Report of the Auditor-General

Auditor-General's Department

Report 4 of 2024

Consolidated Financial Report review

Government of South Australia

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Consolidated Financial Report review

Tabled in the House of Assembly and ordered to be published, 19 March 2024

First Session, Fifty-Fifth Parliament

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2024

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

Auditor-General's
Department

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18 March 2024

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 4 of 2024 *Consolidated Financial Report review*

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

Content of the report

The 2022-23 Consolidated Financial Report was published by the Treasurer in December 2023 and reports the SA Government's actual financial performance and position for the year. It fulfils the SA Government's consolidated financial reporting obligations under Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

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

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

Acknowledgements

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

Yours sincerely

Andrew Blaskett
Auditor-General

Contents

Audit snapshot

What we reviewed and why

In December 2023 the SA Government published its 2022-23 Consolidated Financial Report, providing its actual financial performance and position for the year. This is the only financial report on the consolidated activity of all government sectors, presenting a picture of the financial relationship between the SA Government as a whole and the 'rest of the world'.

Our report gives our insights into key trends and an analysis of the State's actual financial performance and position. We don't issue an opinion on the Consolidated Financial Report, but we do look at how it is prepared. We did not find any material misstatements in it or any control issues in its preparation, other than a minor improvement opportunity.

Our key insights for 2022-23

- The whole of government reported a **$628 million improvement in net operating balance deficit** – a $486 million deficit in 2022-23, down from a $1.1 billion deficit last year. This was due mainly to higher grants from the Commonwealth Government, higher interest income and taxation revenue and lower grant expenses.
- The whole of government reported **a $522 million decrease in the net lending deficit** – $2 billion in 2022-23, down from $2.5 billion in 2021-22.
- The **general government sector net operating balance of $41 million and net lending deficit of $1.2 billion are consistent** with those reported in the 2022-23 Final Budget Outcome.
- The State is **heavily reliant** on Commonwealth grant revenue, representing 52% of total revenue in 2022-23.
- While the State's **total assets and liabilities both increased**, assets increased by $3.4 billion more than liabilities. Total assets increased by $9 billion (6%) to $154 billion, while total liabilities increased by $5.6 billion (6%) to $98 billion.

Key facts

	2021-22		2022-23
TOTAL REVENUE	**$25.8 billion**	8%	**$27.8 billion**
Key revenues include:			
Grant revenue	$13.4 billion	7%	$14.3 billion
Taxation	$5.3 billion	6%	$5.6 billion
Charges for goods and services	$5 billion	4%	$5.2 billion

	2021-22		2022-23
TOTAL EXPENSES	**$26.9 billion**	5%	**$28.3 billion**
Key expenses include:			
Employee expenses	$9.7 billion	4%	$10.1 billion
Use of goods and services	$6.8 billion	4%	$7.1 billion
Grant expenses	$3.6 billion	15%	$3.1 billion

	2021-22		2022-23
TOTAL ASSETS	**$144.9 billion**	6%	**$153.9 billion**
Key assets include:			
Buildings and structures	$61.9 billion	5%	$65 billion
Other investments	$33.5 billion	2%	$32.6 billion
Investments and placements	$17.1 billion	19%	$20.3 billion
Land	$16.4 billion	15%	$18.9 billion

	2021-22		2022-23
TOTAL LIABILITIES	**$92.4 billion**	6%	**$98 billion**
Key liabilities include:			
Superannuation fund deposits	$36.9 billion	7%	$39.5 billion
Borrowings	$33.2 billion	5%	$34.9 billion
Unfunded superannuation liabilities	$7.1 billion	6%	$7.5 billion
Provisions	$7.2 billion	9%	$7.9 billion

Executive summary

1.1 Introduction

This report provides our observations on the 2022-23 Consolidated Financial Report (CFR), and in particular:

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

The CFR fulfils the SA Government's consolidated financial reporting obligations under Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. It reports the SA Government's actual financial performance and position for the year. The 2022-23 CFR was published on the Department of Treasury and Finance (DTF) website in December 2023.[1]

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

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

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

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

We commented on the 2022-23 State Budget in Auditor-General's Report 10 of 2022 *State Finances and related matters*.

1.2 Conclusion

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

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1 *Consolidated Financial Report 2022-23*, <www.treasury.sa.gov.au/budget/current-budget/previous-budgets/budget-2022-23>, viewed January 2024.

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

1.3 Key overall observations

1.3.1 The whole of government reported a $486 million net operating balance deficit for 2022-23, compared to a $1.1 billion deficit last year

The $628 million improvement was due mainly to higher grants from the Commonwealth Government, higher interest income and taxation revenue and lower grant expenses, offset by higher interest, employee and other expenses and the increased use of goods and services.

1.3.2 The whole of government reported a net lending deficit of $2 billion in 2022-23, down from $2.5 billion in 2021-22

The $522 million decrease in the net lending deficit reflects a $105 million increase in the net acquisition of non-financial assets, offset by the $628 million decrease in the net operating balance deficit.

1.3.3 The State is heavily reliant on Commonwealth grant revenue

Grant revenue was the largest revenue stream for the State, representing 52% of total revenue in 2022-23. Section 4.4.4 explains the trends in grant revenue.

1.3.4 While the State's total assets and liabilities both increased, assets increased by $3.4 billion more than liabilities

Total assets increased by $9 billion (6%) to $154 billion, while total liabilities increased by $5.6 billion (6%) to $98 billion. Section 4.2.1 provides further detail on this $3.4 billion increase in net worth.

Total assets increased mainly due to:

- a $3.2 billion (19%) increase in investments and placements, mainly as a result of an increase in securities held by the Superannuation Funds Management Corporation of South Australia (Funds SA) and other investments held by the Return to Work Corporation of South Australia (RTWSA), offset by a decrease in securities held by the South Australian Government Financing Authority (SAFA)
- a $3 billion (5%) increase in buildings and structures, mainly as a result of additions/capitalised expenditure and revaluation increments, offset by depreciation charged for the year
- a $2.5 billion (15%) increase in land, mainly as a result of revaluing land under roads and land held by the South Australian Housing Trust (SAHT) and the Department for Education.

The increase in total assets was offset by an $812 million (2%) decrease in other equity investments, which include superannuation investment assets managed by Funds SA.

