

Auditor-General's Report 8 of 2026

State finances

Insights on the 2026-27 Budget



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Aboriginal people as the State's first people and nations, and
recognises Aboriginal people as traditional owners and occupants
of South Australian land and waters.*



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26 October 2026

President
Legislative Council
Parliament House
ADELAIDE SA 5000

Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Dear President and Speaker

Auditor-General's Report 8 of 2026 State finances – insights on the 2026-27 Budget

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

The 2026-27 State Budget was tabled in Parliament in June 2026. This report provides our observations on key trends and risks for the State's public finances based on our review of the Budget. This involved:

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

Our analysis is based on data provided in the 2026-27 Budget Papers, supplemented by information provided to us by the Department of Treasury and Finance.

Acknowledgements

The review team for this report was Salv Bianco, Grace Lum, Stephen Gladigau and Veronika Kosourikhina.

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

Yours sincerely

A handwritten signature in blue ink, appearing to read "Andrew Blaskett".

Andrew Blaskett
Auditor-General

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Audit snapshot

State finances – insights on the 2026-27 Budget

Key insights

The 2026-27 Budget forecasts rising net debt and ongoing net operating surpluses. There is a range of significant longer-term financial risks that may affect the State's financial position as debt, interest costs and infrastructure investment continue to increase as well as capital revenues that make the underlying operating balance challenge less apparent.

Our key insights are:

- NFPS net debt is forecast to increase by \$19 billion to \$53.7 billion by 2030. The Budget indicates that net debt-to-revenue ratio will stabilise once the T2D project and new Women's and Children's hospital are complete
- despite the completion of major projects such as the T2D project and new Women's and Children's hospital, an ongoing pipeline of infrastructure investment and significant maintenance backlogs will continue to place pressure on the State's finances beyond the forward estimates
- operating surpluses rely heavily on Commonwealth capital grant revenue associated with major infrastructure projects. Without capital grants, forecast operating balances would be in deficit throughout the forward estimates
- annual NFPS interest expenses are forecast to almost double to \$3.5 billion by 2029-30, reducing financial flexibility and increasing the share of revenue required to service debt – revenue that would otherwise be available to fund service delivery or reduce debt
- uncertainty around the extension of the GST no-worse-off guarantee may also adversely impact the operating position
- future budget outcomes remain exposed to risks including health expenditure growth, child protection costs and wage negotiations.

We reviewed the 2026-27 State Budget to identify key trends and risks affecting South Australia's public finances. We did not audit the accuracy of Budget forecasts or assumptions.

Why this matters

Projected rising net debt and related increases in debt servicing costs, and continuing operating expenditure pressures in health and child protection, present significant challenges to the State's fiscal position.

Key facts

\$53.7 billion forecast NFPS debt by June 2030

\$19 billion increase in forecast NFPS net debt over the forward estimates

\$3.5 billion forecast annual NFPS interest expense by 2029-30

139.7% NFPS net debt forecast as a proportion of revenue by 2030

\$29.1 billion NFPS capital investment program over four years

1 Executive summary

1.1 Introduction

The State Budget sets out the SA Government's fiscal strategy, actual and forecast financial position and new policy initiatives. It is also a key tool to manage and monitor government programs and performance.

This report provides our insights on key trends and risks for the State's public finances based on our review of the 2026-27 State Budget (2026-27 Budget). Our analysis is based on data in the 2026-27 Budget Papers, supplemented by information provided to us by the Department of Treasury and Finance (DTF). The data and assumptions underlying this information were not subject to audit and no audit opinion is provided on the accuracy of historical or forecast figures in the 2026-27 Budget.

1.2 Our key insights

1.2.1 Fiscal sustainability risks are increasing

Rising net debt increases risks to the State's longer-term fiscal position

Non-financial public sector (NFPS) net debt is forecast to increase by \$19 billion over the forward estimates to \$53.7 billion, or 139.7% of revenue, by June 2030.

The SA Government has not publicly specified the debt level it considers sustainable or the level at which the net debt-to-revenue ratio, its key debt affordability metric, is expected to stabilise.

The 2026-27 Budget notes that the SA Government expects the ratio to stabilise after completion of the North-South Corridor River Torrens to Darlington project (T2D project) and the new Women's and Children's Hospital as capital expenditure returns to levels more consistent with historical experience. However, the SA Government is forecast to continue funding part of its capital program through debt over the forward estimates, even after excluding these two major projects.

Infrastructure SA has identified ongoing infrastructure investment requirements associated with population growth, housing demand, economic development and the maintenance and renewal of existing assets. These pressures may sustain elevated levels of capital expenditure beyond the forward estimates and require continued borrowing. As a result, stabilisation of the net debt-to-revenue ratio may depend not only on lower capital expenditure, but also on stronger revenue growth, lower expenditure growth or a combination of these factors.

South Australia's operating position is relatively strong, but debt affordability metrics are among the weakest

South Australia's forecast net operating balances compare favourably with several Australian States and remain in surplus throughout the four years of the 2026-27 Budget. However, South Australia's net debt-to-revenue ratio, the SA Government's key debt affordability metric, and interest-expense-to-revenue ratio are forecast to be the second highest of the States by 2029-30. The higher these ratios are, the more limited a state's ability to service its debt from its revenue base.

Forecast net operating surpluses depend heavily on capital grant revenue

The SA Government expects to achieve its fiscal target of achieving a net operating surplus in each year of the 2026-27 Budget. Commonwealth Government capital grant revenue for infrastructure projects has a substantial effect on the forecast net operating result. Without capital grant revenue, the general government sector would record net operating deficits of around \$1.6 billion to \$1.7 billion in each year of the forward estimates. While capital grant revenue is recognised in the net operating balance, it is intended to fund infrastructure assets and is not available to fund ongoing government services.

A substantial proportion of the Commonwealth capital grant revenue relates to the T2D project. When the Commonwealth capital grant funding for the T2D project ceases on its completion, maintaining net operating surpluses will depend on other revenue sources, lower expenditure or a combination of both.

Rising interest expenses may reduce the SA Government's fiscal flexibility

Annual NFPS interest expenses are forecast to increase from \$1.8 billion in 2025-26 to \$3.5 billion in 2029-30. By 2029-30, interest expenses are expected to consume 9.1% of NFPS revenue, the second highest proportion among the States, while interest expense as a proportion of gross state product (GSP) is forecast to be the highest among the States. Higher interest rates and the refinancing of debt issued during 2020 and 2021 in a historically low-interest-rate environment could further increase borrowing costs and reduce the SA Government's capacity to fund services, invest in new priorities and respond to economic challenges.

1.2.2 South Australia's revenue outlook remains highly dependent on Commonwealth funding and economic conditions

Commonwealth grants are expected to account for about 55% of total revenue over the forward estimates. Of this amount, GST revenue represents approximately 30% of total revenue. South Australia's share of the national GST pool is forecast to decline over the four years of the 2026-27 Budget. Further, the GST no-worse-off guarantee is due to expire at the end of 2029-30.

GST revenue is sensitive to household consumption, housing activity and economic growth. Current risks include restrictive monetary policy, elevated inflation, softer housing market conditions and ongoing global economic uncertainty. The 2026-27 Budget estimates that 1%

lower growth in the national GST pool would reduce South Australia's revenue by around \$100 million per annum. Lower-than-expected GST revenue would, in the absence of offsetting revenue or expenditure measures, reduce forecast operating surpluses and increase borrowing requirements.

1.2.3 The large capital program increases cost and delivery risks

The NFPS capital program totals \$29.1 billion over the four years of the 2026-27 Budget, \$1.8 billion more than the previous Budget. It is being delivered in a constrained infrastructure market characterised by strong demand, skilled labour shortages, supply disruptions and increasing construction costs. The T2D project and new Women's and Children's Hospital account for 39% of the program. Their scale, complexity and long delivery time frames increase the risk of cost overruns and delays.

Given the size of the capital program, even relatively small percentage cost overruns could significantly impact the State's overall financial position, including increased net lending deficits and net debt.

1.2.4 Achieving SA Health expenditure forecasts will remain challenging

Over half of the total funding for new expenditure initiatives in the four budgets from 2023-24 to 2026-27 relates to SA Health (54% or \$8 billion). Most of this additional funding was provided to address increasing demand for public health services and higher costs of service delivery.

SA Health will face challenges in achieving its expenditure forecasts in the 2026-27 Budget. Public health service activity has grown by more than 4% per annum^a over the past four years, well above the 2% per annum activity growth assumed in the 2026-27 Budget. Achieving SA Health's expenditure forecasts will depend on activity growth moderating and SA Health delivering savings targets that it has previously had difficulty achieving.

1.2.5 Wage agreements for most public sector employees are being negotiated during a period of elevated inflation

Wage negotiations are continuing or commencing in 2026-27 for 78% of the general government sector workforce. These negotiations are occurring during a period of elevated inflation and cost of living pressures, with the Adelaide Consumer Price Index increasing by 4.2% in 2025-26. This is likely to influence wage increases sought through enterprise bargaining negotiations. Wage outcomes above those assumed in the 2026-27 Budget may increase employee expenses and place pressure on forecast budget outcomes.

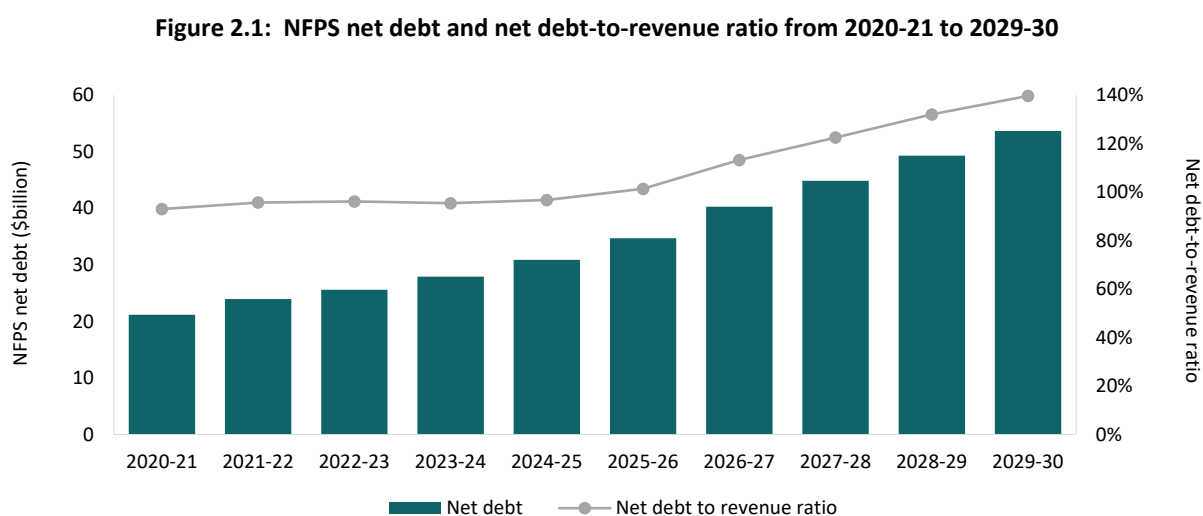
^a This is based on a weighted activity measure that considers both volume and complexity of patient treatments.

2 Net debt and interest expenses

2.1 Net debt

2.1.1 Net debt continues to rise and is forecast to reach \$53.7 billion by 2030

NFPS net debt is forecast to rise by \$19 billion over the four years of the 2026-27 Budget, reaching \$53.7 billion or 139.7% of NFPS revenue by 30 June 2030. Figure 2.1 shows the NFPS net debt and net debt-to-revenue ratio over the ten years to 2029-30.



The increase in net debt over the four years of the 2026-27 Budget is due to increased borrowing to fund the SA Government's significant capital program, which includes the T2D project and new Women's and Children's Hospital.

Net debt as a percentage of revenue is the key debt affordability metric used by the SA Government to assess debt sustainability. Figure 2.1 shows South Australia's net debt is expected to increase from 93% of revenue in June 2021 to 139.7% by June 2030, as net debt grows faster than revenue.

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

Governments access debt to fund key initiatives over the longer term that cannot be immediately funded through current revenue streams. However, if debt is not managed at a sustainable level, it can pose a risk to future economic stability and prosperity.

The SA Government has set a fiscal target in the 2026-27 Budget to achieve a level of net debt that is sustainable over the forward estimates, but it has not set a quantifiable measure to assess its performance against this target. The 2026-27 Budget indicates that the net debt-to-revenue ratio is expected to stabilise following completion of the T2D project and the

new Women's and Children's Hospital, as the SA Government's capital program returns to a level more consistent with historical experience. However, the Budget does not specify the level at which the net debt-to-revenue ratio is expected to stabilise and then decline,^b nor the level at which the SA Government considers the ratio to be sustainable.

The Commonwealth Parliamentary Budget Office notes that there is no single agreed measure of fiscal sustainability. Judgements about fiscal sustainability relate to the longer term and are dependent on past, current and future government activity.¹ The Office views fiscal sustainability as the government's ability to maintain its long-term fiscal policy arrangements indefinitely, without the need for major remedial policy changes. This includes:

- borrowing and repaying debt while keeping taxation and spending within reasonable and expected bounds
- providing key goods and services without the need for rapid cuts to spending
- having sufficient capacity to meet investment priorities and provide support when an economic downturn occurs.²

A clear strategy for how and when projected rising levels of net debt will be stabilised and then reduced can help governments to:

- ensure the ongoing delivery of essential services over the longer term
- prevent the need for sudden adjustments to the level of government spending
- reduce the risk of interest costs crowding out higher priorities
- ensure there is capacity to provide economic support during economic downturns and crises.

