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Report of the Auditor-General

Report 5 of 2020

Consolidated Financial Report review

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Department

www.audit.sa.gov.au

Enquiries about this report should be directed to:

Auditor-General
Auditor-General's Department
Level 9, 200 Victoria Square
Adelaide SA 5000

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Government of South Australia
Auditor-General's Department

Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000
DX 56208
Victoria Square
Tel +618 8226 9640
Fax +618 8226 9688
ABN 53 327 061 410
audgensa@audit.sa.gov.au
www.audit.sa.gov.au

2 March 2020

The Hon T J Stephens MLC
President
Legislative Council
Parliament House
ADELAIDE SA 5000

The Hon V A Tarzia MP
Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Dear President and Speaker

Report of the Auditor-General:
Report 5 of 2020 *Consolidated Financial Report review*

As required by the *Public Finance and Audit Act 1987*, I present to each of you Report 5 of 2020 *Consolidated Financial Report review*.

Content of the Report

The 2018-19 Consolidated Financial Report was published in January 2020. It fulfils the SA Government's consolidated financial reporting obligations under Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. It reports the SA Government's actual financial performance and position for the year.

Our review of the Consolidated Financial Report did not identify any material misstatements or control deficiencies. We did identify some opportunities to improve the way financial information is collected, validated and consolidated 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, Bill Sierros and Alexander Sharpe.

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

Yours sincerely

Andrew Richardson
Auditor-General

Contents

1 Executive summary

1.1 Introduction

This Report provides our observations on the 2018-19 Consolidated Financial Report (CFR), in particular:

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

The CFR fulfils the SA Government's consolidated financial reporting obligations under Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. It reports the SA Government's actual financial performance and position for the year. The 2018-19 CFR was published on the Department of Treasury and Finance (DTF) website in January 2020.[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 is explained further in section 2.

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

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

We provided commentary on the 2019-20 State Budget in Auditor-General's Report 8 of 2019 *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 some opportunities to improve the way financial information is collected, validated and consolidated in preparing the CFR. They are outlined in section 1.4.

1 *Consolidated Financial Report 2018-19*, www.treasury.sa.gov.au/budget/current-budget/previous-budgets/budget-2018-19, viewed January 2020.

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

1.3 Key overall observations

1.3.1 The whole of government reported a $535 million net operating balance surplus for 2018-19, compared to a $675 million deficit last year

The $1.21 billion improvement is because of higher grants from the Commonwealth Government, especially capital grants. Most of these were early payments for State projects.

1.3.2 The whole of government reported a net lending deficit of $293 million in 2018-19, down from $825 million in 2017-18

The $532 million decrease reflects the net operating balance surplus discussed in section 1.3.1, which funded part of the 2018-19 capital program.

1.3.3 The State is increasingly reliant on Commonwealth grant revenue

Grant revenue is the largest revenue stream for the State. As a percentage of total revenue, it has increased from 45% in 2014-15 to 53% in 2018-19. This is due to growth in GST and capital grants from the Commonwealth Government. Section 4.4.4 provides further detail on trends in grant revenue.

1.3.4 While the State's total assets and liabilities both increased in 2018-19, total liabilities increased by $2.4 billion more than total assets

Total assets increased by $6.95 billion (6%) to $126.4 billion, while total liabilities increased by $9.38 billion (12%) to $85.75 billion.

Total assets increased mainly due to:

- a $2.009 billion (8%) increase in other investments, which mainly relate to equities in listed and unlisted companies held by the Superannuation Funds Management Corporation of South Australia (Funds SA) and Return to Work Corporation of South Australia (RTWSA)
- a $1.598 billion (85%) increase in cash and deposits
- a $1.15 billion (7%) increase in investments, loans and placements
- a $1.066 billion (2%) increase in buildings and structures
- a $715 million (5%) increase in land.

Total liabilities increased mainly due to:

- a $3.087 billion (14%) increase in borrowings
- a $2.548 billion (23%) increase in unfunded superannuation liabilities
- a $2.499 billion (8%) increase in superannuation fund deposits
- an $813 million (16%) increase in provisions.

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

1.3.5 Matters reflected in Independent Auditor's Reports for government agencies in 2018-19 included inherent uncertainty in some liabilities of the Return to Work Corporation of South Australia and the Lifetime Support Authority of South Australia

As noted in section 1.2, we do not provide an audit opinion on the CFR. However, we provided a management letter summarising the results of our review to DTF in January 2020. It included the agency specific audit matters we identified that would impact on the audit opinion for the CFR, if we provided one.

I noted in the letter that, while I had not modified my Independent Auditor's Reports for RTWSA and the Lifetime Support Authority of South Australia (LSA) for 2018-19, I drew attention to the inherent uncertainty associated with their care, support and claims liabilities.

1.4 What we recommended

We issued a management letter to DTF's Chief Executive in January 2020 outlining opportunities to improve the way financial information is collected, validated and consolidated in preparing the CFR. Our recommendations included:

- performing and documenting annual assessments of the materiality of entities controlled by the SA Government to ensure all material entities are reported in the CFR
- DTF reviewing its data collection procedures to obtain the necessary borrowings information to meet required disclosure requirements of Australian Accounting Standard AASB 7 *Financial Instruments: Disclosures*
- that while DTF disclosed the estimated impact of new and revised accounting standards in the 2018-19 CFR, it will need to review its data collection procedures to obtain the necessary information to disclose the actual impact in 2019-20 of new and revised accounting standards.

1.5 Response to our recommendations

DTF's response to our management letter indicated that it would take appropriate action to address the matters raised, including:

- performing annual assessments of the materiality of entities controlled by the SA Government to ensure all material entities are reported in the CFR
- reviewing its data collection procedures and information requirements for the CFR to ensure compliance with the disclosure requirements of AASB 7 and new and revised accounting standards.

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 2019 was prepared by DTF under AASB 1049 and includes both whole of government and general government sector financial reports.