Total liabilities increased mainly due to:

- a $2.6 billion (7%) increase in superannuation fund deposits owed to members. This reflects total receipts from superannuation funds of $3.9 billion and net investment income of $3.3 billion, offset by payments of $4.6 billion
- a $1.7 billion (5%) increase in borrowings, mainly due to an increase in debt securities held by SAFA to fund the Treasurer's overall funding requirement in 2022-23
- a $676 million (9%) increase in provisions (other than employee benefits) mainly due to increases in the Lifetime Support Authority of South Australia (LSA) provision for participant treatment, care and support, RTWSA provisions and the SAFA insurance claims provision, offset by a decrease in the Motor Accident Commission insurance claims provision
- a $453 million (6%) increase in unfunded superannuation liabilities, reflecting a $495 million increase in the defined benefit superannuation plans obligation, offset by a $42 million increase in defined benefit plan assets.

Sections 5.1.2 and 5.1.3 detail the main movements in assets and liabilities from last year.

1.3.5 Matters reflected in independent auditor's reports for government agencies in 2022-23 included inherent uncertainty in some RTWSA and LSA liabilities

As noted in section 1.2, we do not provide an audit opinion on the CFR. However, we provided a management letter to DTF in February 2024 summarising the results of our CFR review. It included the agency-specific audit matters we identified that would impact on the audit opinion for the CFR, if we provided one.

I noted in the letter that, while the 2022-23 independent auditor's reports for RTWSA and LSA were not modified, they did draw attention to the inherent uncertainty associated with their participant treatment, care, support and claims liabilities.

1.4 What we recommended

Our management letter to the Under Treasurer DTF's Chief Executive recommended that:

- the procedure outlining the scope, nature and timing of actuarial work for the unfunded superannuation liability calculations be reviewed and updated to reflect current processes
- natural resources management/landscape board levies be correctly classified in the CFR and levies collected from SA Government entities eliminated.

Neither of these matters had a material impact on the 2022-23 CFR.

1.5 Response to our recommendations

DTF responded that:

- updating the procedure was delayed by the actuarial services procurement process and Super SA is now updating it
- it will work with the Department for Environment and Water to ensure the correct classification of natural resources management/landscape board levy transactions in the 2023-24 CFR.

2 Background

AASB 1049 requires governments to prepare whole of government and general government sector financial reports. The South Australian CFR for the year ended 30 June 2023 was prepared by DTF under AASB 1049.

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

The three government sectors are defined as follows:

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

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

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

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

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

3 Audit mandate, objective and scope

3.1 Our mandate

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

3.2 Our objective

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

- the actual financial performance and position of the whole of government
- the controls over the preparation of the 2022-23 CFR.

There is no requirement under the *Public Finance and Audit Act 1987* or any other legislation to provide an audit opinion on the CFR, so I have not issued one. I do, however, consider it valuable and consistent with wider public expectation that we review the credibility and validity of the financial information in the CFR.

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

Auditor-General's Report 10 of 2022 *State Finances and related matters* provides our commentary on the 2022-23 State Budget estimated results of the general government sector.

3.3 What we reviewed and how

Our 2022-23 review of the CFR covered:

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

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

4 2022-23 Consolidated Financial Report financial performance

Key points

- The whole of government net operating balance deficit fell by $628 million to $486 million.
- The State's net worth increased by $3.4 billion, mainly because of the revaluation of non-financial assets and financial assets and liabilities at fair value, offset by the revaluation of defined benefit superannuation plans and the net operating balance deficit.
- There was a $527 million difference between the whole of government and general government sector 2022-23 net operating balances because the CFR consolidates transactions in all sectors and eliminates inter-sector transactions.
- Grants are a key revenue stream, representing 52% of total whole of government revenue in 2022-23.
- Employee expenses were the largest component of expenditure in 2022-23, at 36% of total expenditure.
- The whole of government net lending deficit fell by $522 million to $2 billion.

4.1 Net operating balance

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

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

The whole of government reported a $486 million net operating balance deficit for 2022-23, compared to a $1.1 billion net operating balance deficit for 2021-22.

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

Figure 4.1: Net operating balances

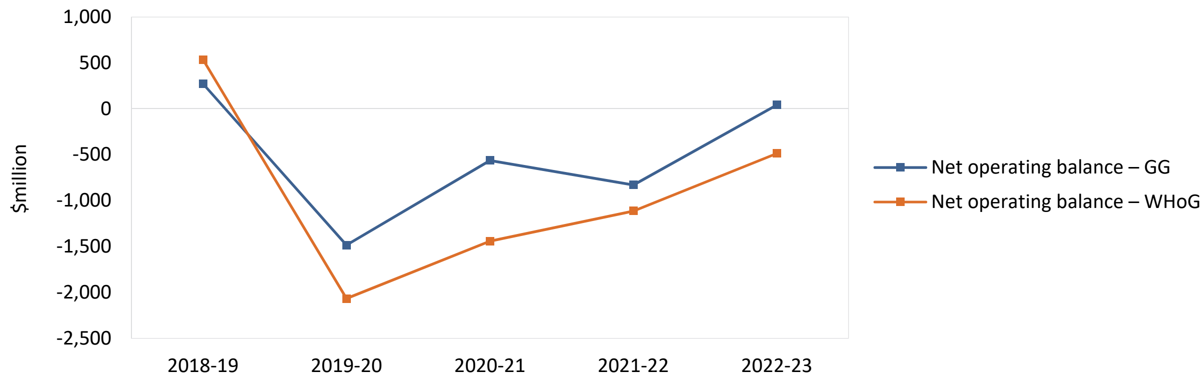


Figure 4.1 shows that apart from 2018-19, there have been whole of government deficits across the five years. The significant net operating balance deficit in 2019-20 includes the impact of the start of the COVID-19 pandemic. Section 4.4 further details the changes in revenue and expenditure.