DTF advised us that:

- comparing net debt to revenue is the SA Government's key debt affordability metric, and the SA Government has not publicly specified an upper limit for this measure where net debt is no longer considered sustainable
- the SA Government assesses the sustainability of its net debt levels annually through the Budget process, considering the views of credit rating agencies, benchmarking against interstate peers and the level of interest cost burden
- it performed medium-term modelling of net debt to 2035-36 which was provided to the SA Government as part of preparing the 2026-27 Budget.^c

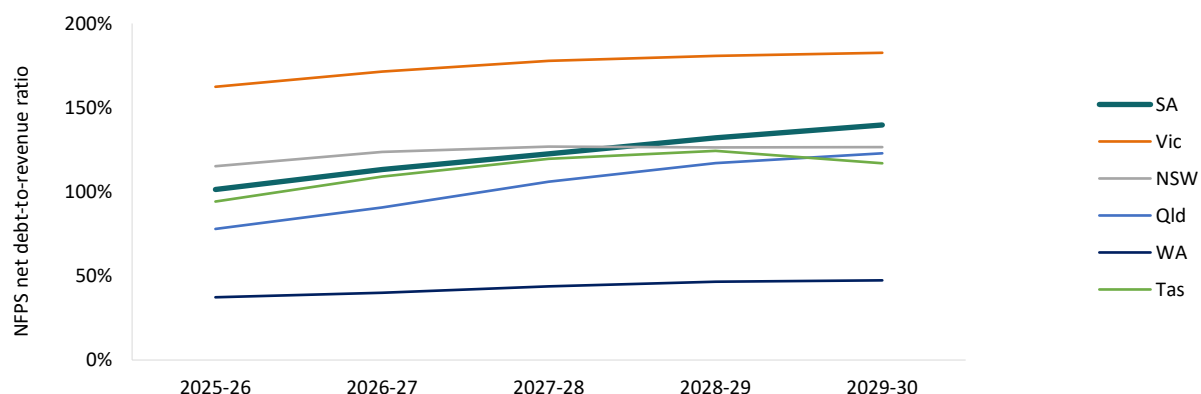
^b Some States have established target time frames for achieving stable or declining net debt ratios. For example, Victoria has a target to stabilise and reduce its general government net debt-to-GSP ratio in the medium term. Queensland has targets to stabilise its NFPS and general government net debt-to-revenue ratios in the medium term and reduce those ratios in the long term.

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

2.1.3 South Australia's NFPS net debt-to-revenue ratio is projected to be the second highest of all States at 30 June 2030

Figure 2.2 compares South Australia's NFPS net debt-to-revenue ratio to other Australian States from 2025-26 to 2029-30. It shows that the net debt-to-revenue ratio is expected to increase for all States from 2025-26 to 2029-30, with Queensland and South Australia recording the largest increases over this period.

Figure 2.2: NFPS net debt-to-revenue ratio for Australian States from 2025-26 to 2029-30



Source: South Australian and interstate budget papers.

By 30 June 2030, South Australia's NFPS net debt-to-revenue ratio is projected to be higher than all other States except Victoria.

The increase in the NFPS net debt-to-revenue ratio across Australian States reflects increases in net debt by each State to support their capital investment programs.

The net debt-to-revenue ratio can be influenced by the significant variability in Commonwealth Government grant revenue for capital projects, which is often one-off for specific capital projects and is not for operational purposes. See section 3.1.2 for more information.

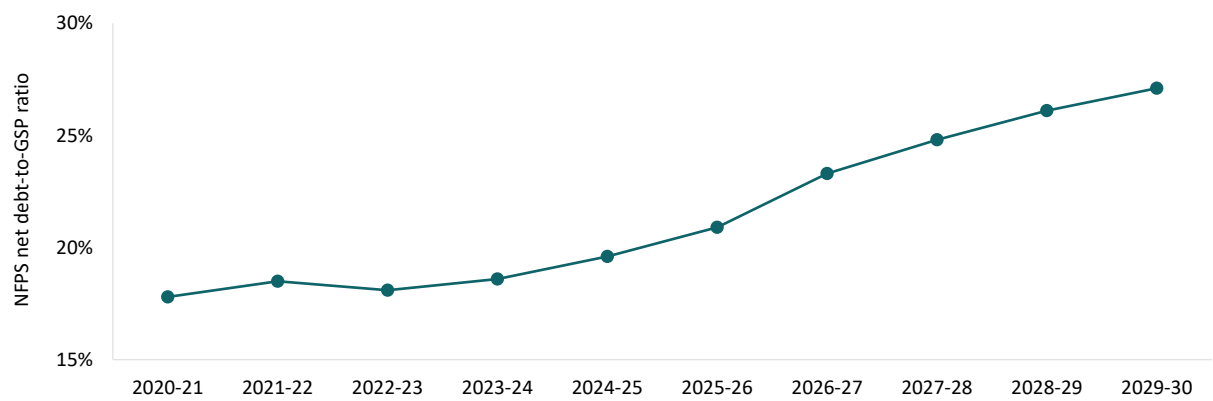
2.1.4 Net debt is projected to rise to 27% of gross state product by 2030

Net debt as a proportion of GSP is another common measure used by State governments to assess fiscal sustainability. It measures the size of the state's net debt in relation to the size of its economy and is an indicator of the government's ability to service its debt.

The Commonwealth Parliamentary Budget Office considers a sustainable fiscal position to be where net debt as a proportion of GSP is expected to be stable or trend down over the long term. It notes that this provides governments with the fiscal space to pursue their long-term policy objectives and flexibility to respond to changes in economic conditions, including large, unforeseen economic shocks.³

While the Parliamentary Budget Office identifies a stable or declining net debt-to-GSP ratio over the long term as a characteristic of fiscal sustainability, figure 2.3 shows that South Australia’s NFPS net debt-to-GSP ratio is expected to increase from 18% in June 2021 to 27% by June 2030, as net debt is projected to grow faster than the State’s economy.

Figure 2.3: NFPS net debt-to-GSP ratio



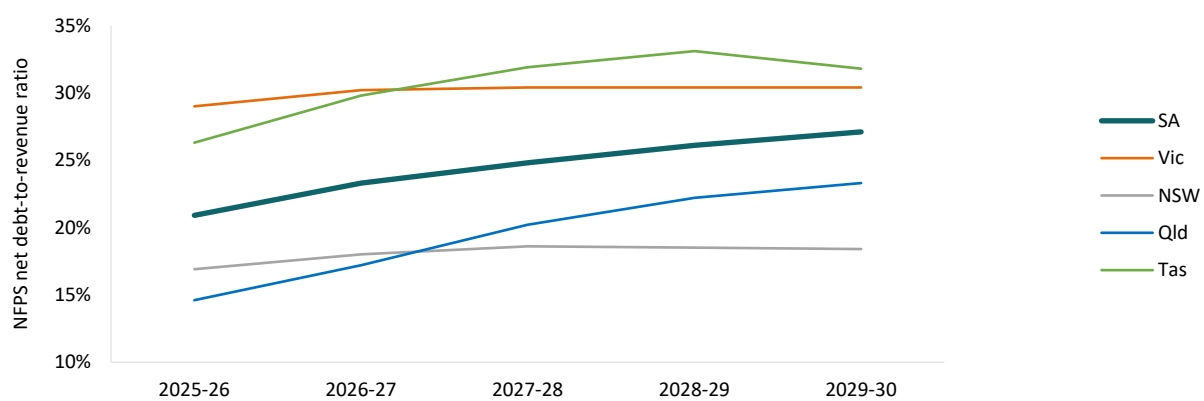
Risk insight

Continued growth in South Australia’s net debt relative to the State’s economy may reduce the State’s fiscal flexibility and its capacity to respond to future economic shocks, fund new policy priorities, and manage emerging expenditure pressures.

2.1.5 South Australia’s NFPS net debt-to-GSP ratio is projected to increase more than all other States except Queensland

Figure 2.4 compares South Australia’s NFPS net debt-to-GSP ratios to other Australian States^d from 2025-26 to 2029-30.

Figure 2.4: NFPS net debt-to-GSP ratio for Australian States from 2025-26 to 2029-30



Source: South Australian and interstate budget papers and our own analysis.

^d Western Australia is not included in figure 2.4 as data for its projected GSP is not publicly available.

While South Australia’s NFPS net debt-to-GSP ratio is projected to remain lower than Victoria’s and Tasmania’s by 2029-30, its forecast increase of 6.2 percentage points is greater than all other States shown except Queensland (8.7 percentage points).

2.1.6 Net debt is expected to rise further beyond the forward estimates due to planned expenditure on major infrastructure projects

Major capital expenditure commitments exist beyond the forward estimates. Figure 2.5 shows that 11% of expenditure for the T2D project (\$1.7 billion of which \$847.5 million will be funded by the SA Government) is expected to be incurred after the forward estimates.

Figure 2.5: T2D project capital expenditure commitments beyond the forward estimates



DTF advised us that other major projects with significant expenditure commitments beyond the forward estimates include:

- Rent to own – \$664 million^e
- Better Neighbourhoods Program – \$167 million
- Stage 1 of High Productivity Vehicle Network project – \$131 million (\$26 million funded by the SA Government)^f
- Greater Seaton Renewal – \$129 million
- New Women’s and Children’s Hospital – \$119 million (entirely funded by the SA Government).

DTF advised us that its modelling shows that net debt is expected to continue to rise immediately after the forward estimates, mainly due to the T2D project and new Women’s and Children’s Hospital. Net debt levels are then expected to moderate over time as these projects are completed and the SA Government’s capital program reduces.

2.1.7 Future infrastructure investment requirements may affect the expected stabilisation of the net debt-to-revenue ratio

The 2026-27 Budget states that, following completion of the T2D project and the new Women’s and Children’s Hospital, the Government’s capital program is expected to return to a level more consistent with historical experience, and the net debt-to-revenue ratio is expected to stabilise.

^e DTF advised us that the cost of the Rent to own initiative is expected to be fully offset over eight years by dwelling sale proceeds, Commonwealth Government funding and rent revenue.

^f The 2025-26 Budget indicates that the High Productivity Vehicle Network – Stage 1 will be funded in partnership with the Commonwealth Government on an 80:20 basis. As noted in section 6.3.2, DTF advised us that negotiations with the Commonwealth Government are continuing to seek agreement for the Commonwealth to fund the project on an 80:20 basis.

Figure 2.6 shows the NFPS net lending balance after excluding expenditure on the T2D project and the new Women’s and Children’s Hospital over the period 2020-21 to 2029-30. This provides an indication of the net lending position associated with the capital program in the absence of these two megaprojects.

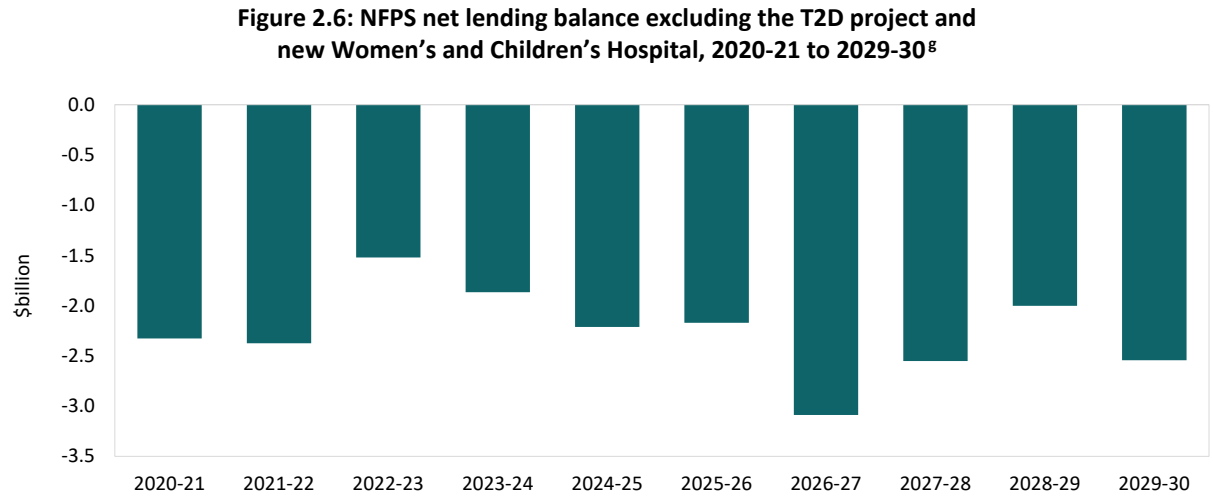


Figure 2.6 shows net lending deficits in each year. This indicates that the SA Government’s capital program, even in the absence of these two megaprojects, has historically required debt funding and is forecast to continue requiring debt funding over the forward estimates.

While completion of these projects is expected to reduce current capital expenditure levels, it may not result in net debt declining. This is because the net debt-to-revenue ratio can stabilise through a combination of lower debt growth, stronger revenue growth, or both. To the extent that the capital program continues to require debt funding beyond the forward estimates, stabilisation of the net debt-to-revenue ratio may also depend on revenue growing sufficiently relative to debt growth, lower expenditure growth or a combination of both.

Risk insight

Infrastructure SA notes that population and economic growth, rising housing demand and other long-term infrastructure requirements are driving the need for increased infrastructure investment in South Australia.⁴ While completion of major projects such as the T2D project and the new Women’s and Children’s Hospital may reduce capital expenditure from its current peak levels, future infrastructure investment requirements could sustain elevated levels of capital expenditure beyond the forward estimates.

If capital expenditure remains elevated for longer than expected, or revenue growth does not keep pace with debt and expenditure growth, the net debt-to-revenue ratio may not stabilise as expected.

^g The adjusted net lending balance disclosed excludes expenditure on the T2D project and the new Women’s and Children’s Hospital and the associated Commonwealth capital grant revenue for the T2D project.