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

The three government sectors are defined as follows:

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

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

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

AASB 1049 requires financial reports to be prepared consistent with the principles and rules established by the Australian Bureau of Statistics (ABS).[2] However, it is important to note that some technical differences remain between AASB 1049 and the Uniform Presentation Framework based on ABS Government Finance Statistics principles. The impact of these differences for the SA Government is immaterial, with a table reconciling the key aggregates 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
- controls over the preparation of the 2018-19 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 8 of 2019 *State Finances and related matters* provides commentary on the 2018-19 State Budget estimated results of the general government sector.

3.3 What we reviewed and how

Our review in 2018-19 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 2018-19 Consolidated Financial Report financial performance

Key points

- The whole of government reported a $535 million net operating balance surplus for 2018-19, compared to a $675 million net operating balance deficit in the prior year.
- The State's net worth decreased by $2.426 billion, mainly because of an increase in the value of defined benefit superannuation liabilities.
- There is a $263 million difference between the whole of government and general government sector 2018-19 net operating balances because the CFR consolidates and eliminates intra-sector transactions.
- Grants are a key revenue stream, representing 53% of total whole of government revenue in 2018-19.
- Employee expenses are the largest component of expenditure in 2018-19 at 39%, compared to 38% in 2017-18.
- The whole of government reported a net lending deficit of $293 million in 2018-19, compared to a net lending deficit of $825 million in the prior year. This is largely because there was an operating surplus in 2018-19, which in turn reduces the net lending deficit.

4.1 Net operating balance

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

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

The whole of government reported a $535 million net operating balance surplus for 2018-19, compared to a $675 million net operating balance deficit for 2017-18.

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

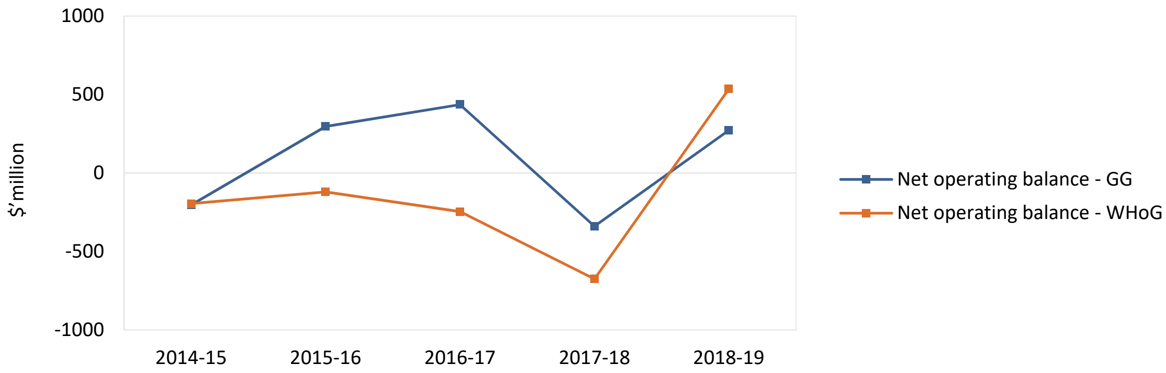


Figure 4.1 shows that following a trend of increasing deficits between 2016-17 and 2017-18, the whole of government reported a net operating balance surplus in 2018-19. Section 4.4 provides further detail about changes in revenue and expenditure.

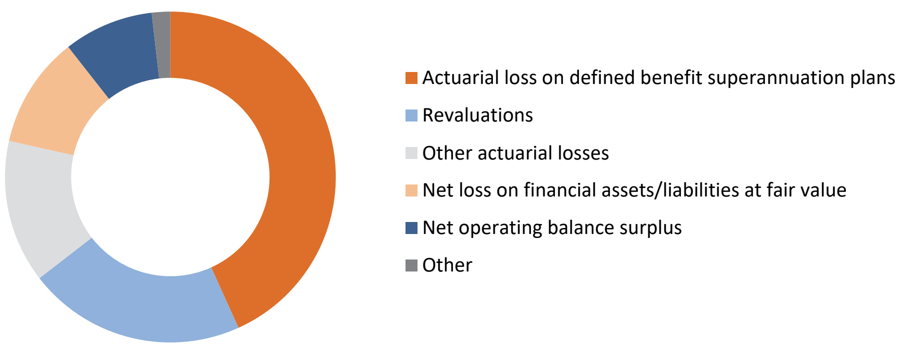
The $1.21 billion increase in the whole of government net operating balance surplus in 2018-19 was greater than the $611 million increase in the general government sector net operating balance surplus over the same period. The $599 million variance reflects increases in PNFC ($379 million) and PFC ($84 million) net operating balance surpluses and a $135 million decrease in consolidation eliminations (refer note 10.1 to the CFR).

4.2 Total change in net worth

4.2.1 The State's net worth decreased by $2.426 billion, mainly because of an increase in the value of defined benefit superannuation liabilities

Figure 4.2 shows the drivers for the $2.426 billion decrease in net worth in 2018-19 for the whole of government in the Statement of Comprehensive Income.

Figure 4.2: Reasons for net worth decrease in 2018-19



The change in net worth is mainly the result of:

- a net actuarial loss on defined benefit superannuation plans ($2.632 billion), primarily as a result of a movement in the discount rate used by the actuary to value the defined benefit obligation from 2.9% in 2017-18 to 1.7% in 2018-19
- an increase in asset revaluation reserves ($1.295 billion). The main revaluation increments were $536 million on Department of Planning, Transport and Infrastructure (DPTI) property and network assets, $316 million on SAHT properties and $117 million on SA Water pipe assets, wastewater treatment plants, the desalination plant and water filtration plants.