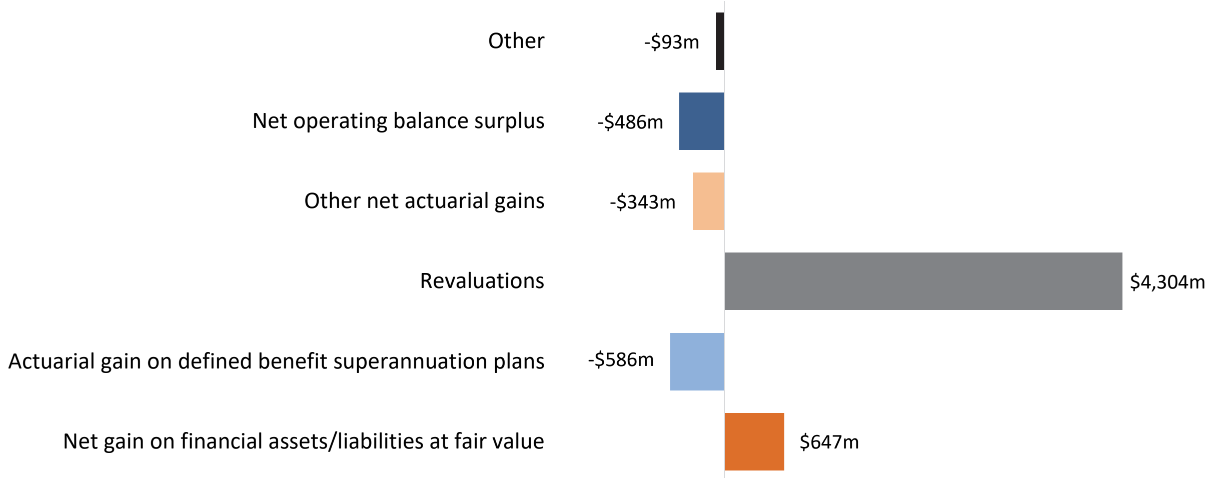
In 2022-23, there was a $628 million decrease in the whole of government net operating balance deficit compared to a $870 million decrease in the general government sector net operating balance deficit. The $242 million difference reflects decreases in PFC ($268 million) and PNFC ($5 million) net operating balance deficits and a $21 million decrease in consolidation eliminations (see note 10.1 of the CFR).

4.2 Total change in net worth

4.2.1 The State's net worth increased by $3.4 billion, mainly because non-financial assets and financial assets and liabilities were revalued, offset by the value of defined benefit superannuation plan assets and the large net operating balance deficit

Figure 4.2 shows the drivers of the $3.4 billion increase in net worth in 2022-23 for the whole of government in the Statement of Comprehensive Income.

Figure 4.2: Reasons for net worth increase in 2022-23



The change in net worth is mainly the result of:

- an increase in asset revaluation reserves ($4.3 billion), the main revaluation increases being:
  - $2.4 billion on Department for Infrastructure and Transport (DIT) network assets and land, buildings and facilities
  - $2.1 billion on SAHT land and buildings
  - $907 million on land under roads
  - $427 million on Department for Education land, buildings and improvements
  - $165 million on Department for Correctional Services (DCS) land and buildings.

  These revaluation increases were offset by a revaluation decrease of $1.9 billion on SA Water infrastructure, plant and equipment
- a net gain on financial assets/liabilities at fair value ($647 million). This mainly comprised gains by SAFA of $299 million, RTWSA of $157 million and LSA of $104 million
- a net actuarial loss on defined benefit superannuation plans ($586 million), primarily as a result of movement in the discount rate (from 3.9% in 2021-22 to 4.2% in 2022-23), which reduced the estimated value of the defined benefit obligation calculated by the actuary by $527 million
- other net actuarial losses ($343 million), primarily driven by increases in the RTWSA Compensation Fund outstanding claims liability ($202 million) and agency insurance claims provisions ($59 million) and workers compensation liabilities ($19 million).

The change in net worth was also influenced by the net operating balance deficit ($486 million).

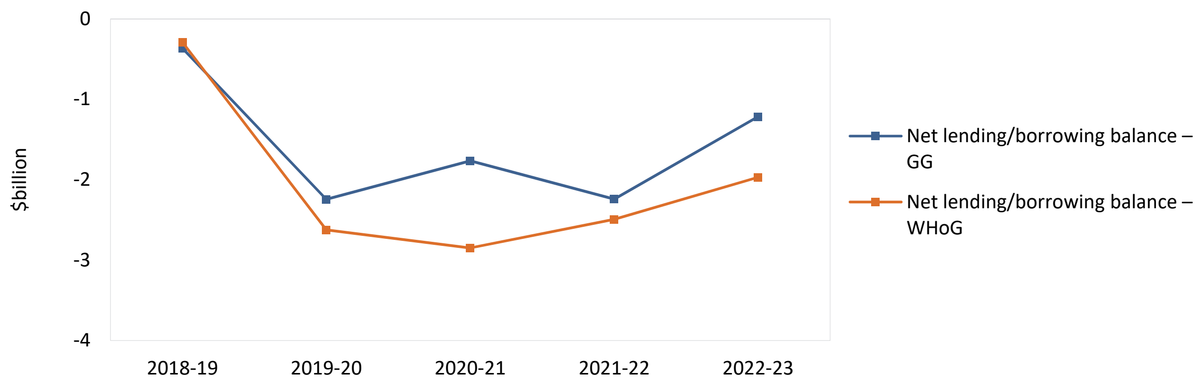
4.3 Net lending/borrowing position

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

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

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

Figure 4.3: Net lending/borrowing position



The $522 million improvement in the whole of government net lending/borrowing position in 2022-23 reflects the $628 million increase in the net operating balance discussed in section 4.1.1, offset by a $105 million increase in the net acquisition of non-financial assets. The net acquisition of non-financial assets increased mainly because of a rise in inventories ($200 million), offset by higher depreciation ($80 million) and asset sales ($22 million).

In 2022-23, asset purchases were mainly by DIT, SA Water, local health networks, the Department for Education, the SAHT, the Department for Environment and Water and DCS. Asset sales were mainly by the SAHT, SAFA, DIT and the Office for Recreation, Sport and Racing. Further details of asset purchases and sales are contained in agency financial statements.

4.4 Revenue and expenditure

4.4.1 An 8% increase in total revenue and a 5% increase in total expenditure

Figure 4.4 shows changes in revenue and expenditure between 2021-22 and 2022-23 for key items.

Figure 4.4: Variations in revenue and expenditure

	2021-22		2022-23
TOTAL REVENUE	**$25.8 billion**	8%	**$27.8 billion**
Key revenues include:			
Grant revenue	$13.4 billion	7%	$14.3 billion
Taxation	$5.3 billion	6%	$5.6 billion
Charges for goods and services	$5 billion	4%	$5.2 billion

	2021-22		2022-23
TOTAL EXPENSES	**$26.9 billion**	5%	**$28.3 billion**
Key expenses include:			
Employee expenses	$9.7 billion	4%	$10.1 billion
Use of goods and services	$6.8 billion	4%	$7.1 billion
Grant expenses	$3.6 billion	15%	$3.1 billion

Total revenue increased by $2 billion (8%) in 2022-23. Total expenditure increased by $1.4 billion (5%).