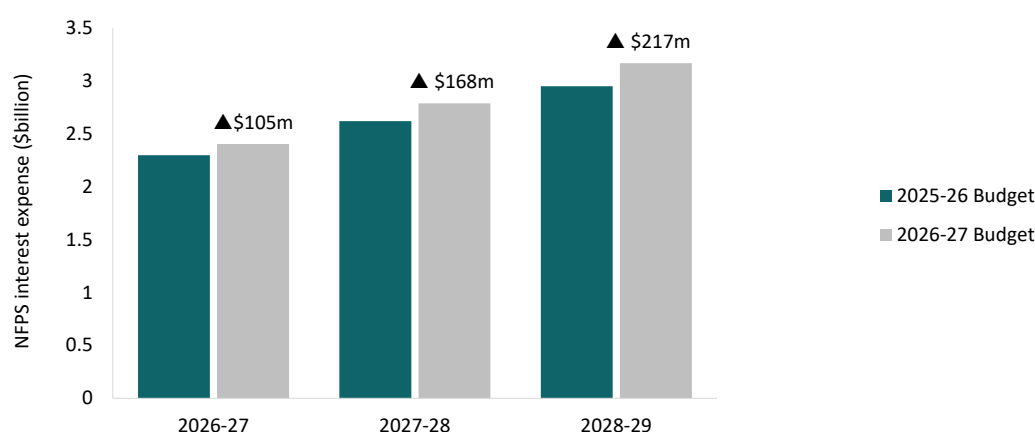
2.2 Interest expenses

2.2.1 Interest expenses projected to increase significantly, mainly due to rising net debt

Annual NFPS interest expenses are projected to increase by \$1.7 billion, from \$1.8 billion in 2025-26 to \$3.5 billion in 2029-30. Interest payments are the fastest growing operating expenditure category, increasing by an average of 17.6% per annum over this period. The 2026-27 Budget notes that the increase is the result of higher government borrowing to fund the significant capital program and increasing interest rates.

Figure 2.7 shows that interest expense projections in the 2026-27 Budget for 2026-27 to 2028-29 increased by \$490 million compared with those in the 2025-26 Budget.

Figure 2.7: NFPS interest expense in the 2025-26 and 2026-27 Budgets



Interest expenses for the general government sector are primarily estimated using the South Australian Government Financing Authority's (SAFA's) borrowing costs in wholesale markets and the Reserve Bank of Australia (RBA) cash rate target.

DTF advised us that:

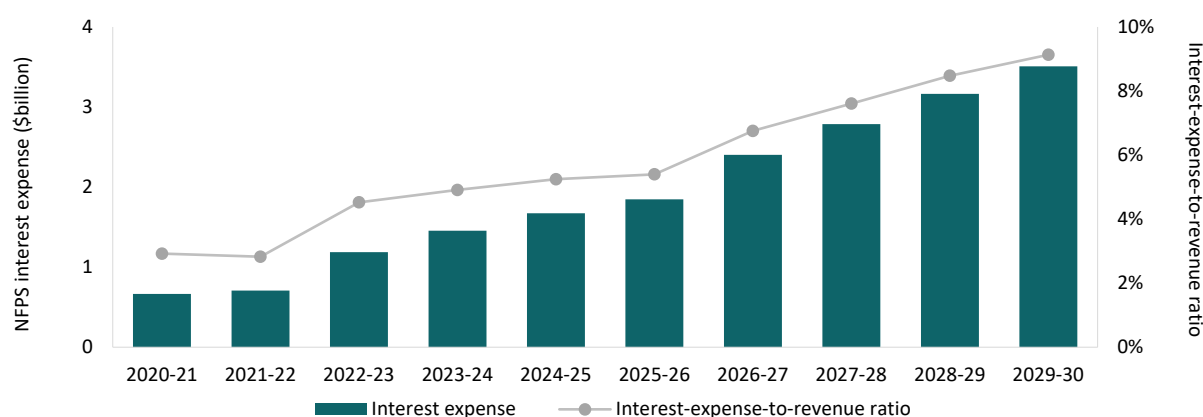
- between preparing the 2025-26 Budget and the 2026-27 Budget, SAFA's borrowing rates moved higher, influenced by the RBA increasing its cash rate target back to 4.35% from a low of 3.6%
- Cost of Funds loan rates used in the 2026-27 Budget were lower than those used in the 2025-26 Budget, reflecting SAFA having secured borrowings at lower long-term interest rates before subsequent increases in the RBA cash rate target led to higher market interest rates. Cash Loan rates used in the 2026-27 Budget were higher than those used in the 2025-26 Budget, reflecting higher forecast cash rates.

2.2.2 Interest expenses as a percentage of total revenue projected to rise to 9.1% by 2029-30

Interest expenses as a percentage of total revenue (interest-expense-to-total-revenue ratio) are an indicator of a state's capacity to fund its borrowing costs from operating revenues. A lower percentage indicates a state's greater ability to repay debt.

The increase in borrowings has caused interest expenses to increase significantly. As shown in figure 2.8, 2.9% of revenue was needed to service interest expenses of \$665 million in 2020-21. By 2029-30 it is expected that 9.1% of revenue will be needed to service interest expenses of \$3.5 billion.

Figure 2.8: NFPS interest expense and interest-expense-to-total-revenue ratio for 2020-21 to 2029-30



The NFPS interest expense to total revenue ratio is forecast to average 8% over the four years of the 2026-27 Budget, compared to 7.1% over the four years of the 2025-26 Budget.

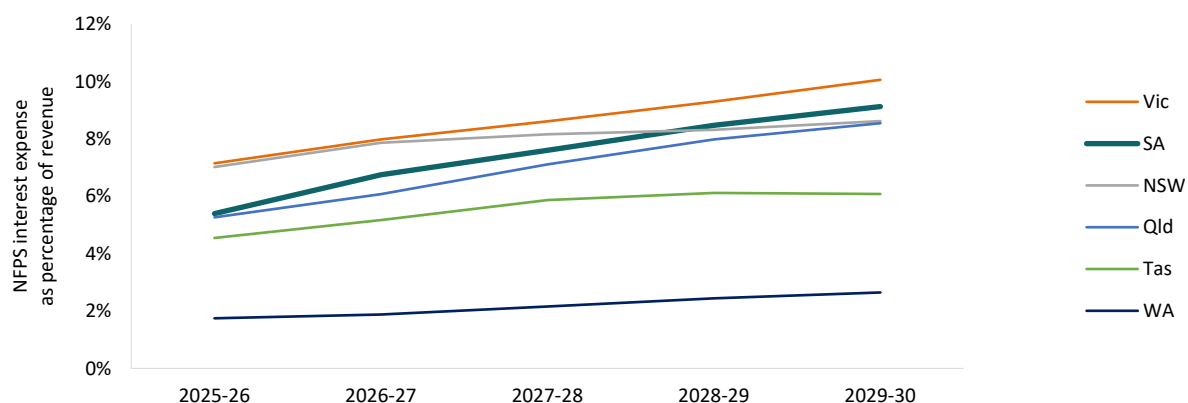
Risk insight

As interest expenses consume an increasing share of revenue, there is a risk that the SA Government will have less budget flexibility to fund service delivery needs, invest in new priorities and respond to future economic challenges.

2.2.3 South Australia's interest expense as a percentage of revenue is forecast to be the second highest of all States by 2029-30

Figure 2.9 compares South Australia's NFPS interest expense to total revenue ratio to other Australian States from 2025-26 to 2029-30. It shows that the interest expense to total revenue ratio is expected to increase for all States from 2025-26 to 2029-30.

Figure 2.9: NFPS interest-expense-to-total-revenue ratio for Australian States from 2025-26 to 2029-30



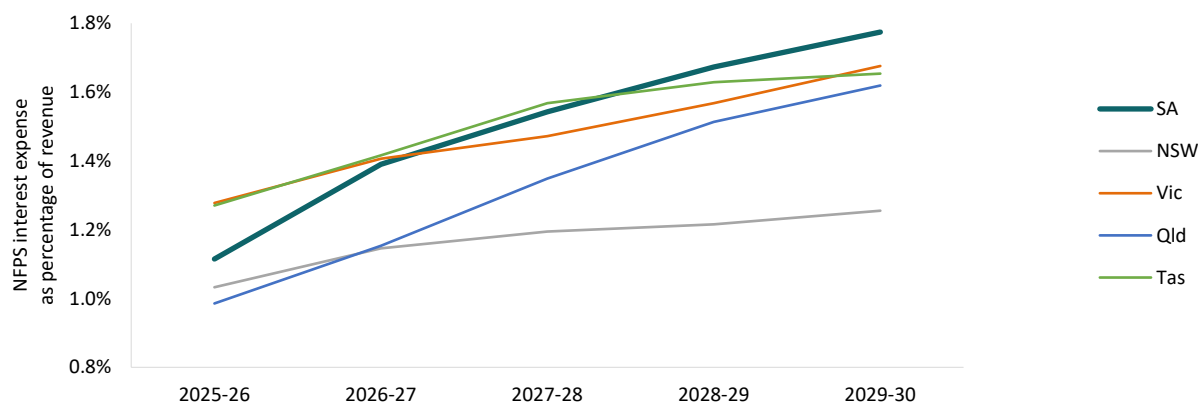
Source: South Australian and interstate budget papers.

South Australia's interest expense to total revenue ratio is projected to be higher than all other States except Victoria, by 2029-30.

2.2.4 South Australia's interest expense as a percentage of GSP is forecast to be higher than other States by 2029-30

Interest expenses as a percentage of GSP (interest-expense-to-GSP ratio) is another indicator of a state's capacity to service its debt. Figure 2.10 compares South Australia's NFPS interest-expense-to-GSP ratio with other Australian States^h from 2025-26 to 2029-30.

Figure 2.10: NFPS interest-expense-to-GSP ratio for Australian States from 2025-26 to 2029-30



Source: South Australian and interstate budget papers and our own analysis.

South Australia's interest-expense-to-GSP ratio is forecast to increase from 1.1% in 2025-26 to 1.8% in 2029-30. While South Australia's ratio is lower than those of Victoria and Tasmania in 2025-26, it is projected to be higher than all other States by 2029-30.

^h Western Australia is not included in figure 2.10 as data for its projected GSP is not publicly available.

2.2.5 South Australia's exposure to interest rate rises is significantly increased by its higher level of net debt

The interest rates used to estimate interest expenses in the 2026-27 Budget are influenced by expectations of the cash rate in the future. In September 2026, the RBA increased the cash rate target by 0.25 percentage points to 4.60%. The RBA noted:

- recent inflation outcomes had been stronger than expected, while liaison revealed widespread cost pressures that firms were passing on, or looking to pass on, to prices, and short-term measures of inflation expectations remained elevated
- several upside risks to inflation had materialised or were building, including the escalation of the Middle East conflict, oil prices significantly above those assumed in its forecasts, intensifying global cost pressures, particularly associated with demand for artificial intelligence-related products, and further evidence that domestic capacity pressures may be greater than previously assessed
- the current level of the cash rate might not be sufficient to bring the economy back to balance within a reasonable time frame
- it would remain attentive to incoming data and the evolving outlook and risks and continue to do what it considers necessary to achieve its mandate of price stability and full employment, including increasing the cash rate further if required.⁵

Risk insight

The SA Government's projected rising level of net debt significantly increases its exposure to increases in interest rates. The RBA noted several upside risks to the inflation had materialised or were building. It also observed that longer-term government bond yields have increased notably across advanced economies, including materially in Australia.⁶ Higher interest rates would increase borrowing costs and place additional pressure on the State's fiscal position.

DTF advised us that a 1% increase in the average interest rate applying to NFPS net debt in the 2026-27 Budget would increase NFPS net interest expenses by \$1.9 billion (16%) over the four years of the 2026-27 Budget, equivalent to an average of \$470 million a year. A 2% increase would increase them by \$3.8 billion (32%), equivalent to an average of \$940 million a year.ⁱ

ⁱ DTF advised us that these estimates are illustrative sensitivity calculations designed to demonstrate the effect of changes in interest rates on projected interest expenses. DTF also advised that market interest rates would need to increase by significantly more than one percentage point for the average interest rate applying to NFPS net debt to increase by one percentage point relative to the Budget assumptions.

2.2.6 Interest expense is likely to be impacted if existing debt needs to be refinanced at higher rates

The 2026-27 Budget notes that the SA Government's debt management objective is to minimise the long-term average interest expense to acceptable levels of refinancing and interest rate risk.

SAFA is the State's central borrowing authority and is responsible for managing most of the State's debt.^j A significant amount of the debt borrowed by SAFA (85% at 30 June 2026) is long-term debt that is held under a fixed interest rate. DTF advised us that SAFA manages refinancing risk by spreading long-term debt maturities over time and targeting less than 10% of total debt maturing in any one year. SAFA also maintains liquidity reserves of around 20% of debt, which DTF advised are sufficient to cover debt maturities falling due over the next 12 months.

Risk insight

Long-term fixed-rate debt of \$15.1 billion was issued prior to 2022, before market rates started to significantly increase. This is 36% of the \$42.1 billion total long-term fixed-rate debt at 30 June 2026. The State needs to refinance a significant proportion (\$16 billion) of its long-term fixed-rate debt by 30 June 2030. This includes \$3.1 billion issued in 2020 and 2021 in a historically low-interest-rate environment.

As this fixed-rate debt begins to mature, it is likely that refinancing will be at a significantly higher interest rate, which will increase interest payments and the State's cost to service the debt.

See 'South Australian Government Financing Authority' in the Auditor-General's Report 7 of 2026 *Annual report for the year ended 30 June 2026: Part C Agency audits – October 2026* for more about SAFA and its debt and interest rate risk management approach.