The change in net worth was also influenced by the net operating balance surplus ($535 million) and the following other economic flows:

- other net actuarial losses ($851 million) primarily driven by increases in the RTWSA Compensation Fund outstanding claims liability ($488 million), long service leave liabilities ($288 million), SAFA insurance claims provisions ($52 million) and self-insured agencies workers compensation claims liability ($41 million). These liabilities also increased as a result of decreases in discount rates in 2018-19. The increases in these liabilities were offset by a $73 million decrease in Motor Accident Commission (MAC) insurance claim provisions
- a net loss on financial assets/liabilities at fair value ($663 million)
- other economic outflows ($163 million) mainly driven by net write-downs of $114 million in Urban Renewal Authority (URA) development projects. The write-downs included $100 million relating to the Lot Fourteen project, reflecting the URA's best estimate of the demolition, construction and remediation requirements for the site.

4.3 Net lending/borrowing position

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

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

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

Figure 4.3: Net lending/borrowing position

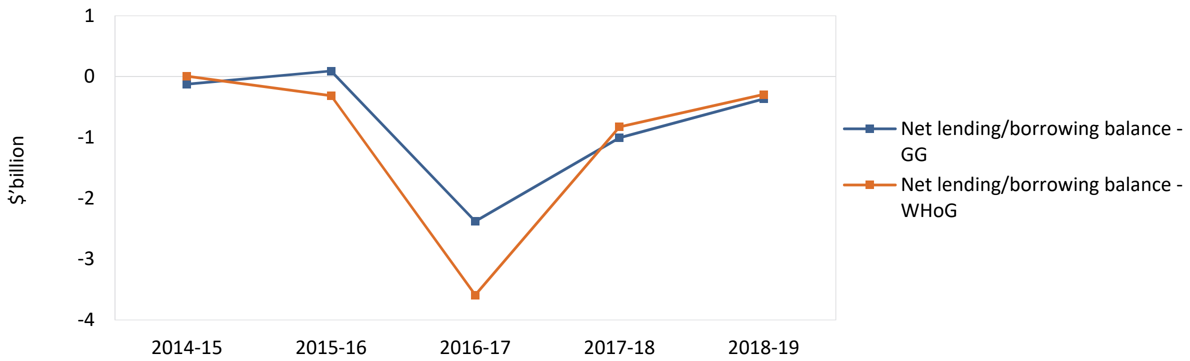


Figure 4.3 shows the significant variability in the net lending/borrowing position over the past five years, with a reduced net lending/borrowing deficit in 2018-19.

The net lending deficit of $3.588 billion for the whole of government in 2016-17 mainly reflected the recognition of $2.5 billion of assets under finance lease for the new Royal Adelaide Hospital, recognised by the Central Adelaide Local Health Network Incorporated following commercial acceptance on 13 June 2017.

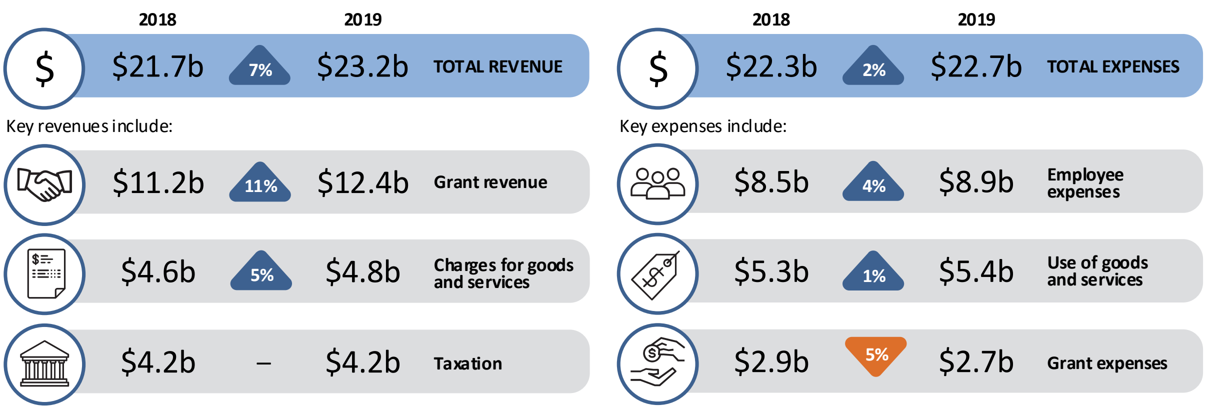
The $532 million improvement in the net lending /borrowing position in 2018-19 reflects the $1.21 billion turnaround in the net operating balance discussed in section 4.1.1. This was offset by a $678 million increase in net acquisition of non-financial assets, mainly due to lower assets sales in 2018-19. In 2017-18 these asset sales were largely the one-off sales of the Techport Australia Common User Facility and associated assets and the MAC property portfolio.

4.4 Revenue and expenditure

4.4.1 Modest increases in total revenue and expenditure

Figure 4.4 shows changes in revenue and expenditure between 2017-18 and 2018-19 for key items.

Figure 4.4: Analysis of variations in revenue and expenditure



Total revenue increased in 2018-19 by $1.588 billion (7%). Total expenditure increased by $378 million (2%).

4.4.2 Increase in total revenue mainly due to higher grants and charges for goods and services

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

- grant revenue – increased by 11% or $1.211 billion. This was mainly a result of higher GST grant revenue from the Commonwealth Government and increased capital grants under the Intergovernmental Agreement on Federal Financial Relations, most of which were early payments for DPTI projects

- charges for goods and services – increased by 5% or $225 million, mainly due to increases in water related rates and charges by SA Water ($76 million), revenue from SA Lotteries gambling products ($67 million) and local health network fees and charges ($42 million).

Auditor-General's Report 6 of 2019 *Annual Report for the year ended 30 June 2019, Part C: Agency audit reports* provides further details on major variations between years for individual agencies.

