest expenses

6.1 Overview of key trends and risks

NFPS net debt⁴⁴ is projected to continue to trend upwards over the forward estimates to \$37.563 billion by 30 June 2027. This is largely due to increased borrowings to fund the SA Government's significant capital program, which includes the T2D project and new Women's and Children's Hospital.

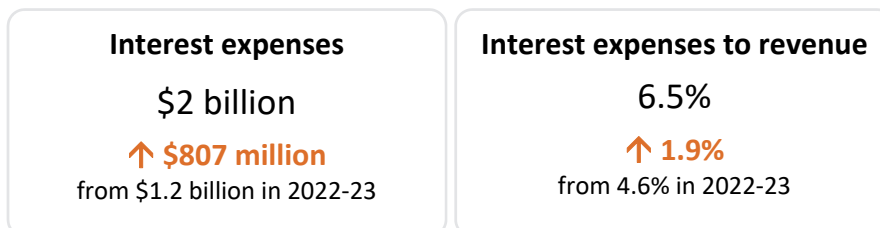
Figure 6.1: Key NFPS estimated net debt indicators at 30 June 2027⁴⁵



Both the net debt to revenue and net debt to GSP ratios are estimated to increase over the four years of the 2023-24 Budget. These ratios provide an indication of the sustainability of net debt and are used by some other states to set targets for reducing debt.⁴⁶

Net debt levels may increase further due to major capital expenditure commitments beyond the forward estimates. There is also a risk of further increases in net debt if capital projects exceed budgeted allowances, as cost overruns would likely be funded through increased borrowings.

Figure 6.2: Key NFPS estimated interest expense indicators in 2026-27



Interest expenses are also projected to increase over the forward estimates due to the higher net debt levels. Higher levels of net debt increase South Australia's risk exposure to interest rate rises, particularly in an environment of high inflation. DTF advised us that a one percentage point increase in the average interest rate applied to NFPS net debt in the 2023-24 Budget would increase NFPS interest expenses by a total of \$1.33 billion (19.1%) over the four years of the Budget.

⁴⁴ Net debt gives a better picture of a government's financial position than borrowings as it also considers financial assets that may offset the government's financial liabilities.

⁴⁵ Net debt figures and analysis in this report are for the non-financial public sector (NFPS). Net debt for the NFPS reflects the whole of government's debt position.

⁴⁶ Victoria has a target of stabilising its general government net debt to GSP ratio in the medium term and Tasmania has a target of keeping its general government net debt to GSP ratio less than 10% over the next decade to 2032-33. Queensland has a target of stabilising its general government net debt to revenue ratio in the medium term and considers the forecast ratio of 55% by 2026-27 to be a sustainable level.

As the ratio of interest expense to revenue increases, there is also a risk that the SA Government will have less budget flexibility to fund its service delivery needs and respond to future economic challenges.

Credit rating agencies have maintained South Australia's credit rating at the second highest level following the release of the 2023-24 Budget. Standard and Poor's revised its outlook for South Australia from negative to stable due to its expectation around the delivery of operating surpluses and the strength of the local economy. However, credit rating agencies have indicated that South Australia's credit rating could be downgraded in the future if operating deficits return and the State's ability to reduce its net debt is diminished.

6.2 Net debt

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

The SA Government has set a fiscal target to achieve a level of net debt that is sustainable over the forward estimates in the 2023-24 Budget, however it has not set a quantifiable measure to assess its performance against this fiscal target.

DTF advised us that the SA Government assesses the sustainability of its net debt levels annually through the Budget process. The assessment considers the views of credit rating agencies, benchmarking against interstate peers and the level of interest cost burden.