2.3 Credit ratings

2.3.1 Standard and Poor's and Moody's have maintained South Australia's credit rating following the 2026-27 Budget

Following the release of the 2026-27 Budget, Standard and Poor's (S&P's) and Moody's maintained the SA Government's credit rating and outlook (S&P: AA+ stable, Moody's: Aa1 stable). Figure 2.11 shows the credit rating for each Australian State.

^j SAFA lends funds raised from financial markets to various South Australian public sector clients, including the Treasurer (who borrows on behalf of public sector agencies to support their operational requirements) and SA Water.

Figure 2.11: S&P and Moody's credit ratings for Australian States (September 2026)

S&P credit ratings			
AAA stable outlook	AA+ stable outlook	AA stable outlook	
Western Australia	South Australia	Queensland	
	New South Wales	Victoria	
		Tasmania	

Moody's credit ratings			
Aaa stable outlook	Aa1 stable outlook	Aa2 stable outlook	Aa3 stable outlook
New South Wales	Queensland	Victoria	Tasmania
Western Australia	South Australia		

Source: Reports and information published by S&P and Moody's and information provided by DTF.

Risk insight

Credit ratings can affect the SA Government's access to financial markets and its cost of borrowing. An upgrade in the State's credit rating may lower the cost of borrowing, while a downgrade may increase borrowing costs and result in higher interest expenses.

S&P noted that it could:

- lower its credit rating for South Australia if deficits after capital accounts^k increase to more than 10% of total revenue, or if its operating margins revert to deficits, on a sustained basis
- raise its credit rating for South Australia if the State's financial management materially strengthens fiscal outcomes, resulting in a substantial reduction in debt burdens.⁷

S&P's estimated deficit after capital accounts for 2025-26 is 10.9% of total revenue. Its analysis has deficits after capital accounts averaging 8% of revenue from 2026-27 to 2028-29. This assumes that only 80% of forecast capital expenditure will actually be spent, based on the State's recent capital expenditure profile. If the forecast capital expenditure is fully spent, the deficit after capital accounts would average 11.8% of revenue from 2026-27 to 2028-29.

Moody's has identified rising debt burdens and weakening debt affordability as emerging risks to the State's credit profile. However, it notes these risks are partially offset by SAFA's strong liquidity position, funding market access and debt management policies.⁸

^k Balance after capital accounts refers to the NFPS cash surplus or deficit. The cash surplus or deficit is calculated as the net cash flows from operating activities plus the net cash flows from the acquisition and disposal of non-financial assets, less dividends paid for the public non-financial and public financial corporations sectors.

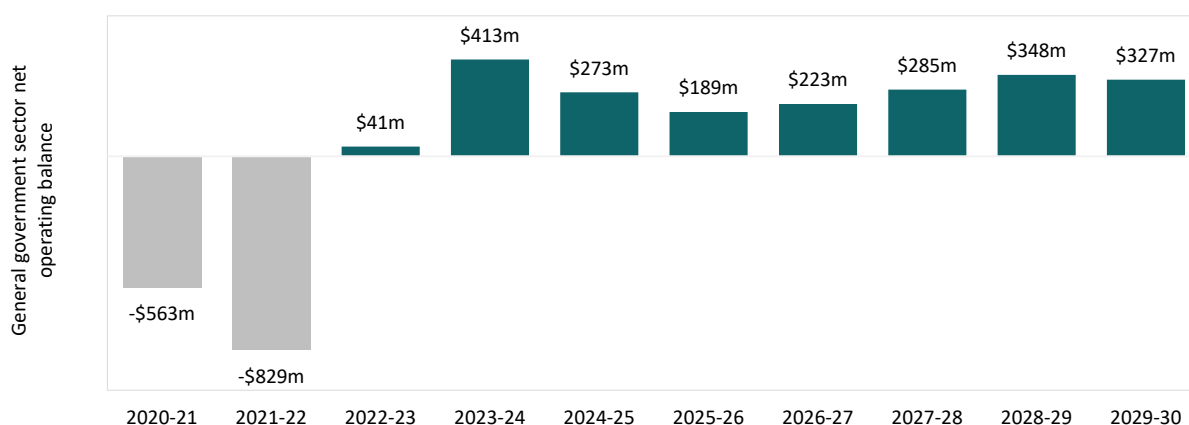
3 Net operating balance

3.1 Net operating balance fiscal target

3.1.1 The SA Government expects to achieve its net operating balance fiscal target over the forward estimates

The SA Government has a fiscal target of achieving a net operating surplus in the general government sector every year, so that operating expenditures can be funded from operating revenues. Figure 3.1 shows the actual outcomes for the general government sector net operating balance from 2020-21 to 2024-25, the estimated result for 2025-26 and the expected outcomes for the four years of the 2026-27 Budget.

Figure 3.1: General government sector net operating balance from 2020-21 to 2029-30



Following significant deficits during the COVID-19 pandemic, the Budget returned to surplus in 2022-23. The SA Government expects to meet its fiscal target of achieving a net operating surplus in each year of the 2026-27 Budget, although surpluses forecast for 2026-27 and 2027-28 are lower than projected in the 2025-26 Budget.

3.1.2 Without capital grant revenue forecast net operating balances would be in deficit

Capital grants and the net operating balance

The net operating balance is intended to show whether ongoing revenues are sufficient to fund the ongoing delivery of government services. However, significant capital grant revenue can reduce its usefulness as an indicator of the underlying sustainability of government operations.

This is because capital grants:

- are generally provided to fund specific infrastructure projects rather than the delivery of recurrent services

- increase the net operating balance when received, while the related capital expenditure does not immediately affect the net operating balance
- can create or support operating surpluses that may not be achievable from recurrent revenues alone
- may cause changes in the net operating balance to reflect the timing of grant receipts rather than changes in underlying financial performance.

Key point

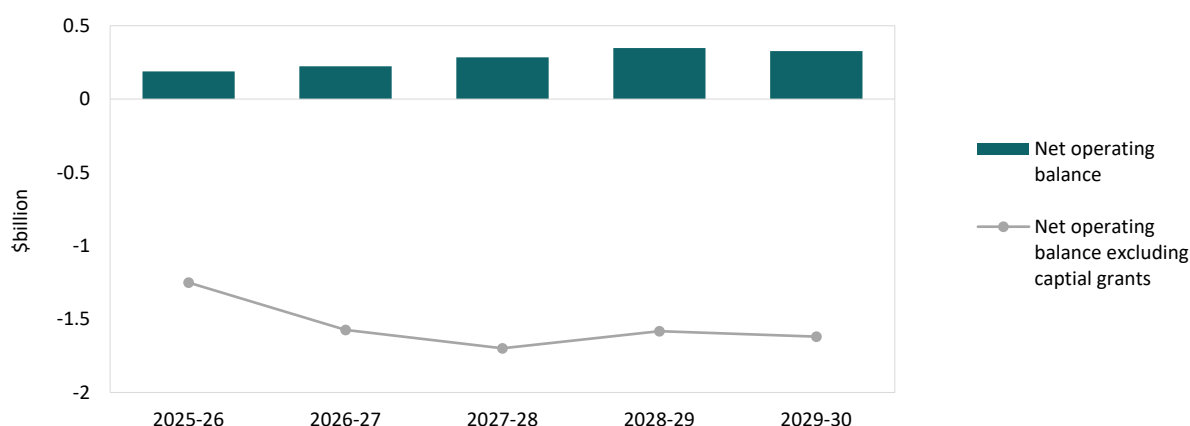
A positive net operating balance that relies heavily on capital grant revenue may overstate the extent to which the ongoing delivery of government services is being funded from recurrent revenue sources.

National partnership grant revenue from the Commonwealth Government for infrastructure projects is expected to increase from \$1.2 billion in 2025-26 to \$1.8 billion in 2029-30. The T2D project accounts for around 65% of the forecast Commonwealth infrastructure national partnership grant revenue over the four years of the 2026-27 Budget.

Unlike the related capital expenditure, which is reflected in 'purchases of non-financial assets' and affects the net lending balance as the expenditure is incurred, capital grant revenue immediately impacts the net operating balance. The impact of the capital expenditure on the net operating balance occurs over time through depreciation expense once the related assets are complete and in use. This depreciation expense is spread over several years in later reporting periods.

Figure 3.2 compares the general government sector forecast net operating balances with and without capital grant revenue over the period from 2025-26 to 2029-30 Budget.

Figure 3.2: General government sector forecast net operating balances with and without capital grant revenue for the period 2025-26 to 2029-30



Excluding capital grant revenue, the general government sector would record net operating deficits in each year of the 2026-27 Budget, ranging from \$1.3 billion in 2025-26 to \$1.6 billion in 2029-30, peaking at \$1.7 billion in 2027-28.

Risk insight

A substantial proportion of forecast capital grant revenue is associated with the T2D project. As this project progresses towards completion beyond the forward estimates, the extent to which capital grant revenue continues to support future net operating surpluses will depend on the availability of other Commonwealth-funded infrastructure projects. In the absence of such capital grant revenue, maintaining net operating surpluses would require other sources of revenue, reductions in expenditure, or a combination of both.

3.1.3 The 2026-27 Budget continues the recent trend of revenue measures reducing the net operating balance

The net effect of revenue measures in the 2026-27 Budget is to reduce the net operating balance by \$248 million between 2025-26 and 2029-30. This continues the recent trend of new revenue measures reducing the net operating balance by increasingly large amounts (\$18 million in 2024-25, \$117 million in 2025-26 and \$248 million in 2026-27).

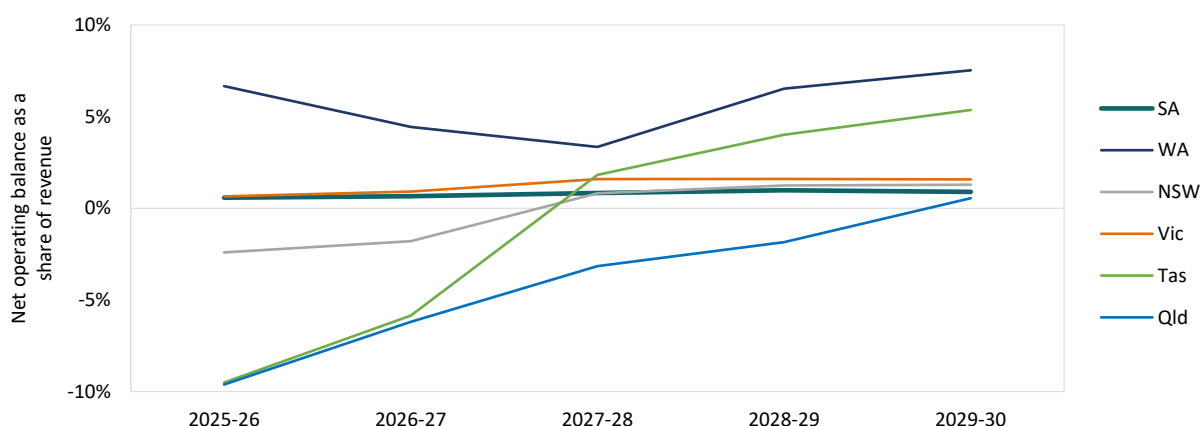
Risk insight

The increasing impact of recent revenue measures on the net operating balance increases reliance on the SA Government achieving forecast revenue growth and expenditure outcomes. If revenue growth and expenditure outcomes differ from forecast, net operating surpluses may not be achieved.

3.1.4 By 2029-30, South Australia's forecast net operating balance is comparable with New South Wales, Victoria and Queensland

Figure 3.3 shows the expected trend in South Australia's general government sector net operating balances as a percentage of total revenue¹ compared to other Australian States.

Figure 3.3: Net operating balance as a share of total revenue for Australian States between 2025-26 and 2029-30



¹ Due to substantial differences in the revenue base of each state, net operating balance as a percentage of total revenue is used as the basis for comparison.

The estimated 2025-26 net operating results vary significantly in each State:

- Western Australia has a significant estimated operating surplus
- South Australia and Victoria have a marginal operating surplus
- New South Wales, Queensland and Tasmania are expecting operating deficits.

South Australia’s forecast net operating balance as a proportion of total revenue remains relatively stable over the forward estimates, averaging around 0.8% of revenue. In contrast, several other States are forecast to improve their operating positions over the same period.

By 2029-30, South Australia’s forecast position is broadly comparable with New South Wales, Victoria and Queensland, but remains below Western Australia and Tasmania.

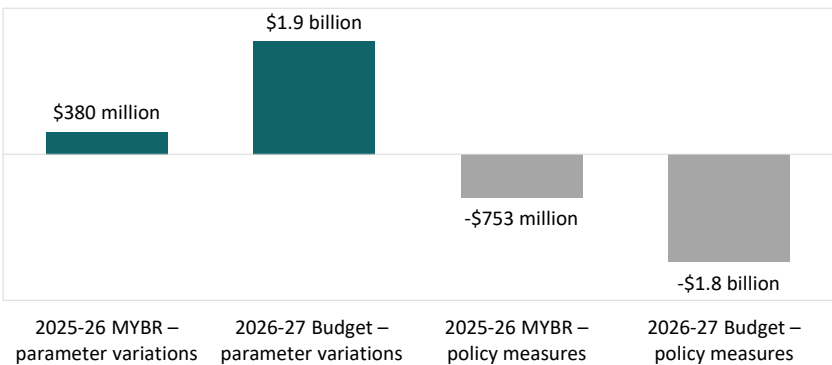
3.2 Policy and parameter variations

3.2.1 Improved revenue forecasts are more than offset by higher expenditure

Policy measures are decisions made by the SA Government to increase or reduce spending or to raise or lower taxes. Parameter changes are variations that do not flow from policy choice changes and are generally outside the SA Government’s control, such as changes in GST receipts from the Commonwealth Government owing to national economic conditions and revisions to distribution methodologies.