4.4.3 Increase in total expenditure mainly due to higher employee expenses, partly offset by lower grant expenses

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

- employee expenses – increased by 4% or $378 million. This growth was due mainly to increases in salaries and wages expenses of $201 million, primarily due to enterprise agreement increases, and increases in targeted voluntary separation payments of $88 million and annual leave of $62 million

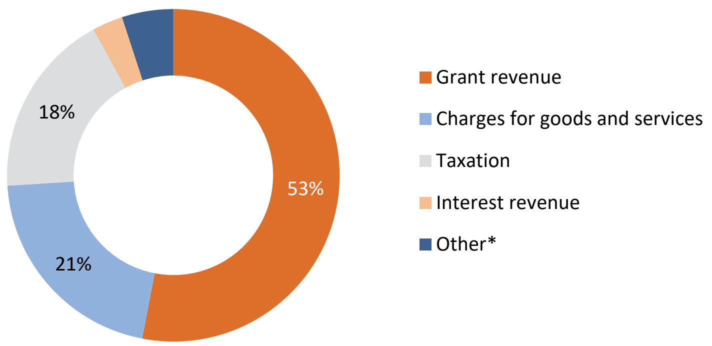
- grant expenses – decreased by 5% or $156 million. This is primarily due to decreases in Department of Human Services disability grants and taxi industry assistance payments, offset by increases in grants from the Commonwealth Government passed on to non-government schools and increases in financial assistance and local road funding grants from the Commonwealth Government passed on to the South Australian Local Government Grants Commission.

Auditor-General's Report 6 of 2019 *Annual Report for the year ended 30 June 2019, Part C: Agency audit reports* provides further details on major variations between years for individual agencies.

4.4.4 The State is increasingly reliant on Commonwealth grant revenue

Figure 4.5 shows the composition of whole of government revenue in the 2018-19 CFR.

Figure 4.5: Composition of revenue

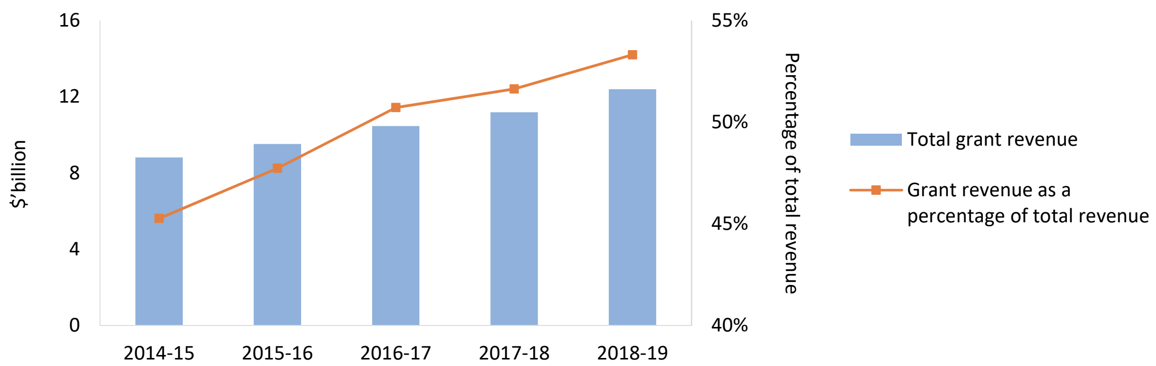


* Includes dividends and income tax equivalents and other revenues.

Figure 4.5 highlights that grant revenue, which is virtually all Commonwealth sourced, is the largest revenue stream for the State, representing more than half of total revenue from transactions in 2018-19.

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

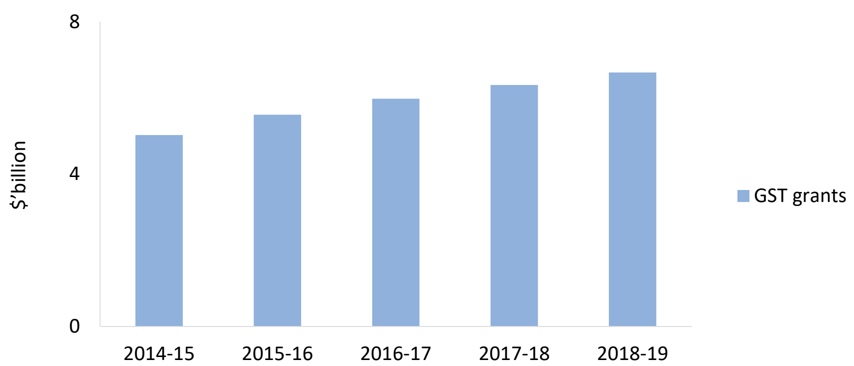
Figure 4.6: Grant revenue as a percentage of total revenue



Grant revenue, as a percentage of total revenue, has increased from 45% in 2014-15 to 53% in 2018-19. This largely reflects growth in GST grants from the Commonwealth Government, which made up 54% of total grant revenue in 2018-19.

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

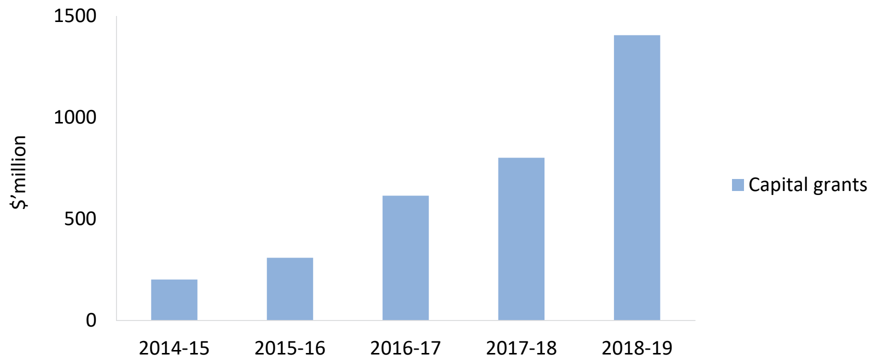
Figure 4.7: GST grants



The growth in grant revenue since 2014-15 also reflects increased capital funding from the Commonwealth, which made up 11% of total grant revenue in 2018-19 compared to 2% in 2014-15.