DTF also advised us that it performed medium-term modelling of net debt to 2035-36 as part of the 2023-24 budget preparation process.⁴⁷

6.2.2 NFPS net debt projected to rise to 122% of revenue by 2027

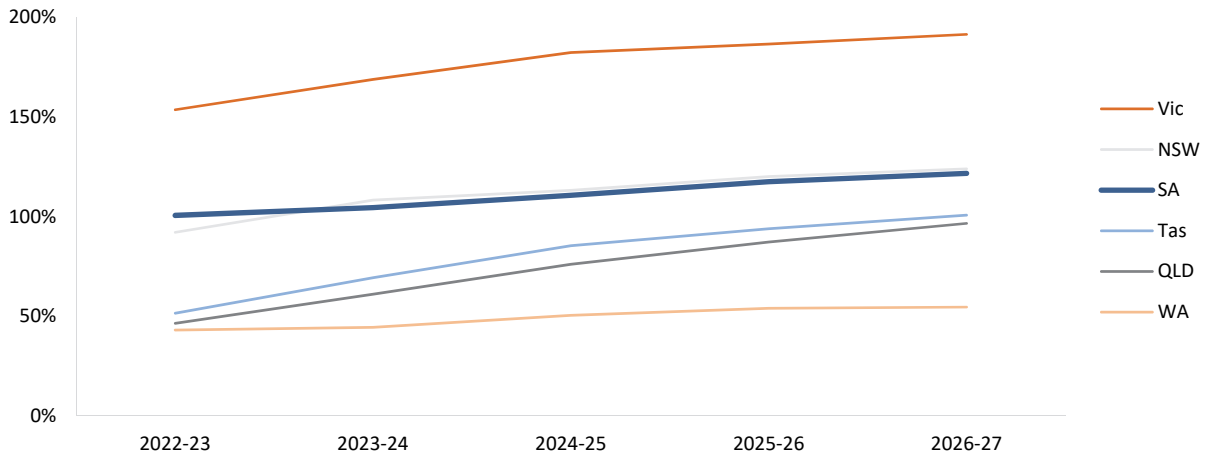
Comparing net debt to revenue provides one measure of the sustainability of a state's debt levels. South Australia's NFPS net debt to revenue ratio has increased significantly from 64% in 2017-18 to a forecast 122% in 2026-27. This mainly reflects higher borrowings to fund:

- the operating cash deficits between 2019-20 and 2021-22 resulting from the economic impacts of COVID-19 and the SA Government's economic stimulus response
- the SA Government's large capital program since 2020-21.

Figure 6.3 shows that the NFPS net debt to revenue ratio for all Australian states is expected to trend upwards from 2022-23 to 2026-27.

⁴⁷ This modelling was based on broad assumptions of a policy-neutral setting, economic indicators returning to long-term average growth rates and the capital program returning to lower levels once commitments to the T2D and new Women's and Children's Hospital projects are completed.

Figure 6.3: South Australia's NFPS net debt to revenue ratio compared to other Australian states from 2022-23 to 2026-27



Source: South Australian and interstate budget papers.

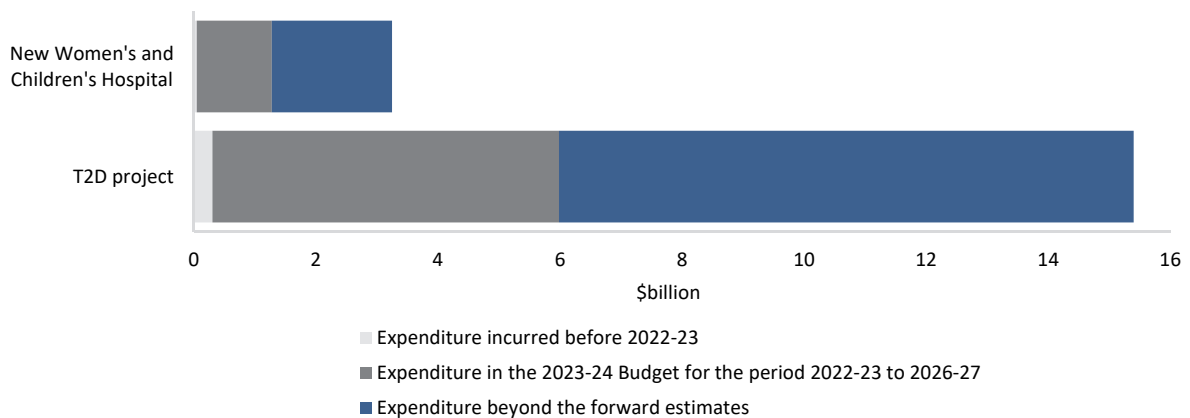
By 30 June 2027, South Australia's net debt to revenue ratio (122%) is expected to be higher than all other states except Victoria (191%) and New South Wales (124%).