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

The main variations in total revenue from last year were:

- grant revenue – increased by 7% or $920 million. This was mainly a result of higher GST grant revenue and specific purpose grants from the Commonwealth Government
- interest income – increased by 155% or $514 million, mainly due to higher interest rates
- taxation revenue – increased by 6% or $330 million, mainly due to increases in payroll tax ($241 million), gambling taxes ($90 million), stamp duties on insurance ($48 million) and motor vehicle registration ($48 million), offset by a $141 million decrease in stamp duties on property that reflected a softening in property market conditions compared to the peak in 2021-22. While the number of residential property transactions fell in 2022-23, average conveyance duty levels increased, reflecting generally higher prices
- charges for goods and services – increased by 4% or $185 million, mainly due to increases in RTWSA workers compensation levies ($86 million), other services revenue ($76 million), SA Lotteries gambling products ($27 million), metro ticket public transport sales ($21 million), charges for other goods ($21 million) and SA Water-related rates and charges ($20 million), offset by an $85 million decrease in Urban Renewal Authority (URA) land sales. The other services revenue increase was mainly the result of a $39 million rise in Adelaide Venue Management facility charges, reflecting a significant increase in the number of events and functions held after COVID-19 restrictions were relaxed.

Auditor-General's Report 8 of 2023 *Annual Report for the year ended 30 June 2023, Part C: Agency audit reports* provides further details on major variations between years for individual agencies.

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

The main variations in total expenditure from last year were:

- interest expenses – increased by 75% or $672 million, mainly due to higher interest rates and borrowings
- other expenses – increased by 14% or $364 million. This was mainly due to increases in other expenses ($239 million), RTWSA income/redemption-related workers compensation payments ($33 million), National Disability Insurance Scheme contributions to the Commonwealth ($24 million), gambling prizes and dividends ($20 million) and compulsory third party insurance collection payments to insurers ($19 million)
- employee expenses – increased by 4% or $356 million. This was due mainly to increases in salaries and wages of $314 million, primarily for enterprise agreement increases and additional FTEs, and annual leave expense of $43 million

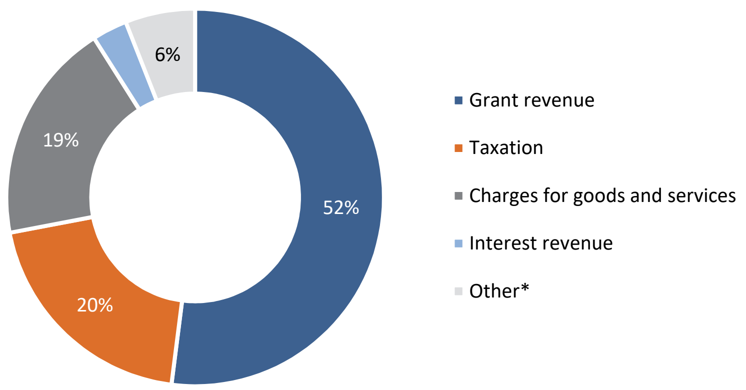
- use of goods and services – increased by 4% or $292 million. This was mainly due to an increase in contract services expenses ($118 million), other goods and services expenses ($98 million) and repairs and maintenance expenses ($48 million)
- grant expenses – decreased by 15% or $545 million. This was primarily due to decreases in recurrent grants ($325 million), subsidies ($122 million) and other current transfer payment expenses ($66 million).

Auditor-General's Report 8 of 2023 *Annual Report for the year ended 30 June 2023, Part C: Agency audit reports* provides further details on major variations between years for individual agencies.

4.4.4 The State is heavily reliant on Commonwealth grant revenue

Figure 4.5 shows the composition of whole of government revenue in the 2022-23 CFR.

Figure 4.5: Composition of revenue

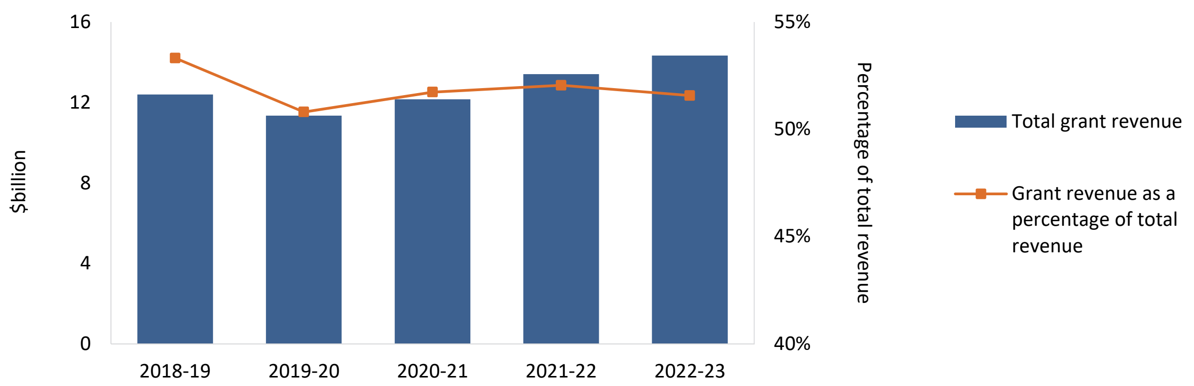


* Includes dividends and income tax equivalents and other revenues.

Figure 4.5 highlights grant revenue, which is virtually all Commonwealth sourced, as the largest revenue stream for the State, representing more than half of total revenue from transactions in 2022-23.