Figure 3.4 shows the cumulative impact of policy measures and parameter variations since the 2025-26 Budget on forecast net operating balances from 2025-26 to 2028-29.

Figure 3.4: Total general government sector net operating balance policy and parameter variations since the 2025-26 Budget



While parameter variations improved forecast net operating balances by \$2.3 billion, new policy measures reduced forecast net operating balances by \$2.6 billion. As a result, the favourable impact of parameter variations on forecast net operating balances was more than offset by new policy measures, leading to lower forecast net operating balance surpluses for 2026-27 and 2027-28 compared to the 2025-26 Budget.

The favourable parameter variations shown in figure 3.4 were underpinned by significant upward revisions to revenue forecasts. Revenue parameter variations since the 2025-26 Budget totalled approximately \$5.6 billion, mainly reflecting improved forecasts for State taxation revenue and GST revenue. However, these benefits were partially offset by expense parameter variations, resulting in a net improvement in forecast net operating balances of \$2.3 billion.

New policy measures introduced since the 2025-26 Budget include significant additional investment in SA Health and child protection. See section 4.3.1 for more information.

Risk insight

Favourable forecasts for GST and state taxation revenue are a significant contributor to the Budget's parameter variations. Should economic conditions differ materially from Budget assumptions, forecast revenues may not be realised. This could adversely affect net operating balances and increase borrowing requirements.

3.3 Economic risks to net operating surpluses

3.3.1 The conflict in the Middle East remains a risk to the Budget forecasts

The 2026-27 Budget identifies the conflict in the Middle East as a risk to the Budget forecasts. DTF advised us that recent economic data suggests the local economic impacts of the conflict have, to date, been lower than initially expected. However, it noted that the situation remains volatile and continues to create uncertainty.

DTF further advised:

- there is currently no reason to believe the economic effects on GSP and employment will be materially different from the central scenario represented in the 2026-27 Budget forecasts
- if economic growth outcomes were materially different from those assumed in the Budget, there would likely be impacts on revenue, expenditure, the net operating balance, net lending and net debt.

DTF also noted that a more severe economic scenario could result in higher fuel prices, inflation and interest rates. This could reduce GST and payroll tax revenue if household spending and economic activity were weaker than forecast. It could also increase government expenditure through higher wage outcomes and higher debt servicing costs.

Risk insight

The State's fiscal forecasts are sensitive to changes in economic conditions. A more severe economic shock arising from the conflict in the Middle East could result in lower economic growth, higher inflation or higher interest rates than assumed in the Budget. This could adversely affect revenue and increase expenditure, placing pressure on the forecast net operating surpluses.

4 Expenses

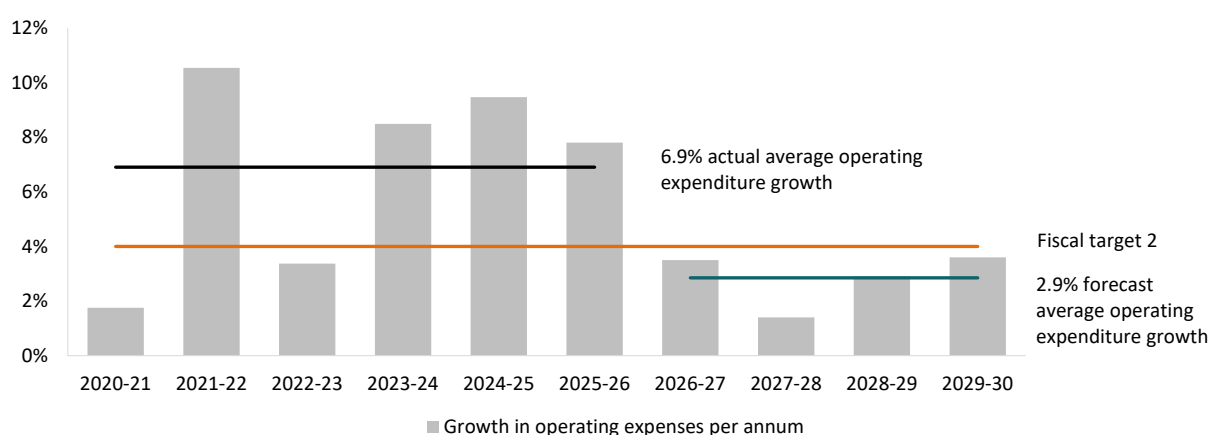
4.1 Operating expenses fiscal target

4.1.1 Average operating expenditure growth exceeded the fiscal target from 2020-21 to 2025-26 but is forecast to be below target

The SA Government has a fiscal target to limit growth in general government operating expenditure to match growth in household income.

Figure 4.1 shows that average annual growth in general government operating expenditure from 2020-21 to 2025-26 was 6.9%, which is above the fiscal target of 4% per annum. Growth in operating expenditure is estimated to be 7.8% in 2025-26 before declining to 3.5% in 2026-27. Average annual growth in operating expenditure across the four years of the 2026-27 Budget is forecast to be 2.9%, below the fiscal target.

Figure 4.1: General government sector operating expenditure growth – 2020-21 to 2029-30



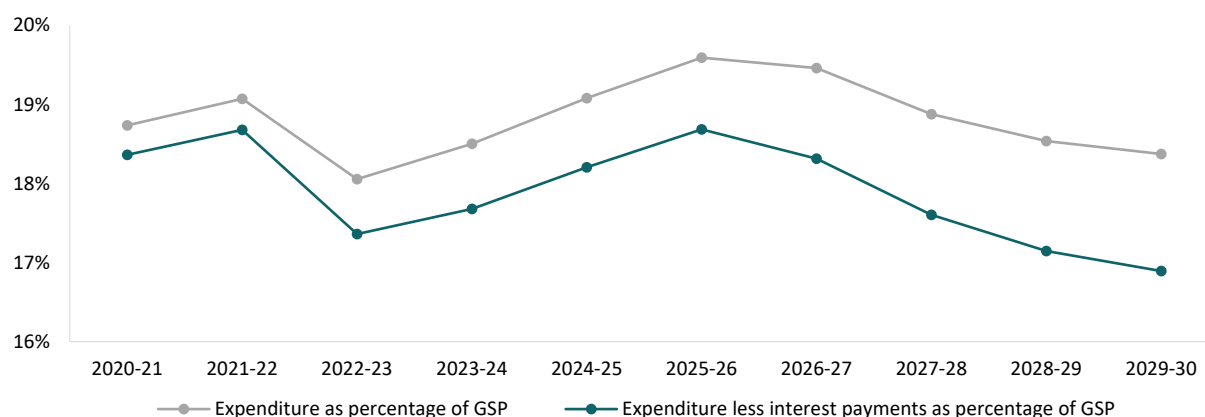
The estimated growth in general government sector operating expenditure for 2025-26 was revised up in successive budgets from 3.3% in the 2023-24 Budget to 7.8% in the 2026-27 Budget, highlighting the challenges in forecasting and managing expenditure growth.

4.2 Government expenditure and fiscal capacity

4.2.1 SA Government's expenditure on service delivery is forecast to decline as a proportion of the State's economy

Figure 4.2 shows that general government sector expenditure excluding interest payments is expected to decrease from 18.7% of GSP in 2025-26 to 16.9% in 2029-30. Over the same period, interest payments are estimated to increase from 4.6% to 8.1% of total general government sector expenditure.

Figure 4.2: General government sector expenditure and expenditure excluding interest payments as a percentage of GSP – 2020-21 to 2029-30



Source: Audit calculation based on 2026-27 Budget Paper 3 *Budget Statement* and information provided by DTF.

The Commonwealth Grants Commission analyses each State's ratio of actual to assessed expenses. Assessed expenses reflect the Commission's estimate of the expenses a state would incur if it were to follow average policies and operate at average efficiency.⁹ A ratio below 100% suggests that a state has below national average levels of spending, given its characteristics.

The actual to assessed expenses ratio for South Australia was 97% in 2024-25.¹⁰ As this ratio is less than 100%, it indicates that South Australia's expenditure was slightly below the level assessed by the Commonwealth Grants Commission for a state with South Australia's service delivery needs and characteristics.

Risk insight

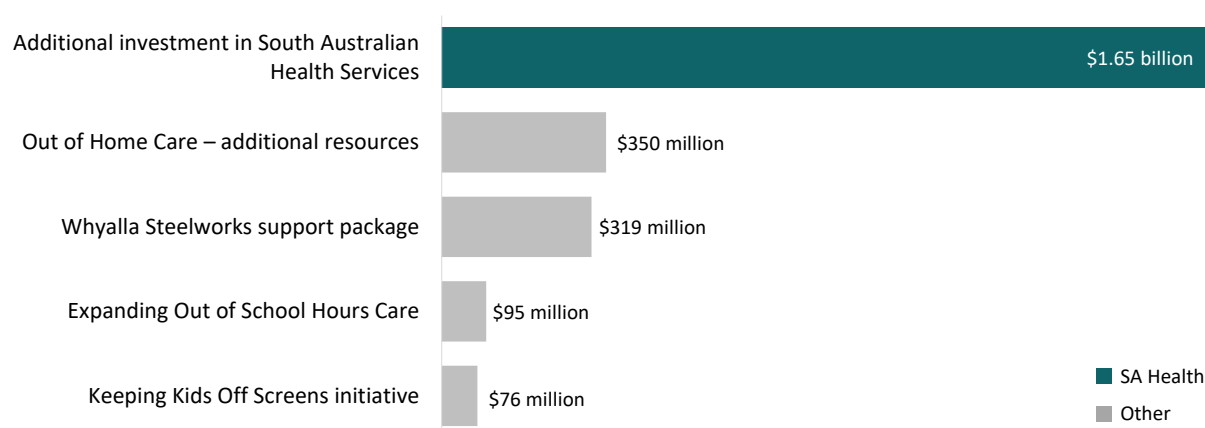
Interest payments are projected to consume an increasing share of government expenditure. If interest costs continue to grow, maintaining service delivery at the expected level of need may become more challenging.

4.3 New operating expenditure initiatives

4.3.1 More than half of new operating expenditure initiatives in the 2026-27 Budget relate to SA Health

New operating expenditure initiatives for the general government sector in the 2026-27 Budget (\$3.0 billion) are smaller than in previous years (\$3.8 billion in 2025-26, and \$4.2 billion in 2024-25). The additional funding for SA Health is the largest new initiative in the 2026-27 Budget, representing 55% of the total, as shown in figure 4.3.

Figure 4.3: Five largest new operating expenditure initiatives in the 2026-27 Budget



The additional investment in SA Health Services initiative accounts for 94% of all new SA Health initiatives – see section 4.4 for more on this initiative.

The Whyalla Steelworks support package is being delivered in partnership with the Commonwealth Government. The 2025-26 Budget included \$1.1 billion (plus a further \$96 million to be budgeted in 2029-30) to fund the steelworks operations during administration, future steelworks infrastructure upgrades and an emergency response package. The Commonwealth Government committed to contribute \$418 million towards this initiative.^m

The 2026-27 Budget provides a further \$319 million over two years from 2025-26 to fund the operation of the steelworks during administration as the sale process continues. This funding will be delivered in partnership with the Commonwealth Government, which will contribute \$159.5 million.

After the 2026-27 Budget, the Commonwealth and SA Governments announced a jointly funded \$10 million support package for Whyalla workers, their families and the broader Whyalla community affected by the closure of the Whyalla Steelworks blast furnace. DTF advised us that the funding arrangements for this support package are yet to be finalised and will be included in a revised Federal Funding Arrangement. DTF also advised that no funding decisions relating to redundancy costs were announced at the time of preparing this report.

^m In February 2025, the Commonwealth and SA Governments announced a joint \$2.4 billion package to secure the long-term future of the Whyalla Steelworks and support the Whyalla community. The Commonwealth's contribution to the package was \$1.7 billion, while the SA Government contribution was \$650 million. Most of the Commonwealth's contribution is for working with a new Steelworks owner to ensure it has a sustainable long-term future. This contribution is expected to be made directly by the Commonwealth Government to the new owner and hence was not reflected in the SA Government's 2025-26 Budget.

4.4 SA Health expenditure

4.4.1 The 2026-27 Budget forecasts SA Health's expenditure growth to be significantly lower than recent actual expenditure growth

SA Health's actual total expenditure exceeded its original budget in each year between 2021-22 and 2025-26 by an average of 9.5%, as shown in figure 4.4.ⁿ

Figure 4.4: Overview of SA Health operating expenditure in the 2026-27 Budget

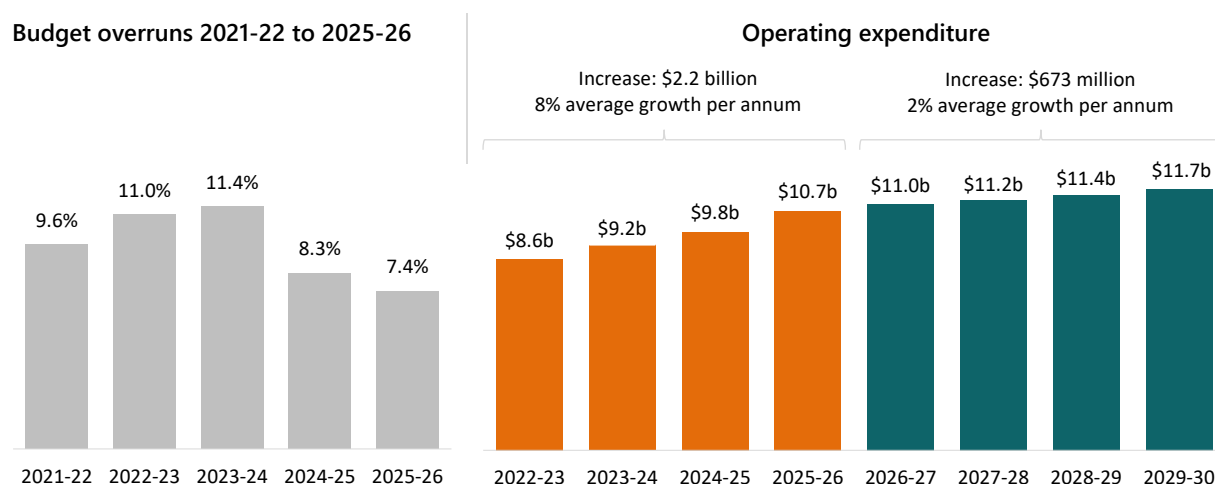


Figure 4.4 also shows that actual total SA Health expenditure increased by \$2.2 billion between 2022-23 and 2025-26, representing average annual growth of 8%. In comparison, the 2026-27 Budget forecasts expenditure growth of \$673 million between 2026-27 and 2029-30, representing average annual growth of 2%. The expenditure growth forecast in the 2026-27 Budget is significantly lower than recent actual expenditure growth.