The increase in the NFPS net debt to revenue ratio across Australian states mainly reflects increased borrowings by each state to implement significant capital investment programs.

6.2.3 Net debt levels will likely rise further as a result of substantial infrastructure project expenditure planned beyond the forward estimates

Major capital expenditure commitments exist beyond the forward estimates period. Figure 6.4 shows that around 60% of the expenditure for both the T2D project (\$9.42 billion) and new Women's and Children's Hospital (\$1.97 billion) is estimated to be incurred after the forward estimates.

Figure 6.4: Major capital expenditure commitments beyond the forward estimates



DTF advised us that other capital projects with significant expenditure beyond the forward estimates include the Flinders Medical Centre Upgrade and Expansion (\$119 million) and Freight Highway Upgrade Program (\$344 million).

Since the 2022-23 Budget, the total estimated costs for the T2D project and new Women’s and Children’s Hospital have increased by more than 50% (sections 5.4.1.1 and 5.4.2.2 provide further details). Section 5.5 highlights the risk of cost overruns due to the size and complexity of large projects and an overheated construction market driving up costs for materials and labour. There is a risk that further upward cost revisions for capital projects may result in an increase in net debt as they will likely be funded, at least in part, through increased borrowings.

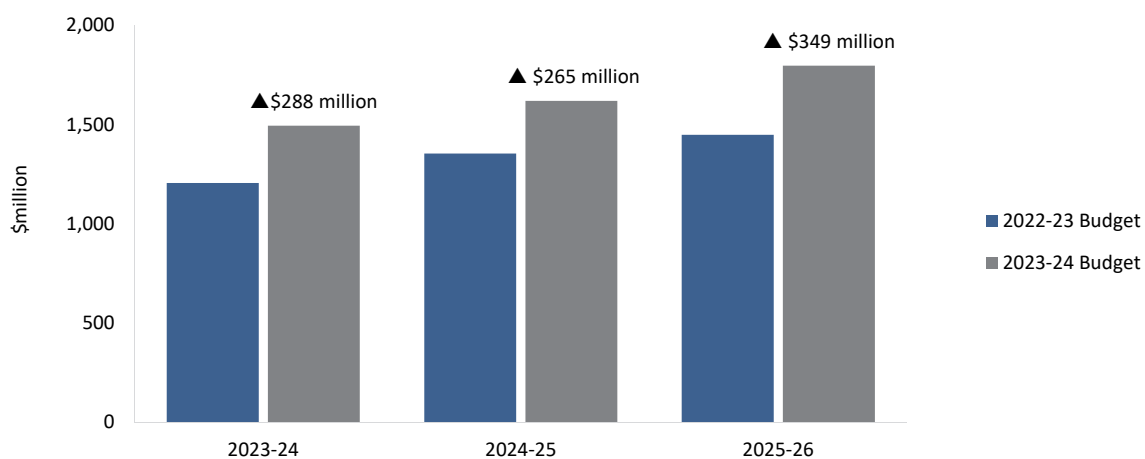
DTF advised us that the SA Government considers the projected level of net debt when reviewing the timing and suitability of any new capital expenditure, in particular large multi-year projects.

6.3 Interest expenses

6.3.1 Interest expenses projected to increase significantly due to rising interest rates

The RBA continued to increase its cash rate target in 2022-23 in response to high inflation. The cash rate rose from 1.35% in July 2022 to 4.1% in June 2023. SAFA’s borrowing rates have increased in response to this, which has resulted in interest expense projections in the 2023-24 Budget increasing from those in the 2022-23 Budget, as shown in figure 6.5.

Figure 6.5: NFPS interest expense in the 2022-23 and 2023-24 Budgets



DTF advised us that SAFA modelling is used to determine interest expense forecasts in the Budget. SAFA’s modelling calculates the average cost of funds loan⁴⁸ and cash loan⁴⁹ balances based on the forecast Consolidated Account receipts and applies an average interest rate to determine interest expense projections.