Figure 4.8 shows the growth 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 (21%) and taxation (18%).

4.4.5 Taxation revenue remained steady in 2018-19 compared to last year

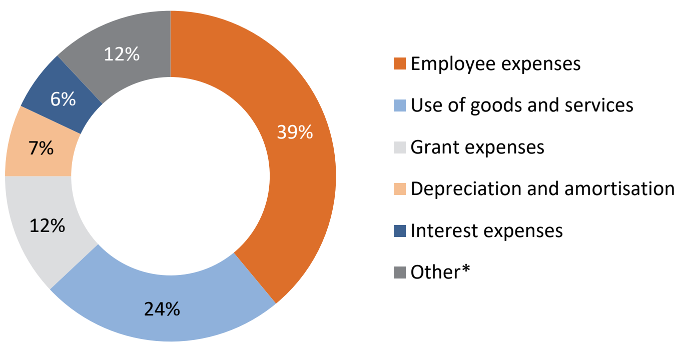
Taxation revenue was $4.168 billion in 2018-19, compared to $4.18 billion in the prior year. The $12 million decrease mainly reflected:

- a $72 million (33%) decrease in the Emergency Services levy
- a $50 million (6%) decrease in stamp duties
- offset by a $27 million (6%) increase in stamp duties on insurance and a combined $52 million increase in taxes on employers' payroll and labour force and gambling tax.

4.4.6 Employee expenses as a percentage of total expenditure increased in 2018-19

Figure 4.9 shows the composition of whole of government expenses in the 2018-19 CFR.

Figure 4.9: Composition of expenditure



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

Figure 4.9 highlights that employee expenses are the largest component of expenditure for the State, representing 39% of total expenses from transactions in 2018-19. The other major components of expenditure are the use of goods and services expenses (24%) and grant expenses (12%).

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

Figure 4.10: Employee expenses as a percentage of total expenses

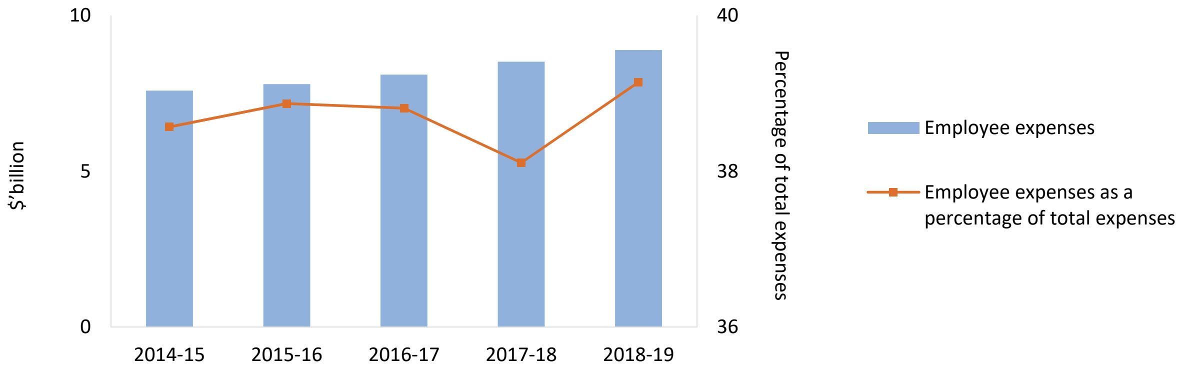


Figure 4.10 highlights that employee expenses as a percentage of total expenses trended downwards between 2015-16 and 2017-18 before increasing in 2018-19. The lower percentage of employee expenses as a percentage of total expenses in 2017-18 reflected the higher use of goods and services and higher interest expenses in that year. Employee expenses were again a higher proportion of total expenses in 2018-19, reflecting lower growth in the use of goods and services and interest expenses and a reduction in grant expenses.

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

Figure 4.11: Year on year percentage change in employee expenses

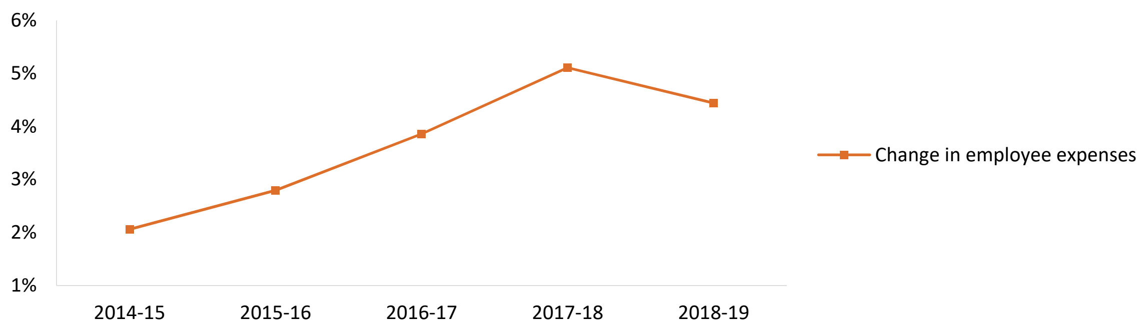


Figure 4.11 highlights that percentage year on year growth in employee expenses from 2014-15 to 2017-18 trended up, rising to 5% in 2017-18, before the lower growth of 4.4% in 2018-19. The trend up was mainly due to enterprise agreement increases and additional FTEs in each year since 2015-16.

Figure 4.12 shows the growth in FTE employee numbers for the whole of government over the past five years.