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

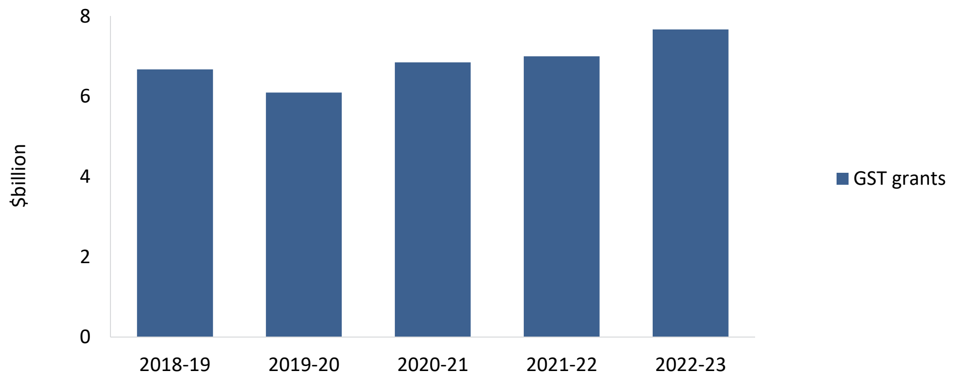
Figure 4.6: Grant revenue as a percentage of total revenue



The increases in grant revenue as a percentage of total revenue since 2019-20 largely reflect the movements in GST grants from the Commonwealth Government, which was 54% of total grant revenue in 2022-23.

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

Figure 4.7: GST grants

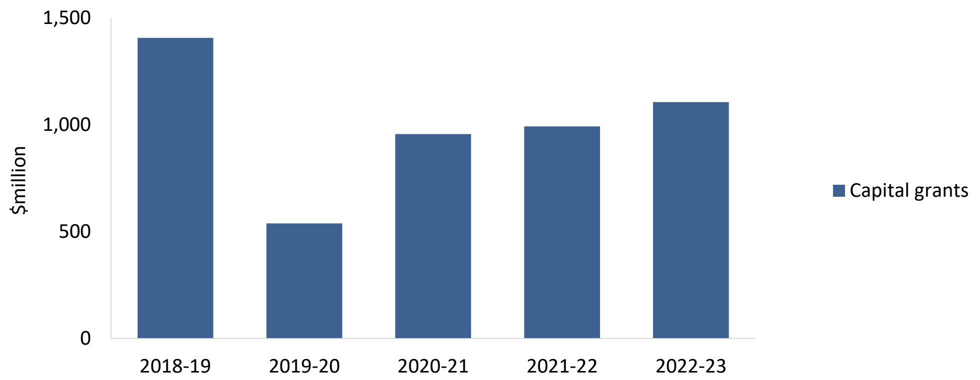


The 10% or $670 million increase in GST grants in 2022-23 was due mainly to strong growth in the national GST pool, reflecting strength in consumption expenditure subject to GST and the impact of high inflation on prices.

The $920 million (7%) increase in grant revenue in 2022-23 also reflects increases in specific purpose grants for on-passing ($173 million) and other contributions and grants ($42 million).

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

Figure 4.8: Capital grants



The other major revenue streams for the State are goods and services charges (19%) and taxation (20%).

4.4.5 Taxation revenue increased by 6% in 2022-23

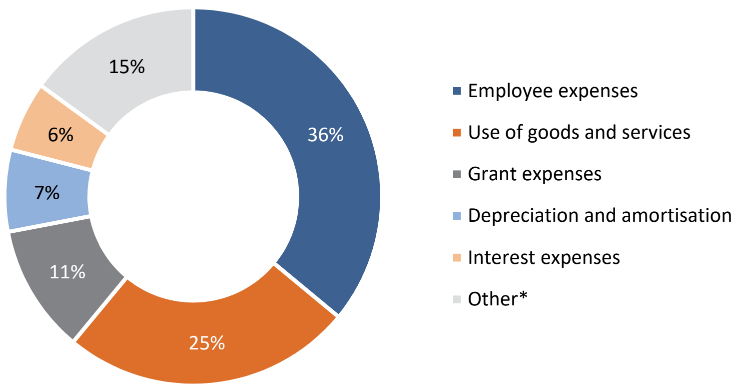
Taxation revenue was $5.6 billion in 2022-23, compared to $5.3 billion in the prior year. The $330 million increase mainly reflected:

- a $241 million (17%) increase in payroll and labour force taxes, reflecting strong labour market conditions in 2022-23
- a $90 million (17%) increase in gambling taxes, reflecting continued general strength across all forms of gambling activity and once-off revenue from the betting operations tax due to compliance investigations relating to activity in prior years
- a $48 million (9%) increase in stamp duties on insurance, reflecting higher growth in premiums
- a $48 million (6%) increase in motor vehicle registration fees, reflecting annual indexation of registration fees and growth in the stock of registered vehicles
- a $141 million (10%) decrease in stamp duties on property, reflecting a softening of the property market compared to the peak in 2021-22. While the number of residential property transactions fell in 2022-23, average conveyance duty levels increased, reflecting generally higher prices.

4.4.6 Employee expenses as a percentage of total expenditure remained steady in 2022-23

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

Figure 4.9: Composition of expenditure

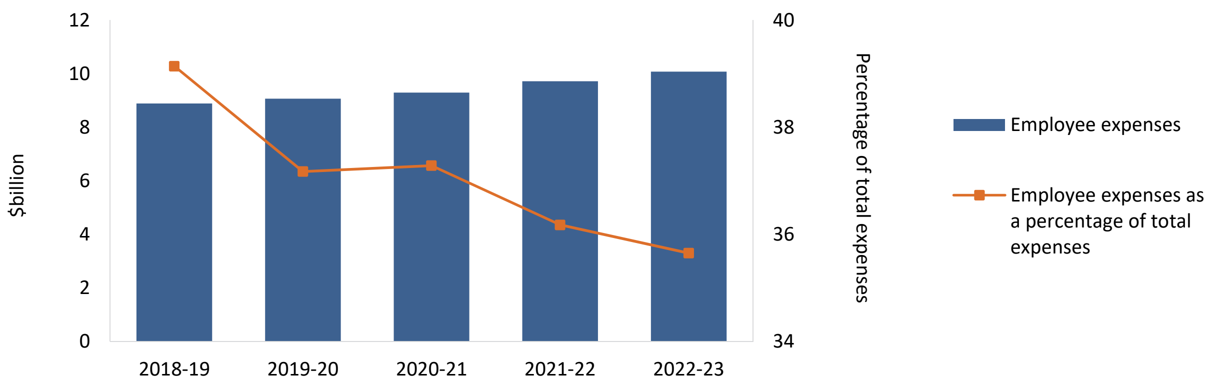


* Includes other superannuation expenses, superannuation interest cost and other expenses.