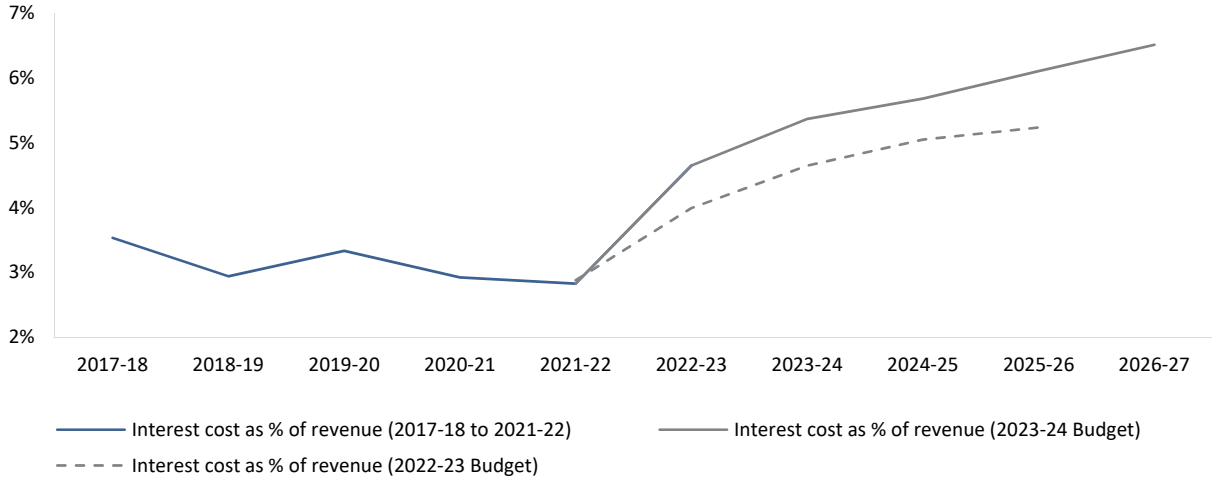
⁴⁸ Cost of funds loan portfolio includes liquid nominal rate liabilities and hedge instruments and certain non-liquid nominal long-term borrowings.
⁴⁹ Loan from SAFA to the Treasurer to meet the working capital needs of general government sector agencies.

The interest rates used to forecast interest expenses for 2023-24 to 2025-26 increased on average by 0.79 percentage points between the 2022-23 and 2023-24 Budgets for the cost of funds loan and 0.9 percentage points for the cash loan.

6.3.2 Interest expenses as a percentage of total revenue are higher than 2022-23 Budget estimates and will rise to 6.5% by 2026-27

Interest expenses as a percentage of total revenue (interest expense to total revenue ratio) are an indicator of a state’s capacity to fund its borrowing costs from operating revenues. Figure 6.6 shows the NFPS interest expense to total revenue ratio over the period 2017-18 to 2026-27 for South Australia.

Figure 6.6: NFPS interest expense to total revenue ratio from 2017-18 to 2026-27



The NFPS interest expense to total revenue ratio is forecast to increase significantly from 3.5% in 2017-18 to 6.5% by 2026-27. This principally reflects the increase in NFPS borrowings and interest rates.

Figure 6.6 highlights that interest expenses as a percentage of revenue over the forward estimates period are forecast to be above that estimated in the 2022-23 Budget. The NFPS interest expense to revenue ratio is now forecast to average 5.9% over the four years of the 2023-24 Budget, compared to 4.7% over the four years of the 2022-23 Budget.

The Intergenerational Report 2023⁵⁰ notes that fiscal sustainability is a government’s ability to manage its finances so it can meet its spending commitments, now and in the future, without large and sudden adjustments to policy settings. Fiscal sustainability is critical, as it ensures the ongoing delivery of essential services by preventing the need for sudden adjustments to the level of government spending and reducing the risk of interest costs crowding out higher priorities. It also creates space to provide economic support during economic downturns and crises.