4.4.2 SA Health activity growth has exceeded historical trends but is forecast to return to trend levels

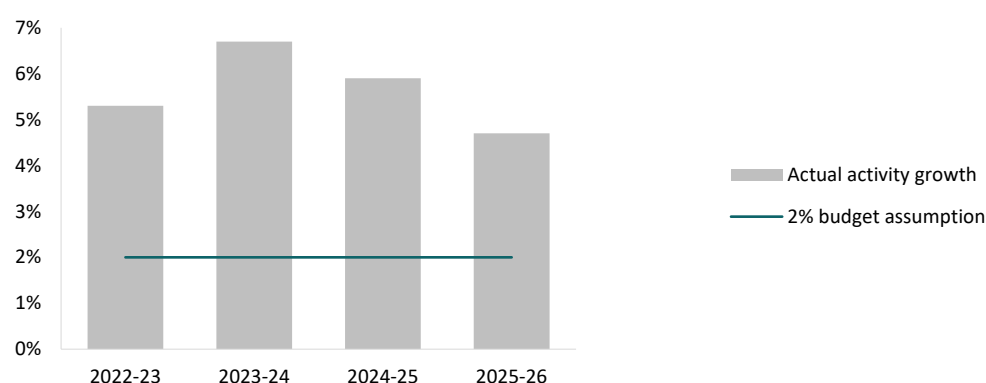
The 2026-27 Budget includes an additional investment of \$1.7 billion in the SA Health Services initiative to address increasing demand across the public health system and higher costs of service delivery across local health networks.

Figure 4.5 shows the growth in public health services activity, measured using national weighted activity units,^o has exceeded 4% in each year since 2022-23. This is well above the 2% per annum activity growth assumption used in the 2026-27 Budget and successive recent budgets.

ⁿ The amounts presented in figure 4.4 reflect total expenses (excluding payment to the SA Government) reported in the Agency Statements (Budget Paper 4, Volume 3) for the Department for Health and Wellbeing portfolio, including the attached offices Preventive Health SA and the Commission on Excellence and Innovation in Health. The estimated result for the Department for Health and Wellbeing portfolio is shown for 2025-26, as the final budget outcome was not available at the time of this report.

^o Public health service activity is measured using national weighted activity units, which take into account both the volume and complexity of patient treatments.

Figure 4.5: Growth in public health service activity 2022-23 to 2025-26



Source: Actual growth in national weighted activity units as provided by DTF.

DTF advised us that:

- the main drivers behind the additional activity in 2025-26 are multi-faceted and involve increases in separations (episodes of care) and acuity/complexity of patients
- most of the growth in 2025-26 was in outpatient activity, emergency department presentations and admitted inpatient activity
- about 40% of the additional funding provided to SA Health in 2025-26 for the sustainable and efficient health initiative was for increased demand and additional activity growth.

Despite activity growth remaining above 4% in each of the past four years, the 2026-27 Budget assumes activity growth will return to the long-term historical trend of 2% per annum from 2026-27. DTF advised us that, while hospital activity growth continues to be significantly volatile, the long-term average growth assumption of 2% per annum remains appropriate.

Risk insight

South Australia has one of the oldest populations in Australia and its population continues to grow.¹¹ Older people typically require more frequent and complex health services, while growing rates of chronic disease are expected to further drive demand for hospitals and other health services.¹²

DTF advised us that recent growth in health activity was driven by increases in patient separations and the acuity and complexity of patients. If these trends continue, health activity growth could remain above the long-term trend growth rate of 2% per annum assumed in the 2026-27 Budget, placing further pressure on SA Health expenditure and future budget outcomes.

Preventive health initiatives may help reduce future demand for hospital services and health expenditure growth. However, the benefits may not be realised for several years,¹³ while demand pressures associated with an ageing population, chronic disease and the increasing demand for health services are already affecting the health system.

4.4.3 SA Health savings targets exceed forecast net operating balance surpluses from 2027-28

SA Health's savings targets total \$1.5 billion over the four years of the 2026-27 Budget, which is 71% of total general government savings targets of \$2.2 billion. While this exceeds the \$1.3 billion of SA Health savings targets over the four years of the 2025-26 Budget, DTF advised us that SA Health's savings profile is unchanged apart from the re-profiling of savings originally expected in 2025-26 to 2029-30. Figure 4.6 shows SA Health's savings targets as advised to us by DTF.

Figure 4.6: Summary of SA Health's savings targets

	2025-26 \$million	2026-27 \$million	2027-28 \$million	2028-29 \$million	2029-30 \$million
Savings targets in 2025-26 Budget	90	240	447	563	-
Re-profile of savings targets	(90)	(90)	(90)	(90)	-
Revised savings targets in 2026-27 Budget	-	150	357	473	563

DTF advised us that SA Health did not achieve its 2025-26 savings target of \$90 million, mainly due to increased demand for public health services and the higher cost of service delivery experienced across all local health networks. This is consistent with the outcome in previous years.

Risk insight

By 2027-28, SA Health's savings target (\$357 million) exceeds the forecast general government sector net operating surplus (\$285 million) and will remain above forecast net operating surpluses in 2028-29 and 2029-30. This means that achieving forecast net operating surpluses will depend significantly on SA Health delivering its planned savings.

However, SA Health has faced ongoing challenges achieving savings targets in recent years because of increasing demand for public health services and higher service delivery costs. Meeting its savings targets may therefore be challenging. SA Health achieving its savings targets is important if forecast net operating surpluses are to be realised, particularly in the later years of the forward estimates.

4.4.4 Achieving a sustainable rate of growth in health expenditure is a key objective of the SA Government

DTF advised us that SA Health's budget targets reflect the broad objective of increasing operational efficiency to achieve a sustainable rate of growth in overall health expenditure across the forward estimates.

Risk insight

SA Health may face challenges in achieving a sustainable rate of expenditure growth given:

- recent public hospital activity growth has remained well above the long-term trend growth assumed in the 2026-27 Budget
- the difficulties SA Health has had in improving the efficiency of its service delivery to achieve savings targets over recent years.

Given this risk, clearly defined performance measures and robust monitoring and evaluation frameworks are needed to assess whether SA Health initiatives and programs are improving the quality, sustainability and efficiency of the South Australian public health system. This includes understanding the root causes for the system's consistent budget overruns. The 2026-27 Budget does not identify the specific indicators, targets or baseline measures used to assess whether the objective of achieving a quality, sustainable and efficient public health system is being achieved.

DTF advised us that:

- it continues to work closely with the Department for Health and Wellbeing and the local health networks on the oversight of budget improvement and system efficiency plans
- plans to achieve budget improvement targets in 2026-27 were created and it will continue to monitor the implementation of these plans through joint governance processes with SA Health, in addition to regular financial reporting processes
- there are many key indicators and performance measures, both qualitative and quantitative, that are collected by SA Health and shared with DTF through joint governance processes to monitor progress against the objective of achieving a quality, sustainable and efficient public health system.^p

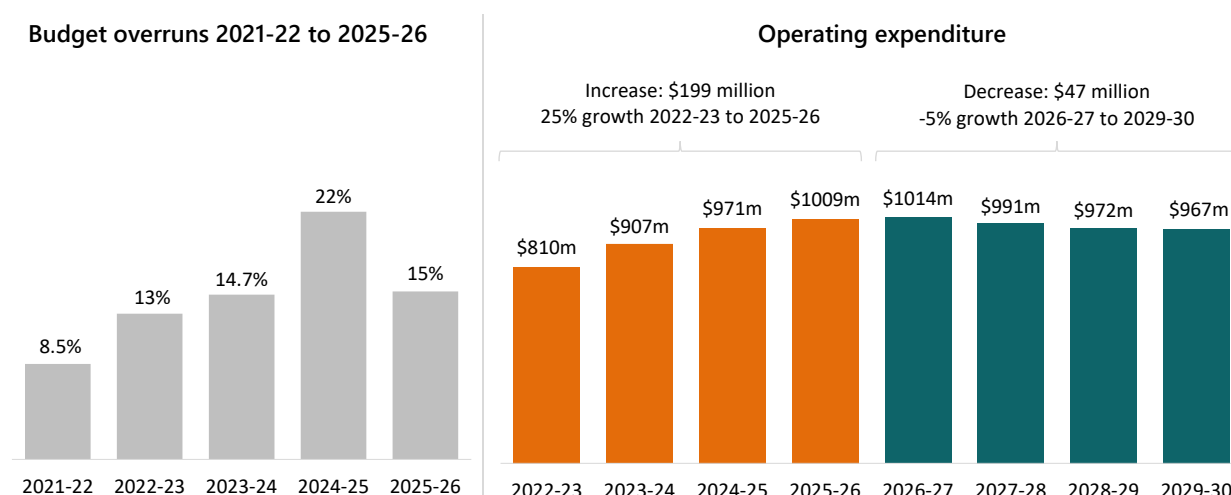
4.5 Department for Child Protection expenditure

4.5.1 Department for Child Protection continues to face challenges meeting its budget

Figure 4.7 shows recent significant unfavourable variations between the Department for Child Protection's original budget and actual total expenditure, with overruns between 8.5% and 22% in each year since 2021-22, peaking at 22% in 2024-25. The 2025-26 estimated result indicates that the budget overrun has moderated, with expenditure estimated to be 15% above budget.

^p See 'SA Health overview' in the Auditor-General's Report 7 of 2026 *Annual report for the year ended 30 June 2026: Part C Agency audits – October 2026* for more about SA Health's 2025-26 budget performance and activity.

Figure 4.7: Overview of Child Protection’s operating expenditure in the 2026-27 Budget^q



Department for Child Protection expenditure increased by \$199 million (25%) between 2022-23 and 2025-26. Figure 4.7 shows that the 2026-27 Budget forecasts a reversal of this trend, with expenditure increasing by only \$5 million in 2026-27 before declining over the forward estimates.

Compared with forecasts published in the 2025-26 Budget, expenditure for the corresponding years in the 2026-27 Budget is between 13% and 22% higher. At the same time, the Budget continues to forecast a reduction in total expenditure across the forward estimates, with expenditure expected to decline by 5% between 2026-27 and 2029-30.

DTF advised us that the decline in funding across the forward estimates reflects the expected benefits of service optimisation initiatives. See section 4.5.2 for more about the service optimisation review.

The main assumptions in the 2026-27 Budget are consistent with the 2025-26 Budget. DTF advised us that these include:

- minimum growth in the number of children and young people in care, reflecting the relatively stable number of placements in recent years
- increasing the percentage of family-based care placements, reflecting the Department for Child Protection’s focus to grow family-based care^r
- continuing specialist residential care services, including supported independent living placements and specialist disability placements for children and young people with complex needs.

^q The amounts presented in figure 4.7 reflect total expenses for the Department for Child Protection in the Agency Statements (Budget Paper 4, Volume 1), excluding payments to the SA Government. The estimated result from the Agency Statements is shown for 2025-26, as the final actual budget outcome was not available at the time of this report. The Department for Child Protection’s actual total 2025-26 expenses in its annual financial statements were \$126 million (14%) more than its original budget.

^r The average cost per child is significantly higher for non-family-based care than for family-based care, which makes placement mix an important cost driver for child protection services. See ‘Department for Child Protection’ in the Auditor-General’s Report 7 of 2026 *Annual report for the year ended 30 June 2026: Part C Agency audits – October 2026* for more about child protection services expenditure.

4.5.2 The service optimisation review for the Department for Child Protection is ongoing since 2024-25

The Department for Child Protection has been reviewing its service optimisation since 2024-25. DTF advised us that the review remains ongoing, with no completion date set, and that the Department continues to undertake operational reforms to improve service delivery, control costs, and reduce staff vacancies. The 2026-27 Budget notes that the Department is actively committed to supporting family-based carers and continues to focus on increasing the number of children and young people being cared for in a family-based environment.

DTF further advised that the benefits of the strategies being employed are evident, including an increase in the number of children and young people in family-based care placements and staffing levels approaching the approved FTE cap. However, we note that the Budget data suggest these gains have not yet translated into a sustained shift in the overall placement mix:

- Since 2021-22, Budgets reported increasing numbers of children placed with relatives or kin. However, the total number of children in care is also growing. As a proportion of all children in care, rates of placements with relatives or kin (49-50%) or in family-based care (84-86%), have not increased overall in this period.
- The 2026-27 Budget targets are also broadly consistent with recent budgets, aiming for 84.3% of children and young people to be in family-based care and 50.6% placed with relatives or kin.