Figure 4.9 highlights employee expenses (36%) as the largest individual component of expenditure in 2022-23.

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

Figure 4.10: Employee expenses as a percentage of total expenses

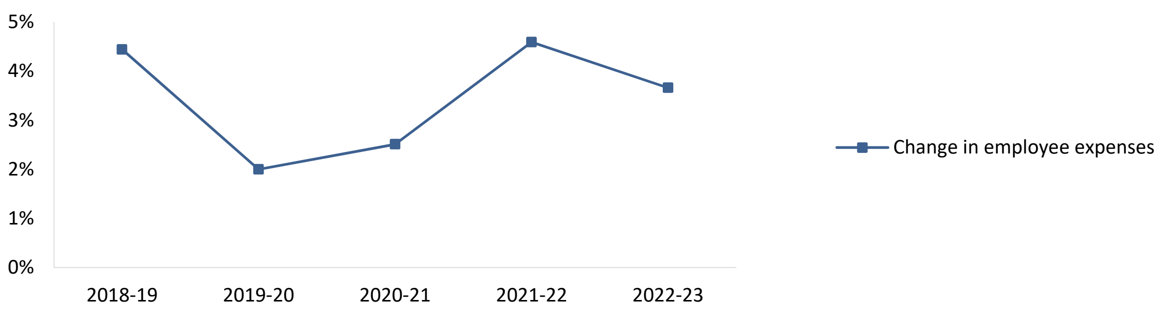


The decrease in 2022-23 primarily reflects higher interest expenses, other expenses and use of goods services and lower grant expenses, as explained in section 4.4.3.

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

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

Figure 4.11: Percentage change in employee expenses



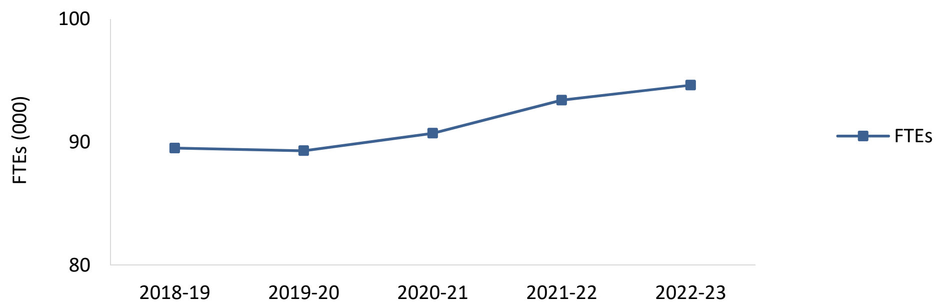
The sharp fall to 2% in 2019-20 was due mainly to constrained enterprise agreement increases and a minor decrease in FTEs.

The rises in 2020-21 to 2.5% and 2021-22 to 4.6% were due mainly to enterprise agreement increases and additional FTEs, mainly as part of COVID-19 response measures.

The decrease to 3.7% in 2022-23 was mainly due to constraint in enterprise agreement increases.

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

Figure 4.12: Whole of government FTEs[3]



In 2022-23, FTEs increased by 1,219 (1.3%) to 94,625. The increase was primarily due to an increase in positions in local health networks and the Department for Education.

4.5 Further commentary and analysis

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

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

The main variations in other economic flows from last year were:

- the net actuarial gain (loss) on defined benefit superannuation plans – decreased by $2.9 billion to a loss of $586 million. This is mainly a result of the change in the discount rate used by the actuary to value the defined benefit obligation liability, as explained in section 4.2.1
- gains (losses) on financial assets and financial liabilities at fair value – decreased by $2.4 billion to a gain of $647 million
- other net actuarial gains (losses) – decreased by $787 million to a loss of $343 million. This is primarily driven by a revaluation decrease in the RTWSA Compensation Fund outstanding claims liability ($445 million) and a decrease in the revaluation of long service leave liabilities ($253 million)
- other economic flows – increased by $123 million to a loss of $12 million. This is mainly the result of a $102 million increase in the reversal of prior inventory writedowns by URA and a $63 million writedown in 2021-22 of the Treasurer's interest in the State Owned Generators Leasing Co Pty Ltd, offset by a $46 million write off of project expenditure associated with the former SA Government's planned construction site for the new Women's and Children's Hospital.

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

4.5.2 The difference between the whole of government and general government sector net operating balances is $527 million

The net operating balance for the whole of government in 2022-23 was a deficit of $486 million. This compares to a $41 million net operating balance surplus for the general government sector, a $527 million difference.

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

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

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

The significant transactions the general government sector had with the PNFC and PFC sectors in 2022-23 are provided in note 10.5 of the CFR on related party transactions. The revenue received by the general government sector from the PNFC and PFC sectors was:

- land tax from the SAHT ($165 million)
- guarantee fees from PNFCs and PFCs ($117 million)
- dividend revenue from SA Water ($50 million).

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

- loan interest paid to SAFA ($686 million)
- community service obligation payments to SA Water ($136 million)
- equity capital contributions to the SAHT ($134 million)
- operating grant payments to the SAHT ($61 million).

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

Operating losses in the PNFC and PFC sectors also drive differences between the whole of government and general government sector net operating balances. The only significant operating losses for the PNFC and PFC sectors in 2022-23 were by the SAHT ($299 million) and LSA ($128 million).

5 2022-23 Consolidated Financial Report financial position

Key points

- Total assets increased by $9 billion (6%) to $153.9 billion.
- The State's major non-financial assets are buildings, structures and land.
- The State's buildings and structures increased by $3 billion (5%) to $65 billion.
- The State's investments increased by $2.4 billion (5%) to $53 billion.
- Total liabilities increased by $5.6 billion (6%) to $98 billion.
- The State's major liabilities are superannuation fund deposits and borrowings.
- The State's superannuation fund deposits increased by $2.6 billion (7%) to $39.6 billion, reflecting total receipts from superannuation funds of $3.9 billion and net investment income of $3.3 billion, offset by payments of $4.6 billion.
- The State's borrowings increased by $1.7 billion (5%) to $34.9 billion.
- The State's net assets and net worth were $55.9 billion, which is a $3.4 billion (7%) increase from the prior year.

5.1 Assets and liabilities

5.1.1 The State's total assets and liabilities both increased in 2022-23

Total assets increased by $9 billion (6%) to $153.9 billion in 2022-23, while total liabilities increased by $5.6 billion (6%) to $98 billion.