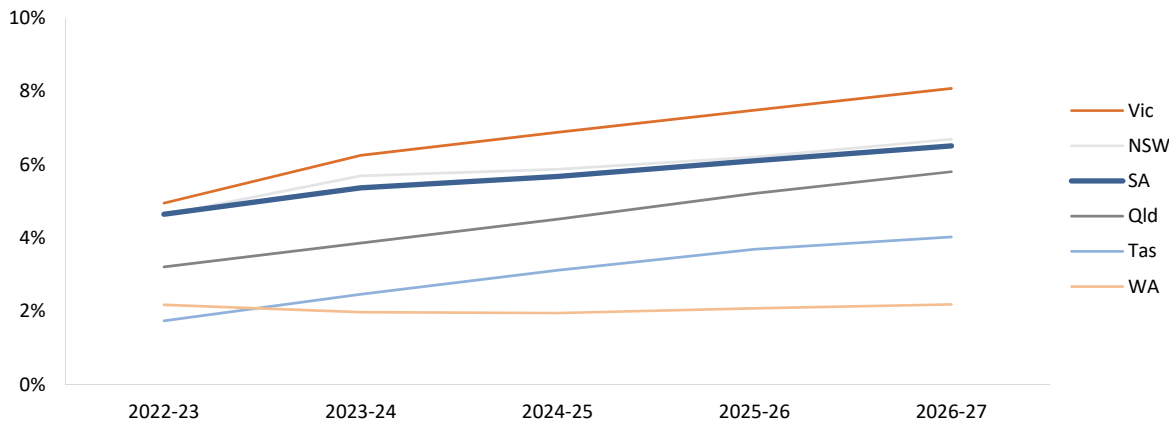
⁵⁰ Australian Government’s Intergenerational Report 2023 *Australia’s future to 2063*, <<https://treasury.gov.au/sites/default/files/2023-08/p2023-435150.pdf>>.

As the ratio of interest expenses to revenue increases, there is a risk the SA Government will have less budget flexibility to fund service delivery needs and respond to future economic challenges.

6.3.3 South Australia’s interest expense as a percentage of total revenue is third highest of the states

Figure 6.7 compares South Australia’s NFPS interest expense to total revenue ratio to other Australian states for the period 2022-23 to 2026-27.

Figure 6.7: South Australia’s NFPS interest expense to total revenue ratio compared to other states from 2022-23 to 2026-27



Source: South Australian and interstate budget papers.

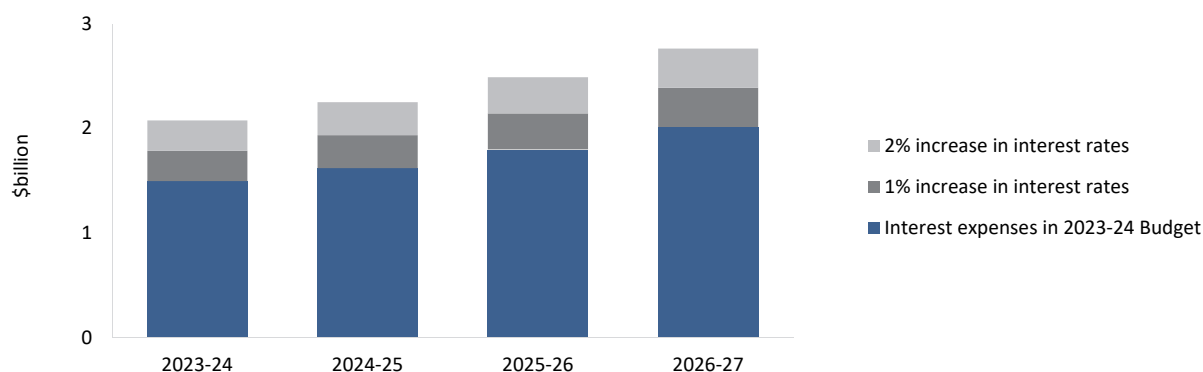
By 2026-27, South Australia’s interest expense to total revenue ratio (6.5%) is expected to be higher than all states except Victoria (8.1%) and New South Wales (6.7%).

6.3.4 South Australia’s risk exposure to interest rate rises is significantly increased by the higher level of net debt

There is a risk the RBA may need to increase interest rates faster than expected to combat rising inflation.