Figure 4.12: Whole of government FTEs

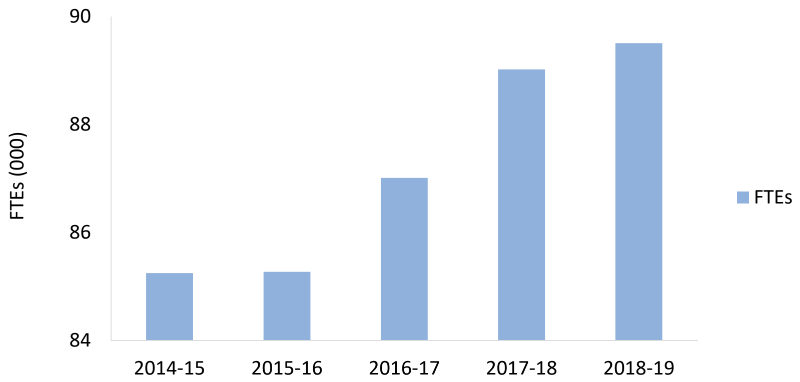


Figure 4.12 highlights that there has been an upward trend in total FTE numbers since 2015-16 reaching the highest level in 2018-19, with larger 2% increases between 2015-16 (85 272 FTEs), 2016-17 (87 011 FTEs) and 2017-18 (89 022 FTEs). The 485 (0.5%) increase in FTEs in 2018-19 is primarily due to additional positions in local health networks and the Department for Education, offset by reductions in positions in other agencies.

4.5 Further commentary and analysis

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

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

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

- the net actuarial gain (loss) on defined benefit superannuation plans – $2.632 billion loss in 2018-19 compared to an $82 million gain in the prior year. This is mainly due to a decrease in the discount rate used to value the unfunded superannuation liability from 2.9% at 30 June 2018 to 1.7% at 30 June 2019, which increased the unfunded superannuation liability by $3.035 billion
- other net actuarial gains (losses) – decreased by $654 million to a loss of $851 million. This is primarily due to changes in actuarial assumptions, including lower discount rates, for the RTWSA Compensation Fund outstanding claims liability, MAC insurance claims liability and agency long service leave liabilities
- gains (losses) on financial assets and financial liabilities at fair value – decreased by $746 million to a loss of $663 million.

4.5.2 The difference between the whole of government and general government sector net operating balances is $263 million

The net operating balance for the whole of government in 2018-19 was a surplus of $535 million. This compares to a $272 million net operating balance surplus for the general government sector, a $263 million difference.

The whole of government reported result reflects the elimination of all transactions between all government entities, only reporting transactions with the 'rest of the world'. The general government sector reported 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 2018-19 are outlined in note 10.5 of the CFR on related party transactions. The following revenue was received by the general government sector from the PNFC and PFC sectors:

- land tax received from the SAHT ($196 million)
- income tax equivalents from SA Water ($80 million)
- guarantee fees from PNFCs and PFCs ($149 million)
- interest revenue on deposit accounts ($96 million)
- dividend revenue from MAC ($143 million)
- dividend revenue from SA Water ($179 million)
- dividend revenue from SAFA ($48 million).

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

- loan interest paid to SAFA ($242 million)
- community service obligation payments made to SA Water ($140 million)
- fleet expenses paid to SAFA ($49 million)
- grants from the Department of Human Services to the SAHT ($834 million)
- equity capital contributions to the SAHT ($124 million)
- operating lease rental expenses paid by the Department for Innovation and Skills to the URA for the use of technical and further education sites ($55 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 URA, RTWSA and the Adelaide Venue Management Corporation recorded the only significant operating losses for the PNFC and PFC sectors in 2018-19.

5 2018-19 Consolidated Financial Report financial position

Key points

- Total assets increased by $6.953 billion (6%) to $126.404 billion.
- The State's major non-financial assets are buildings, structures and land.
- The State's building and structures increased by $1.066 billion (2%) to $55.487 billion.
- The State's investments increased by $3.159 billion (8%) to $44.544 billion.
- Total liabilities increased by $9.379 billion (12%) to $85.745 billion.
- The State's major liabilities are superannuation fund deposits, borrowings and unfunded superannuation liabilities.
- The State's superannuation fund deposits increased by $2.499 billion (8%) to $32.585 billion.
- The State's borrowings increased by $3.087 billion (14%) to $25.908 billion, mainly to fund capital expenditure in 2018-19.
- Unfunded superannuation liabilities increased by $2.548 billion (23%) primarily as a result of a decrease in the discount rate used to calculate the defined benefit superannuation plans obligation from 2.9% at 30 June 2018 to 1.7% at 30 June 2019.
- The State's net assets and net worth are $40.659 billion, which is a $2.426 billion decrease from the prior year.

5.1 Assets and liabilities

5.1.1 The State's total assets and liabilities both increased in 2018-19

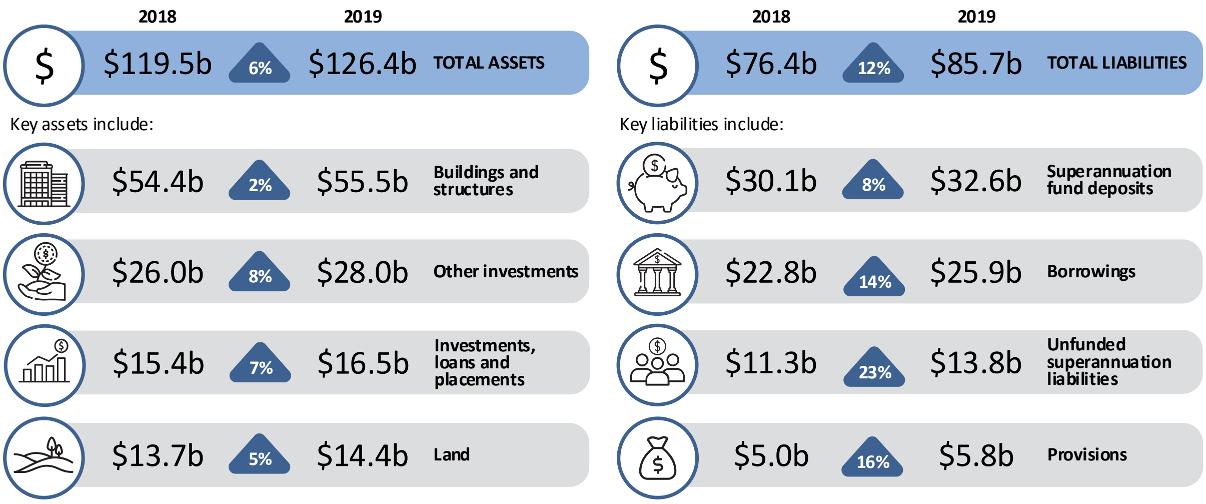
Total assets increased by $6.953 billion (6%) to $126.404 billion in 2018-19, while total liabilities increased by $9.379 billion (12%) to $85.745 billion.