Assets and liabilities change mainly because of:

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

Figure 5.1 shows changes in assets and liabilities between 2021-22 and 2022-23 for key items.

Figure 5.1: Variations in assets and liabilities

TOTAL ASSETS	2021-22		2022-23
TOTAL ASSETS	**$144.9 billion**	6%	**$153.9 billion**
Key assets include:			
Buildings and structures	$61.9 billion	5%	$65 billion
Other investments	$33.5 billion	2%	$32.6 billion
Investments and placements	$17.1 billion	19%	$20.3 billion
Land	$16.4 billion	15%	$18.9 billion

TOTAL LIABILITIES	2021-22		2022-23
TOTAL LIABILITIES	**$92.4 billion**	6%	**$98 billion**
Key liabilities include:			
Superannuation fund deposits	$36.9 billion	7%	$39.5 billion
Borrowings	$33.2 billion	5%	$34.9 billion
Unfunded superannuation liabilities	$7.1 billion	6%	$7.5 billion
Provisions	$7.2 billion	9%	$7.9 billion

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

The main variations in total assets from last year were:

- investments and placements – increased by 19% or $3.2 billion. This is mainly due to increases in securities held by Funds SA ($3.6 billion) and other investments by RTWSA ($214 million), offset by a decrease in securities held by SAFA ($758 million)
- buildings and structures – increased by 5% or $3 billion. This is mainly due to additions/capitalised expenditure of $2.9 billion (mainly the road network, land purchased for the North-South Corridor Torrens to Darlington project, schools work programs and water, sewerage and drainage assets) and revaluation movements of $2 billion (mainly increments in the road network, bus and rail tracks and SAHT rental properties, offset mainly by decrements in water, sewerage and drainage assets), offset by $1.5 billion in depreciation charged for the year
- land – increased by 15% or $2.5 billion. This is mainly due to the revaluation of land under roads ($907 million) and land held by the SAHT ($760 million) and the Department for Education ($429 million)
- cash and deposits – increased by 26% or $567 million. This is mainly due to increases in cash and cash equivalents held by the Treasurer ($449 million) and SAFA ($197 million)
- other equity investments – decreased by 2% or $812 million. This comprises decreases of $654 million in equities in listed entities and $158 million in equities in unlisted entities, mainly held by Funds SA.

Auditor-General's Report 8 of 2023 *Annual Report for the year ended 30 June 2023, Part C: Agency audit reports* provides further details on major variations between years for individual agencies.

5.1.3 Increase in total liabilities mainly due to increases in superannuation fund deposits, borrowings, provisions (other than employee benefits), unfunded superannuation liabilities and other liabilities, offset by a decrease in deposits held

The main variations in total liabilities from last year were:

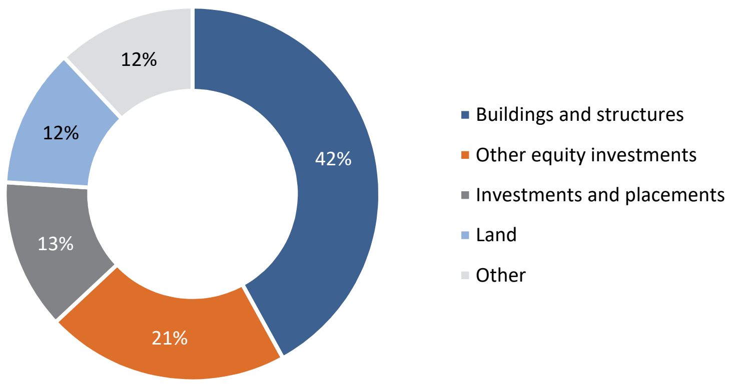
- superannuation fund deposits – increased by 7% or $2.6 billion. This reflects total receipts from superannuation funds of $3.9 billion and net investment income of $3.3 billion, offset by payments of $4.6 billion. The strong investment performance was in contrast to the negative investment performance of $2.1 billion in the prior year. It was primarily due to a significant increase in the value of investments leading to unrealised gains, compared to significant unrealised losses last year
- borrowings – increased by 5% or $1.7 billion. This is mainly due to a $1.7 billion increase in debt securities held by SAFA to fund the Treasurer's overall funding requirement in 2022-23 and a $52 million increase in lease liability
- provisions (other than employee benefits) – increased by 9% or $676 million. This was mainly due to increases in the LSA provision for participant treatment, care and support ($341 million), RTWSA provisions ($194 million) and the SAFA insurance claims provision ($158 million), offset by a decrease in the Motor Accident Commission insurance claims provision ($84 million)
- unfunded superannuation liabilities – increased by 6% or $453 million. This reflects a $495 million increase in the defined benefit superannuation plans obligation, offset by a $42 million increase in defined benefit plan assets. The increase in the defined benefit obligation mainly reflects interest costs ($558 million), the impact of financial assumptions used by the actuary to calculate accrued benefits ($381 million) and the difference between actual and expected payments ($455 million), offset by benefits paid ($1.1 billion). The increase in plan assets is due mainly to a $597 million return on fund assets by Funds SA and employer contributions of $499 million, offset by $1.1 billion in benefits paid
- other liabilities – increased by 10% or $223 million. This is mainly due to a $113 million increase in trust accounts administered by the Courts Administration Authority (money held pending the outcome of court decisions)
- deposits held – decreased by 56% or $230 million. This is mainly due to a $220 million decrease in SAFA deposits.

Auditor-General's Report 8 of 2023 *Annual Report for the year ended 30 June 2023, Part C: Agency audit reports* provides further details on major variations between years for individual agencies.

5.1.4 State assets primarily comprise buildings, structures and land

Figure 5.2 shows the composition of whole of government assets in the 2022-23 CFR.