The SA Government’s projected rising level of net debt significantly increases its exposure to increases in interest rates. Figure 6.8 shows the interest expense impact of one and two percentage point increases in the average interest rate applying to NFPS net debt in the 2023-24 Budget.

Figure 6.8: Impact on NFPS interest expenses from higher interest rates than assumed in 2023-24 Budget



A one percentage point increase in the average interest rate applying to NFPS net debt in the 2023-24 Budget would increase NFPS interest expenses by a total of \$1.33 billion (19.1%) over the four years of the Budget. A two percentage point increase would lift them by \$2.65 billion (38.3%).

The 2023-24 Budget notes that the SA Government’s debt management objective is to minimise long-term average interest costs subject to acceptable levels of interest rate risk.

SAFA is the State’s central borrowing authority and is responsible for managing most of the State’s debt, including interest rate risk. It lends funds raised from financial markets to various South Australian public sector clients, including the Treasurer (who borrows on behalf of public sector agencies to support their operational requirements) and SA Water.

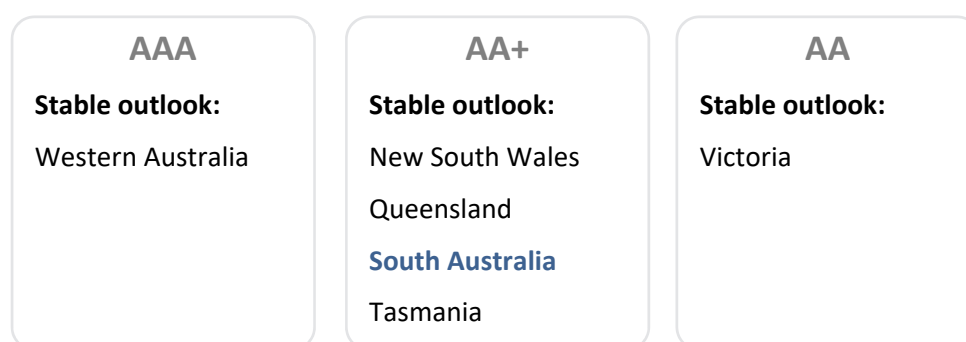
Further details on SAFA and its debt and interest rate risk management approach are included in the section of Part C of the Auditor-General’s 2022-23 annual report titled ‘South Australian Government Financing Authority’.

6.4 Credit ratings

6.4.1 Standard & Poor’s maintained South Australia’s credit rating at its second highest level with an improved outlook

In August 2023, S&P affirmed South Australia’s credit rating at AA+ and revised its long-term outlook from negative to stable.

Figure 6.9: S&P's credit ratings for Australian states (September 2023)



Source: Information provided by DTF.

South Australia has the same S&P credit rating as all other Australian states except Western Australia, which has a higher rating, and Victoria, which has a lower rating.

S&P indicated that its revised stable outlook for South Australia's credit rating reflects its view that the State's financial management will help deliver operating surpluses and moderate net lending deficits. This is largely due to South Australia's strong local economy, larger than expected share of GST revenue and commitment to controlling expenditure growth.

S&P also indicated that it could:

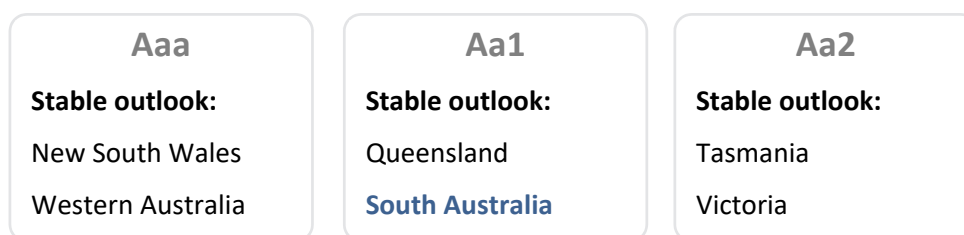
- lower South Australia's credit rating if the State's operating margins revert to deficits or net lending deficits increase to more than 10% of total revenue on a sustained basis
- raise South Australia's credit rating if the State's financial management materially strengthens its fiscal outcomes and debt sustainability.