Assets and liabilities change mainly due to:

- acquisitions and disposals
- revaluations, often involving management judgements and market references that can significantly influence rates from year to year. Discount rate movements were particularly significant for liability valuations in 2018-19.

Figure 5.1 shows changes in assets and liabilities between 2017-18 and 2018-19 for key items.

Figure 5.1: Analysis of variations in assets and liabilities



5.1.2 Increase in total assets mainly due to growth in superannuation funds, cash and buildings, structures and land additions

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

- other investments – increased by 8% or $2.009 billion. This primarily reflects increases in superannuation funds held under management by Funds SA owing to strong investment performance
- cash and deposits – increased by 85% or $1.598 billion. The increase in cash and deposits mainly occurred in SAFA, the Department for Health and Wellbeing and the Treasurer
- investments, loans and placements – increased by 7% or $1.15 billion. This is mainly due to strong investment performance, revaluing investments at market value and additional funds invested by Funds SA, SAFA and LSA, offset by a reduction in funds invested by MAC
- buildings and structures – increased by 2% or $1.066 billion. This is mainly due to additions/capitalised expenditure of $1.815 billion (mainly relating to the road network, bus and rail tracks and water, sewerage and drainage assets) and revaluation increments of $652 million (mainly relating to the road network, bus and rail tracks, buildings and water, sewerage and drainage assets), offset by $1.26 billion in depreciation charged for the year
- land – increased by 5% or $715 million. This is mainly due to the revaluation of land under roads ($158 million) and land held by the SAHT ($266 million), the Department for Education ($68 million), the Department for Correctional Services ($60 million) and DPTI ($49 million).

Auditor-General's Report 6 of 2019 *Annual Report for the year ended 30 June 2019, 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 borrowings, unfunded superannuation liabilities, superannuation fund deposits and provisions

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

- borrowings – increased by 14% or $3.087 billion. This was mainly to fund capital works in 2018-19
- unfunded superannuation liabilities – increased by 23% or $2.548 billion. This reflects a $2.67 billion increase in the defined benefit superannuation plans obligation, offset by a $121 million increase in defined benefit plan assets. The increase in the defined benefit obligation is mainly due to a decrease in the discount rate used to calculate the obligation from 2.9% at 30 June 2018 to 1.7% at 30 June 2019
- superannuation fund deposits – increased by 8% or $2.499 billion. This is mainly due to the strong investment performance of superannuation funds managed by Funds SA
- provisions – increased by 16% or $813 million. This is mainly due to a $487 million increase in the RTWSA Compensation Fund outstanding claims liability, a $198 million increase in SA Government (SAicorp) insurance and risk management fund provisions and a $104 million increase in LSA participant treatment, care and support provisions. These liabilities also increased as a result of decreases in discount rates in 2018-19. The increases in these liabilities were offset by a $153 million decrease in MAC motor vehicle insurance claim provisions.

Auditor-General's Report 6 of 2019 *Annual Report for the year ended 30 June 2019, 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 2018-19 CFR.

Figure 5.2: Composition of assets

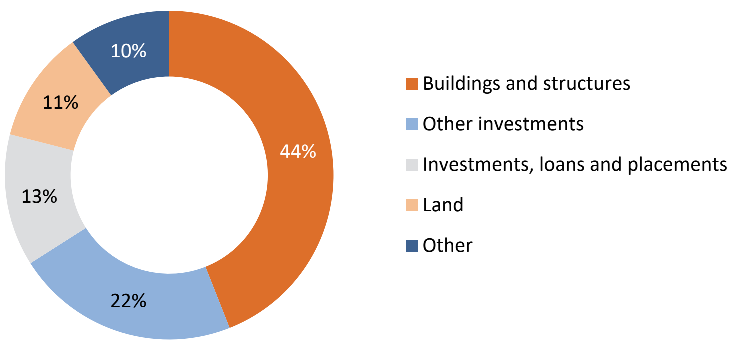


Figure 5.2 shows that the State's assets primarily comprise buildings and structures (44%), other investments (22%), investments, loans and placements (13%) and land (11%).

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

5.1.5 State liabilities primarily comprise borrowings and unfunded superannuation liabilities

Figure 5.3 shows the composition of whole of government liabilities in the 2018-19 CFR.

Figure 5.3: Composition of liabilities

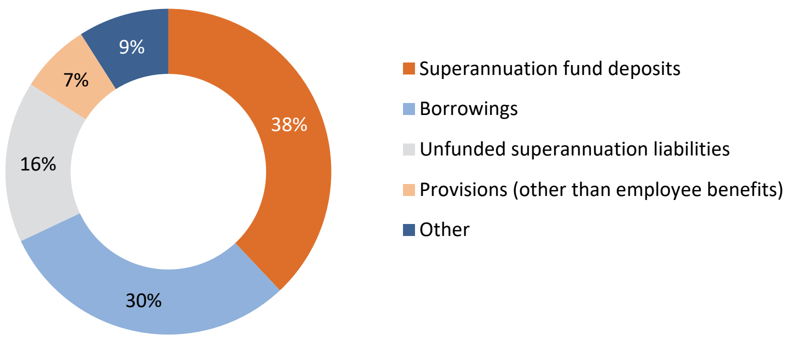


Figure 5.3 shows that the State's liabilities primarily comprise superannuation fund deposits (38%), borrowings (30%) and unfunded superannuation liabilities (16%).