Overall, the number of children in family-based placements has increased, but this largely reflects growth in the total number of children in care, with the proportion in family-based care remaining broadly unchanged. While the Department identified increasing family-based care as a key objective, the 2026-27 Budget targets remain close to recent targets and actual performance. This is not consistent with the Department's stated commitment to increasing the number of children in family-based care. In 2025, South Australia had the second-lowest reported family-based placement rate in Australia, below the national rate of 90.4%.^s While South Australia and the Northern Territory were the only jurisdictions to record an increase in their family-based care rate in 2025, South Australia's family-based care rate has declined from 85% in 2021 to 82.8% in 2025.¹⁴

It should be noted that some operational reforms may take time to influence placement outcomes and costs, particularly where they involve increasing the availability and support of family-based carers.

DTF advised us that the initiatives announced in the 2025-26 Budget continue to support the objectives of the Department, and work will continue to build on recent improvements and progress further reforms. This includes initiatives such as the Finding Families Program and the Care Beyond Kin program (previously the Additionally Approved Carers program), which aim to place more children and young people in family-based care, and support kinship carers.^t

^s The national rate of 90.4% excludes Queensland data.

^t See 'Department for Child Protection' in the Auditor-General's Report 7 of 2026 *Annual report for the year ended 30 June 2026: Part C Agency audits – October 2026* for more about the Department for Child Protection's 2025-26 budget performance and activity.

Risk insight

There is a risk that the Department for Child Protection may require additional funding in 2026-27 and across the forward estimates if:

- the placement mix between family and non-family-based care is more in line with recent trends rather than the budget assumptions
- the underlying drivers of recent budget overruns are not effectively addressed by the implementation of service optimisation initiatives.

4.6 National Disability Insurance Scheme

4.6.1 NDIS reforms are expected to increase South Australia's disability expenditure

The 2026-27 Budget notes that in January 2026 States and Territories agreed reforms to support the long-term sustainability of the National Disability Insurance Scheme (NDIS), including:

- increasing the growth cap on State and Territory NDIS contributions from 4% to 8% per annum from 1 July 2028 (with a review in 2030-31)
- all jurisdictions contribute to foundational supports outside the NDIS, beginning with children aged 8 and under with developmental delay and/or autism with low to moderate support needs through the Thriving Kids initiative.

DTF advised us that the 2026-27 Budget includes provisions for these reforms.

Risk insight

Recent NDIS reforms increase South Australia's exposure to future disability expenditure through higher NDIS contribution growth and funding responsibilities for supports outside the scheme. While the reforms include caps on the growth of State and Territory NDIS contributions and contributions towards foundational supports, future disability expenditure may still be influenced by future NDIS growth and contribution arrangements and the final design, scope and demand for supports delivered outside the NDIS.

4.7 Employee expenses

4.7.1 Meeting SA Health and Department for Education FTE targets is important to achieve forecasts for employee expenses

Total estimated FTEs for 2025-26 in the 2026-27 Budget (99,879) are 1,190 FTEs (1.2%) more than originally estimated in the 2025-26 Budget. This follows actual FTEs exceeding Budget estimates by 2.2%-4.1% in each year since 2021-22, although the size of these overruns is declining.

General government sector employment levels are expected to gradually increase by 3,560 FTEs over the four years of the 2026-27 Budget, from 101,150 FTEs in 2026-27 to 104,710 FTEs in 2029-30. This reflects an average increase in FTEs of 1.2% each year.

Risk insight

FTE projections are fundamental to employee expense budget forecasts. If workforce growth exceeds Budget assumptions, employee expenses may exceed forecast levels.

Actual FTE numbers have exceeded Budget estimates in each year since 2021-22, although the extent of the overruns has declined. Nearly 70% of general government sector FTEs are employed by SA Health and the Department for Education, which mainly employ frontline workers. As a result, the non-frontline hiring freeze announced in the 2026-27 Budget may have only a limited impact on overall FTE growth and employee expenses.

4.7.2 Increases in FTEs from new policy measures are mainly for SA Health and Education

The FTE impacts of the new policy measures in the 2026-27 Budget are shown in figure 4.8.

Figure 4.8: Estimated FTE impacts of 2026-27 Budget measures^u

	2026-27 FTE impact	2027-28 FTE impact	2028-29 FTE impact	2029-30 FTE impact
Total FTE impact of new policy measures	1,191	1,487	1,345	1,351
SA Health	1,123	1,418	1,430	1,430
Education	62	104	140	172
Other agencies	6	(35)	(225)	(251)

Source: Government of South Australia, 2026-27 Budget Paper 3 *Budget Statement*, Table 2.9 and audit calculation using data from 2026-27 Budget Paper 5 *Budget Measures Statement*.

The increase in FTEs from the 2026-27 Budget policy measures is largely due to the additional investment in SA Health Services initiative, which accounts for most of this FTE increase. This initiative includes 1,111 additional FTEs in 2026-27 and 1,406 additional FTEs in each of the three remaining years of the Budget.

Additional FTEs in Education are mainly for:

- expanding Out of School Hours Care in government primary schools (69 – 180 FTEs in each year of the Budget)
- the Keeping Kids Off Screens initiative (18 FTEs over three years).

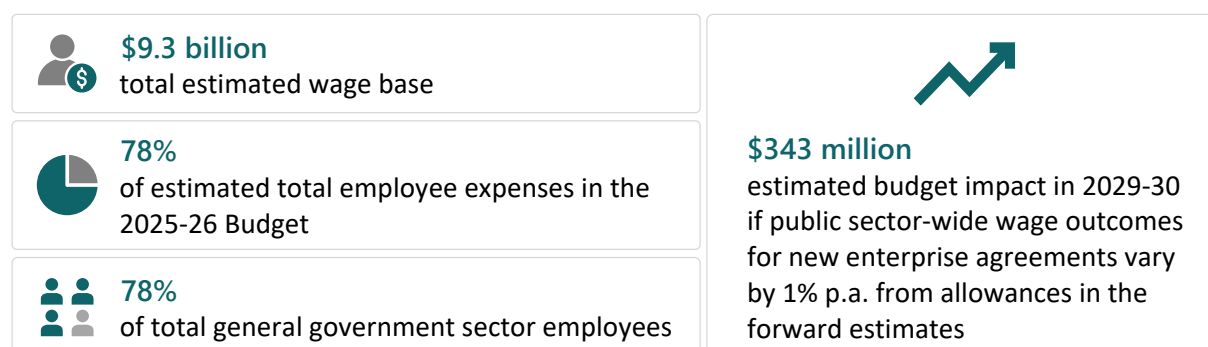
The growth in FTEs in SA Health and Education due to policy measures may be partially mitigated by the hiring freeze for non-frontline roles across the public service announced in the 2026-27 Budget.

^u The FTE impact in figure 4.8 reflects the number of additional FTEs funded each year by the new policy measures and is not cumulative across the four years of the 2026-27 Budget.

4.7.3 Wage negotiations occurring during a period of elevated inflation creates challenges for achieving employee expense forecasts

The 2026-27 Budget indicates that the outcomes of wage negotiations will be crucial in determining whether expenditure forecasts can be achieved and the planned level of government services can be delivered. It also notes that wage negotiations will continue or start in 2026-27 for a range of employee groups. Figure 4.9 highlights the significance of the wage negotiations.

Figure 4.9: Wage negotiations that are continuing or starting in 2026-27 for general government sector employees



Source: 2026-27 Budget Paper 3 Budget Statement and information provided by DTF.

DTF advised us that as a proportion of the total general government sector workforce, South Australian public sector salaried employees (29%), SA school and preschool staff (24%) and nursing/midwifery employees (19%) are the most significant employee groups subject to wage negotiations in 2026-27.

The 2026-27 Budget provides for anticipated wage increases from enterprise agreement outcomes over the forward estimates, both in individual agency budgets and the total contingency items in DTF's administered items.

Risk insight

Wage negotiations are occurring during a period of elevated inflation and cost of living pressures. The Adelaide Consumer Price Index increased by 4.2% in 2025-26.¹⁵ These conditions may create challenges for the SA Government in negotiating wage agreements that are consistent with its employee expense forecasts in the 2026-27 Budget.

4.8 Monitoring budget programs and initiatives

4.8.1 Robust performance monitoring is required for existing budget programs to inform decision making

New operating expenditure initiatives represent no more than 2.6% of total expenses in each of the four years of the 2026-27 Budget, while existing programs and initiatives account for at least 97%. This highlights the importance of monitoring existing Budget programs, as

they represent the vast majority of budgeted expenditure. The agency statements in the 2026-27 Budget (Budget Paper 4) present performance and activity indicators with targets for existing programs, which are intended to support such monitoring.

Risk insight

Many of our previous reports¹⁶ have highlighted significant scope to improve the performance monitoring and evaluation of SA Government programs, including ensuring that relevant and reliable data and sound performance measures are used to assess whether programs are achieving intended objectives. It is important to evaluate the efficiency and effectiveness of existing programs as part of managing the Budget, to inform decisions about whether to continue, expand or cease programs.

5 Revenue

5.1 Grant revenue

5.1.1 South Australia is highly reliant on Commonwealth Government grant revenue

Commonwealth Government grant revenue is expected to represent about 55% of total revenue over the four years of the 2026-27 Budget. Over half of this revenue relates to GST revenue grants. Given the significance of Commonwealth grant revenue to South Australia's revenue base, future trends in Commonwealth Government grant revenue, particularly GST revenue, will be critical to the SA Government's ability to generate operating surpluses and manage forecast increases in net debt.

5.1.2 Commonwealth hospital funding increases are constrained by growth caps

The 2026-27 Budget notes that National Cabinet agreed in February 2026 to update the National Health Reform Agreement (NHRA) addendum. The addendum includes:

- additional funding for public hospitals over five years (around \$2 billion for South Australia)
- an increase in the Commonwealth contribution rate to 45% over 10 years, including 42.5% by 2030-31, with funding growth capped at 10.25% in 2026-27 and 8% per annum thereafter to 2030-31.

The 2026-27 Budget notes that, because of these funding growth caps, South Australia's effective Commonwealth contribution rate is expected to reach only 37.6% by 2030-31. As a result, South Australia is not expected to fully realise the intended increases in the Commonwealth contribution rate by 2030-31, reducing the extent to which the revised NHRA arrangements offset future growth in health expenditure.

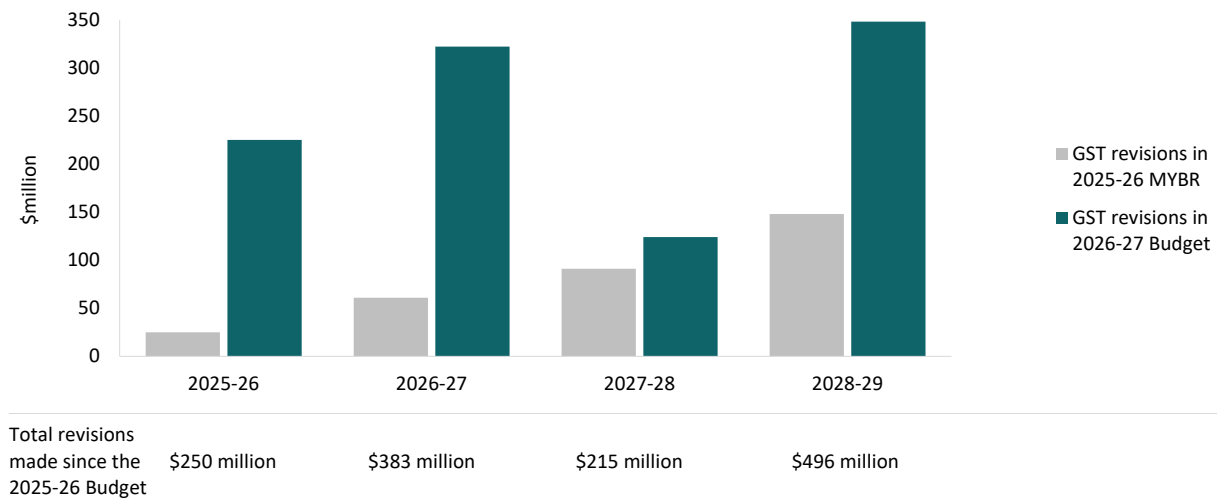
Risk insight

The updated NHRA addendum increase Commonwealth hospital funding, but funding growth caps are expected to limit South Australia's effective Commonwealth contribution rate to 37.6% by 2030-31. If public hospital activity and expenditure growth exceed the assumptions used in the 2026-27 Budget, a greater proportion of future health expenditure growth may need to be funded by the State.

5.1.3 Volatility in GST receipts owing to changing economic conditions

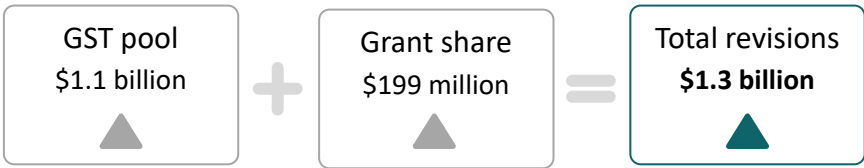
GST revenue is the largest component of South Australia's revenue base and is expected to represent about 30% of total revenue between 2026-27 and 2029-30. It was revised up by a net total of \$1.3 billion in the 2025-26 mid-year budget review (MYBR) and 2026-27 Budget, as shown in figure 5.1.

Figure 5.1: GST revenue revisions in the 2025-26 MYBR and 2026-27 Budget



This is due to changes in the size of the national GST pool and South Australia’s share of the pool since the 2025-26 Budget, as shown in figure 5.2.

Figure 5.2: Factors contributing to GST revenue revisions in the 2025-26 MYBR and 2026-27 Budget



Source: Information provided by DTF.

South Australia’s GST revenue grants were revised up, mainly due to a larger national GST pool in the Commonwealth Government’s 2026-27 Budget compared with its 2025-26 Budget forecasts. This reflects the strength in consumption expenditure and the impact of elevated inflation on prices.