On the SA Government's large capital program, S&P noted that there are risks of cost overruns, skilled labour shortages and project delays due to the record levels of infrastructure construction occurring across Australia. Section 5.5 discusses these risks and other challenges the SA Government will face in ensuring its capital program is delivered on time and on budget.

6.4.2 Moody's maintained South Australia's credit rating at its second highest level with stable outlook

Following the release of the 2023-24 Budget, Moody's maintained South Australia's credit rating at Aa1 with a stable outlook.

Figure 6.10: Moody's credit ratings for Australian states (September 2023)⁵¹



Source: Information provided by DTF.

The only states with a higher Moody's credit rating than South Australia are New South Wales and Western Australia.

Moody's indicated that the stable outlook for South Australia's credit rating reflects its expectation that as the Australian economy slows, the stability of South Australia's revenue will be supported by GST distributions, other Commonwealth grants and own-source revenues, underpinning the State's capacity to fund expenditure and service its debt.

Moody's also indicated that South Australia's credit rating could be:

- upgraded if the effective implementation of measures sustains strong revenue growth with strong control over spending, resulting in a prolonged period of budget surpluses and material and sustained reductions in debt
- downgraded if it believes the State's resolve or ability to contain fiscal deficits and reduce its debt is diminished.

Moody's noted that inflation pressures and new recurrent expenditure increase the SA Government's vulnerability to an unexpected revenue shock. It expects that spending discipline will be key to the SA Government's capacity to deliver a balanced operating position in 2023-24.

On the SA Government's capital program, Moody's noted that budgeted levels of infrastructure spending may be difficult to achieve given market capacity, raw materials and labour supply constraints. Its analysis concludes a likely infrastructure spending outcome of 15 to 20% below budgeted levels which will likely reduce borrowing requirements over the forward estimates.

⁵¹ Moody's credit rating for New South Wales is based on the most recent credit opinion for that state, which was issued in 2022. Ratings for the other states are based on credit opinions issued in 2023.

Appendix 1 – Review mandate, objective and scope

Our mandate

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

Our objective

The objective of this report is to provide independent commentary and analysis on the 2023-24 Budget to highlight key trends and risks for the State's public finances.

What we reviewed and how

We reviewed the 2023-24 Budget Papers to identify key trends and risks for the State's public finances. This involved:

- reviewing the Budget against the SA Government's stated fiscal strategy
- analysing new budget measures and initiatives
- examining Budget estimates and forecasts
- analysing major assets and liabilities
- analysing South Australia's key fiscal measures compared to other Australian states⁵²
- reviewing credit rating agency reports on South Australia.

Our analysis is based on data provided in the 2023-24 Budget Papers, supplemented by information provided to us by DTF.

What we did not review

This report primarily comments on Budget information. The data and assumptions underlying this information are not subject to audit and no audit opinion is provided on the accuracy of historical or forecast figures presented in the 2023-24 Budget. We also have not performed work to provide an opinion on the effectiveness of the SA Government's budgetary control.

⁵² Appendix 2 provides further details on key fiscal measures.

Appendix 2 – Reporting framework

Uniform Presentation Framework (UPF)

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

The primary objective of the UPF is to ensure that Commonwealth, State and Territory Governments provide a common core of financial information in Budget Papers to enable direct comparisons across jurisdictions.