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

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

Figure 5.4: Borrowings

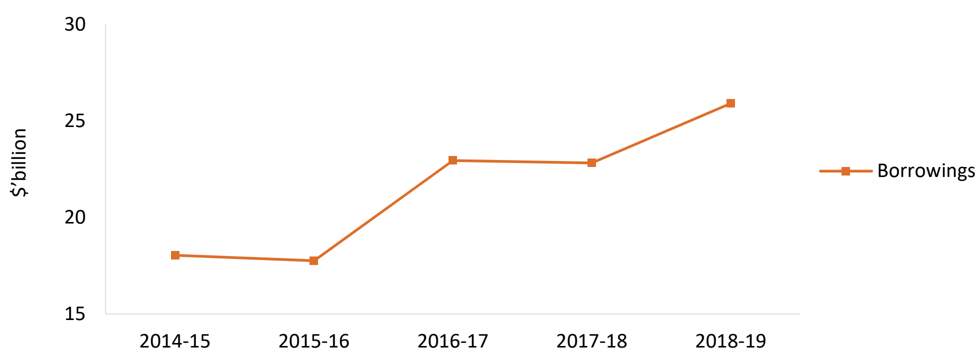


Figure 5.4 highlights that borrowings increased significantly in 2016-17 and 2018-19.

The $5.195 billion increase in 2016-17 was due mainly to changes in SAFA's liquidity policy, the recognition of a $2.809 billion finance lease liability for the new Royal Adelaide Hospital and the $618 million Consolidated Account deficit in 2016-17. SAFA sought to increase its liquidity to better align with market best practice and regulator and rating agencies' guidelines. New select bonds were issued to increase the amount of liquid funds available.

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

5.2 Further commentary and analysis

5.2.1 Net worth decreased in 2018-19

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

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

Figure 5.5: Net worth

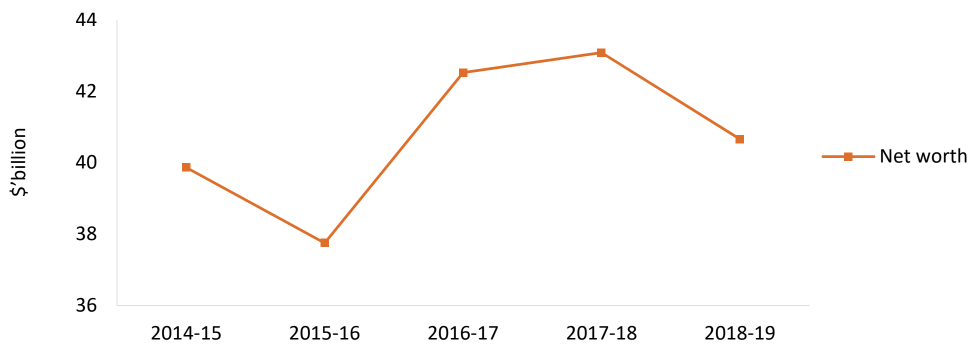


Figure 5.5 highlights the significant decreases in the net worth of the State in 2015-16 and 2018-19.

The $2.117 billion decrease in net worth in 2015-16 was mainly due to an increase in the unfunded superannuation liability that year arising from changes in actuarial estimates and assumptions.

The major drivers behind the $2.426 billion decrease in net worth in 2018-19 are discussed in sections 5.1.2 and 5.1.3.

5.2.2 Unfunded superannuation liability is a key driver of net worth

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

Figure 5.6: Unfunded superannuation liability and net worth

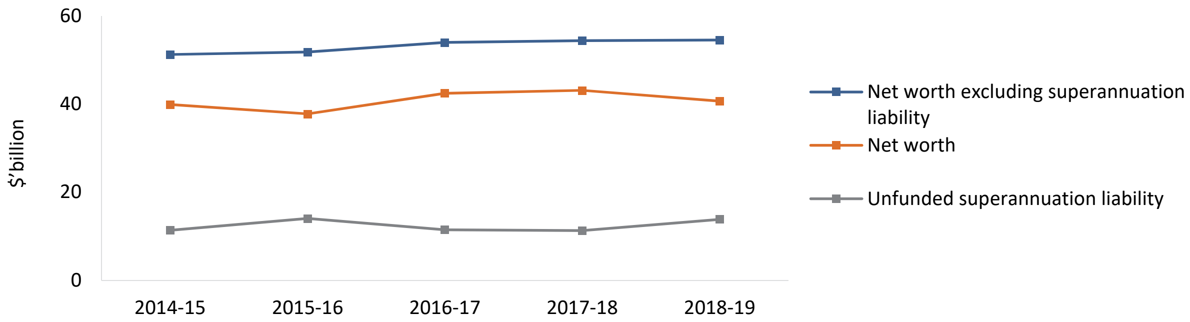


Figure 5.6 shows that the movement in net worth over the past five years has been the inverse of movements in the unfunded superannuation liability. It also shows that without the unfunded superannuation liability, there has been a slight upward trend in net worth over the past five years.

The unfunded superannuation liability is a long-term liability to current and past members of closed defined benefit superannuation schemes. The 2018-19 State Budget reported that while financial market and interest rate volatility in the recent past has resulted in multi-billion dollar revisions to the value of the liability recorded on the balance sheet, there has been no material change in the actual expected payments to beneficiaries underlying the liability.[3]

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

[3] 2018-19 Budget Paper 3 *Budget Statement*, page 68.

Appendix – Abbreviations used in this Report

Abbreviation	Description
AASB 1049	Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*
AASB 7	Australian Accounting Standard AASB 7 *Financial Instruments: Disclosures*
ABS	Australian Bureau of Statistics
CFR	Consolidated Financial Report
DPTI	Department of Planning, Transport and Infrastructure
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
MAC	Motor Accident Commission
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