Figure 5.2: Composition of assets

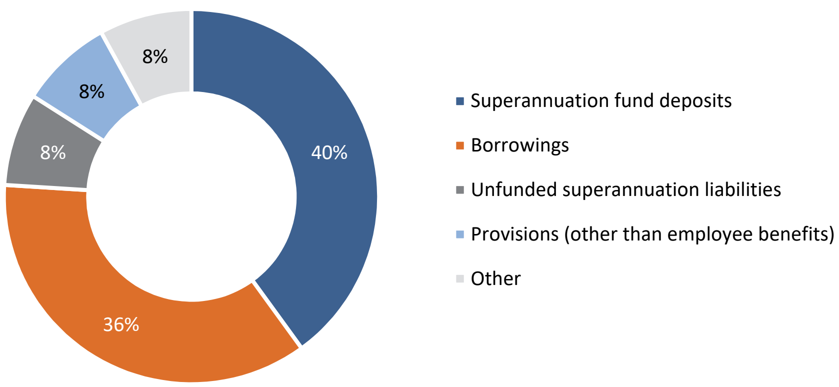


Other equity investments mainly relate to superannuation investments held by Funds SA on behalf of members of the various State superannuation schemes. Funds SA has a corresponding liability to the members of these schemes that is reflected under superannuation fund deposits.

5.1.5 State liabilities primarily comprise superannuation fund deposits and borrowings

Figure 5.3 shows the composition of whole of government liabilities in the 2022-23 CFR.

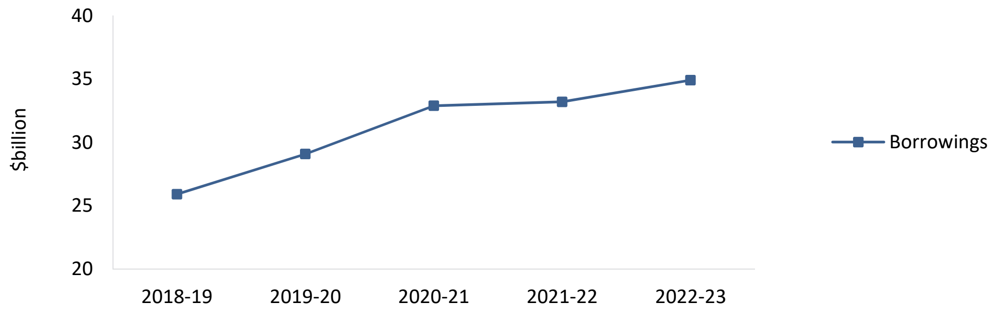
Figure 5.3: Composition of liabilities



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

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

Figure 5.4: Borrowings



The $3.2 billion increase in 2019-20 was due mainly to a $1.8 billion increase in debt securities held by SAFA to fund the Treasurer's overall funding requirement, and a $1.4 billion increase in liabilities associated with leases that reflects new lease accounting requirements.

The $3.8 billion increase in 2020-21 was due mainly to a $3.8 billion increase in debt securities held by SAFA to fund the Treasurer's overall funding requirements.

The $1.7 billion increase in 2022-23 was due mainly to a $1.7 billion increase in debt securities held by SAFA to fund the Treasurer's overall funding requirements in 2022-23 and a $52 million increase in lease liabilities.

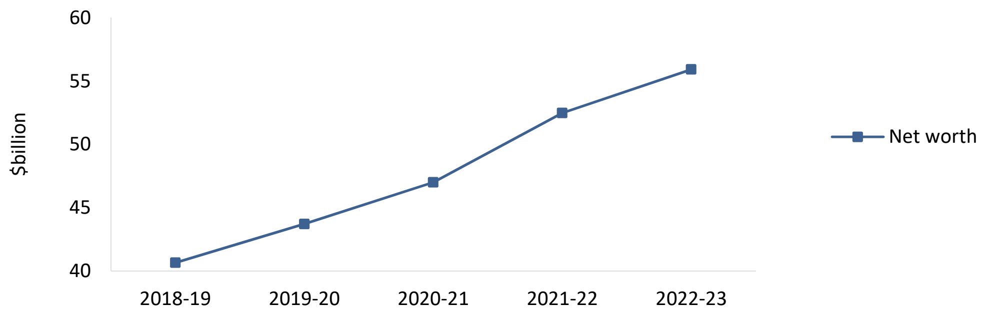
5.2 Further commentary and analysis

5.2.1 Net worth increased in 2022-23

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

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

Figure 5.5: Net worth



The major asset and liability drivers of the $3.4 billion increase in net worth in 2022-23 are discussed in sections 5.1.2 and 5.1.3.

5.2.2 Unfunded superannuation liability is a key driver of net worth

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

Figure 5.6: Unfunded superannuation liability and net worth

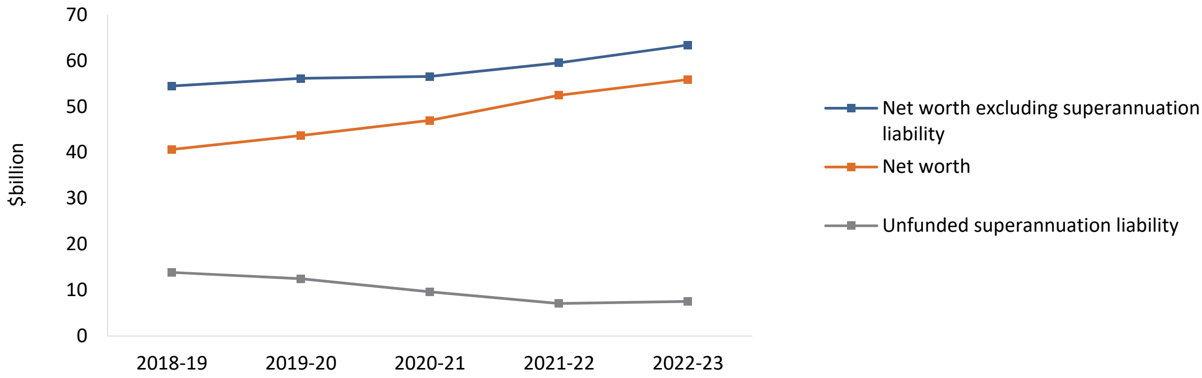


Figure 5.6 shows that the movement in net worth over the past five years was the opposite of movements in the unfunded superannuation liability. It also shows that without the unfunded superannuation liability, there was a slight upward trend in net worth over the past five years.

The unfunded superannuation liability is a long-term liability to current and past members of closed defined benefit superannuation schemes. The 2022-23 State Budget reported that while financial market and interest rate volatility in the recent past resulted in multi-billion dollar revisions to the value of the liability recorded on the balance sheet, there was no material change in the actual expected payments to beneficiaries underlying the liability.[4]

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

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

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

4 2021-22 Budget Paper 3 *Budget Statement*, p. 59.

Appendix – Abbreviations used in this report

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


Summary sale