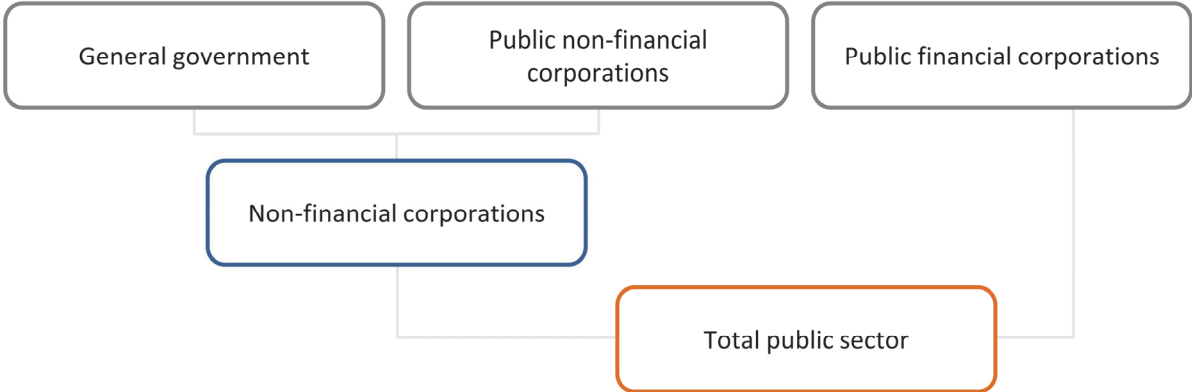
Institutional sectors

Budget reporting is prepared for the following institutional sectors:

- **General government sector** – agencies providing services free of charge or at prices below their cost of production or service cost. These are the services that tend to be primarily financed through taxes and other charges, and for this reason this sector tends to be the focus of fiscal targets.
- **PNFC sector** – trading enterprises mainly engaged in producing goods and services for sale in the marketplace at prices that aim to recover most or all of the costs involved. In South Australia this sector includes SA Water and the South Australian Housing Trust.
- **PFC sector** – bodies primarily engaged in providing financial services. This includes financial institutions such as SAFA, HomeStart Finance and the Superannuation Funds Management Corporation of South Australia.
- **NFPS** – the consolidation of the general government and PNFC sectors.

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

Figure A1: Sectors of government activity



Budget reporting

Budget estimates are presented on an accrual basis. Three primary statements are prepared for the general government sector, PNFC sector and NFPS:

- operating statement including other economic flows
- balance sheet
- cash flow statement.

PFC sector data is not published in the Budget Papers.

Fiscal measures

The UPF prescribes various fiscal measures as a basis for evaluating the soundness of the government’s fiscal position and the effect of fiscal policy. Figure A2 sets out the key fiscal measures in the UPF referred to in this report.

Figure A2: UPF – key fiscal measures

Fiscal measure	Description
Net operating balance	Revenue from transactions less expenses from transactions. The net operating balance excludes expenditure on the acquisition of capital assets, but includes non-cash costs such as accruing superannuation entitlements and the consumption of capital (depreciation). This provides a measure of the sustainability of the government’s fiscal position over time and provides an indication of the sustainability of the existing level of government services.
Net lending/borrowing (fiscal balance)	Net operating balance less the net acquisition of non-financial assets. This measures a government’s investment-saving balance. A net lending balance (fiscal surplus) indicates that a government is saving more than is required to finance all of its investment spending. A net borrowing (fiscal deficit) position indicates that the public sector’s level of investment exceeds its level of savings.
Net debt	Sum of deposits held, advances received and borrowings, less the sum of cash and deposits, advances paid, investments, loans and placements.
Net worth	Total assets (both financial and non-financial) less total liabilities. Net worth incorporates a government’s non-financial assets, such as land and other fixed assets, which may be sold and used to repay debt, as well as financial assets and liabilities not captured by the net debt measure, most notably accrued employee superannuation liabilities, accrued long service leave benefits, debtors and creditors.

The glossary in Budget Paper 3 provides further detail on the terms used in the Budget Statement and definitions.

Appendix 3 – Abbreviations used in this report

Abbreviation	Description
DIT	Department for Infrastructure and Transport
DTF	Department of Treasury and Finance
Education	Department for Education
FTE	Full-time equivalent
GSP	Gross State Product
GST	Goods and services tax
KPI	Key performance indicator
MYBR	Mid-year budget review
NFPS	Non-financial public sector
NGOs	Non-government organisations
PFC	Public financial corporations
PNFC	Public non-financial corporations
RBA	Reserve Bank of Australia
S&P	Standard & Poor's
SAFA	South Australian Government Financing Authority
SA Water	South Australian Water Corporation
T2D	North-South Corridor – Torrens to Darlington
UniSA	University of South Australia
UPF	Uniform Presentation Framework