Risk insight

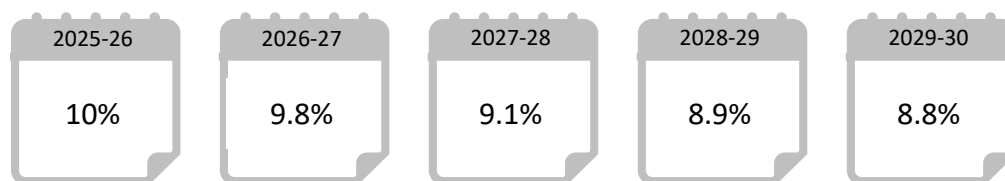
The size of the national GST pool is affected by the amount of GST collected across Australia. It is directly influenced by national trends in consumer spending and housing construction and is therefore subject to volatility based on changes in the Australian economy.

Several factors could adversely affect national economic conditions, including weaker growth in household consumption resulting from restrictive monetary policy, elevated inflation and softer housing market conditions that reduce demand. Ongoing geopolitical tensions and conflicts, and uncertainty about international trade policies and economic conditions, also create risks to future GST revenue growth should economic activity or consumer spending be weaker than expected.

The 2026-27 Budget indicates that 1% lower growth in the GST pool than expected would reduce revenue for South Australia by about \$100 million per annum.

The Commonwealth Grants Commission determines each state's share of the pool in line with current Horizontal Fiscal Equalisation principles.^v South Australia's total share of the national GST pool is expected to trend down from 2025-26, as shown in figure 5.3.

Figure 5.3: South Australia's estimated GST grants share from 2025-26 to 2029-30



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

South Australia's GST grant share is influenced by changes in the relative fiscal capacity and expenditure needs of jurisdictions, Commonwealth Government payments and population growth.

Risk insight

The Commonwealth Grants Commission considers multiple factors in recommending updated annual GST distribution shares to the Commonwealth Government each year, including population growth forecasts, growth in taxable wages and salaries and conveyance duties, mining royalty revenue growth and the state's share of other Commonwealth Government payments. Changes in these factors can be difficult to predict and can lead to significant upward and downward revisions in GST revenue in annual budget and MYBR cycles.

5.1.4 The 'no worse off' guarantee under GST distribution transitional arrangements will end in 2029-30

New arrangements for distributing the national GST pool to the States started in 2021-22 and were introduced over a six-year transitional period ending in 2026-27. Under these arrangements, States are equalised based on the fiscal capacity of New South Wales or Victoria, depending on which has a higher fiscal capacity in each year.

A legislated 'no worse off' guarantee ensures that, cumulatively, no State will receive less GST revenue than it would have received under the previous distribution arrangement. The 'no worse off' guarantee under the new distribution system's transitional arrangements was extended to 2029-30.

^v The principles underlying the Commonwealth Grants Commission's assessment of per capita relativities, which are the basis for the interstate distribution of GST revenue. Under these principles, GST revenue grants are distributed to give each State and Territory the capacity to provide public services at an average standard and level of efficiency, for comparable revenue effort. This is sometimes referred to as full Horizontal Fiscal Equalisation. Since 2021-22, the distribution of GST revenue has been transitioning to new arrangements that aim to ensure each State or Territory has the capacity to provide services at the standard of New South Wales or Victoria (whichever is greater).

Risk insight

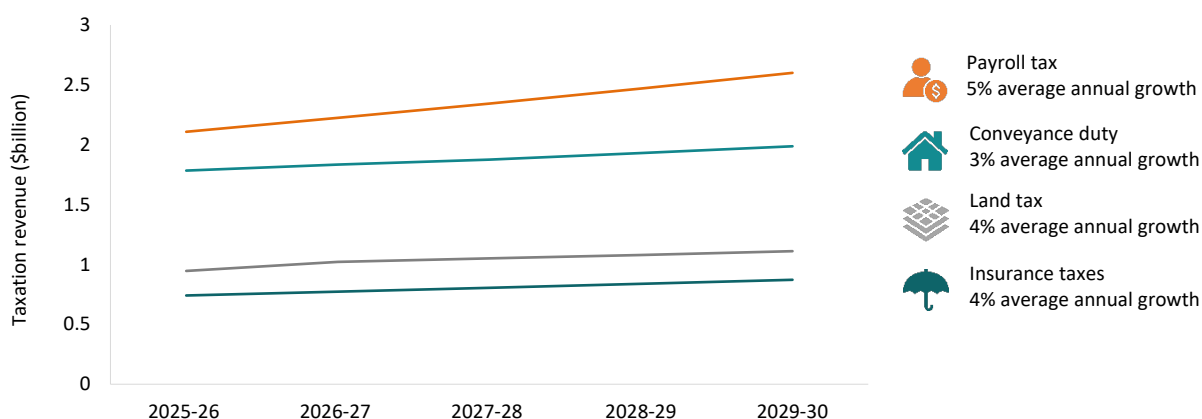
The 'no worse off' guarantee currently ensures that South Australia does not receive less GST revenue than it would have received under the previous GST distribution arrangements. The 2026-27 Budget notes that GST revenue would be \$475 million lower in 2026-27 without the guarantee. If the current GST distribution arrangements continue beyond 2029-30 and the guarantee is not extended or replaced, South Australia could experience a significant reduction in GST revenue, adversely affecting the State's budget position.

5.2 Taxation revenue

5.2.1 Forecast increases in taxation revenue are mainly due to payroll tax, conveyance duty and land tax

Taxation revenue as a proportion of total revenue is expected to remain steady at 23-24% over the four years of the 2026-27 Budget. It is forecast to increase by \$1.2 billion from an estimated \$7.6 billion in 2025-26 to \$8.8 billion in 2029-30. Forecast increases in taxation revenue are mainly due to payroll tax (\$492 million), conveyance duty (\$203 million) and land tax (\$165 million). Figure 5.4 shows the key taxation revenue trends.

Figure 5.4: Key taxation revenue trends from 2025-26 to 2029-30



Following strong growth between 2020-21 and 2025-26, taxation revenue is forecast to moderate across the forward estimates. Total taxation revenue is forecast to grow by an average of 3.7% per annum between 2025-26 and 2029-30, compared with average annual growth of 9.3% between 2020-21 and 2025-26, which was mainly due to payroll tax, conveyance duty and land tax increasing by 60%, 75% and 84% respectively over this period.

5.2.2 Payroll tax forecasts assume continuing wages and employment growth

Payroll tax is the largest source of taxation revenue. It is expected to grow consistently by 5% each year in the four years to 2029-30, rising from an estimated \$2.1 billion in 2025-26 to \$2.6 billion in 2029-30. Payroll tax revenue forecasts are based on assumed growth in employment and earnings in South Australia. Employment is forecast to grow by 1% each year from 2026-27 to 2029-30,¹⁷ with assumed average wages growth of 3% per annum.

Risk insight

Employment or wages growth may be lower than assumed in the 2026-27 Budget if there is an unexpected worsening in economic conditions impacting the labour market. This would flow through to downward revisions to payroll tax revenue.

5.2.3 Growth in conveyance duty expected to return to longer-term trends

Conveyance duty revenue is estimated to increase by 8.2% in 2025-26. The 2026-27 Budget notes that this reflects stronger than expected growth in residential property prices. The 2026-27 Budget assumes residential property price growth and transaction volumes will return to their long-term averages, resulting in conveyance duty revenue growth of around 3% per annum from 2026-27.

Risk insight

Conveyance duty revenue is affected by local property market variations, including property price growth rates and transaction volumes. Trends in property values and market activity levels can be difficult to predict and may be influenced by changes in economic conditions and government policy settings. DTF advised us that the 2026-27 Budget does not include any specific assumptions regarding the impact on conveyance duty of the Commonwealth Government's capital gains tax and negative gearing reforms. These factors contribute to significant uncertainty and volatility in conveyance duty collections.

6 Capital program

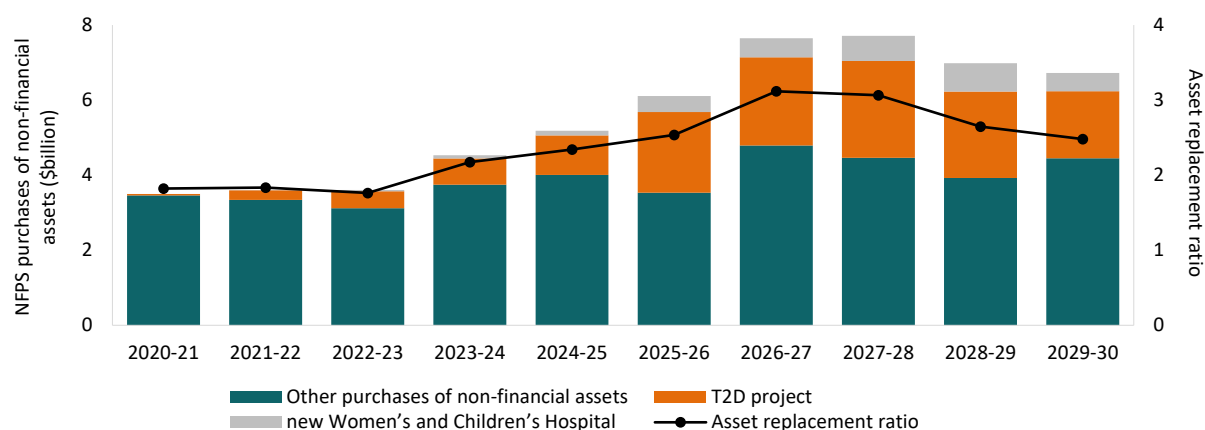
6.1 Non-financial public sector capital program

6.1.1 Capital investment reaches historically high levels

The NFPS capital program^w is \$29.1 billion over the four years of the 2026-27 Budget, an increase of \$1.8 billion compared to the four years of the 2025-26 Budget. This increase mainly reflects the expenditure profiles of existing capital projects and the addition of new measures announced in the 2026-27 Budget.

The expanded capital program will see land and fixed assets increase by \$35.7 billion between 30 June 2026 and 30 June 2030. Figure 6.1 shows the purchases of non-financial assets for the NFPS over the 10 years to 2029-30 compared to the asset replacement ratio.^x

Figure 6.1: NFPS purchases of non-financial assets from 2020-21 to 2029-30



Purchases of non-financial assets for the NFPS over the four years of the 2026-27 Budget are substantially higher than previous years, mainly due to the T2D project and new Women's and Children's Hospital.

The asset replacement ratio grows from around 1.8 in 2020-21 to 3.1 by 2026-27, reflecting the significant expansion of the State's capital program, particularly investment in the T2D project and new Women's and Children's Hospital. While the ratio is forecast to decline in later years as expenditure on these projects reduces, it remains well above one, indicating capital investment continues to exceed the annual consumption of assets through depreciation.

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

^x The asset replacement ratio compares capital expenditure to depreciation to assess whether assets are being consumed at a rate consistent with their replacement. A ratio higher than one indicates that assets are being replaced faster than they are consumed.

The NFPS capital program also includes \$4.1 billion over the four years of the 2026-27 Budget (14% of the total NFPS capital budget) that is allocated to an 'other' category. This includes contingency provisions allocated to specific capital projects and general contingencies.^y The portion allocated to general contingencies provides the SA Government some flexibility over the nature and timing of its capital program.

6.1.2 Capital program expected to ease, but infrastructure investment requirements continue

Completion of the T2D project and the new Women's and Children's Hospital is expected to reduce the size of the capital program beyond the forward estimates. However, there is likely to be an ongoing pipeline of major infrastructure projects over the longer term. Infrastructure SA's 2025 20-year State Infrastructure Strategy identifies a range of future infrastructure investment priorities to support population and economic growth, urban development, energy transition and climate resilience.¹⁸ These investments may increase capital expenditure and influence the pace at which the SA Government's debt levels stabilise and decline.

6.1.3 Expanding infrastructure asset base creates long-term operating cost obligations that extend well beyond construction

General government sector expenditure on asset repairs and maintenance is projected to decline by 2.6% in 2026-27 and grow on average by 1.5% over the remaining three years of the 2026-27 Budget. This is significantly less than the average growth in fixed assets each year of 5%.

Infrastructure SA notes that South Australia has an ageing infrastructure base with underinvestment in maintenance and renewal, gaps in asset data, and maintenance planning that is often reactive, short-term and insufficient.¹⁹

Risk insight

The State's infrastructure investment program is expected to significantly expand the asset base. While this investment is intended to support future service delivery and economic activity, it also creates an ongoing obligation to maintain, renew and manage those assets throughout their lifecycle.

Infrastructure SA notes that around two-thirds of an asset's total lifecycle cost is incurred after it is built or acquired.²⁰ As the State's asset base expands, the long-term costs of maintaining and renewing assets are also likely to increase. Our annual report identifies a significant road maintenance backlog, suggesting that the State is already facing challenges in funding and delivering required maintenance activities.²¹ These pressures are likely to increase as the infrastructure asset base grows in size and complexity.

^y This amount also includes capital programs for small agencies, a capital slippage provision and consolidation adjustments to eliminate inter-agency transactions and recognise contributed assets.

Infrastructure SA considers asset management a core priority for achieving value for money within a capital-constrained environment. It notes that a whole-of-lifecycle approach to asset management can extend asset life, improve service delivery and defer costly replacements.²²

Effective asset management relies on reliable information about the condition and performance of assets. We have identified opportunities to improve asset condition data and information for large agency asset portfolios.²³ Poor quality asset information can make it more difficult to understand asset risks, assess maintenance requirements and direct limited resources to the highest-priority assets.

If maintenance and renewal expenditure does not keep pace with asset growth, there is a risk that asset condition deteriorates, service delivery outcomes are affected, and future lifecycle costs increase.

6.2 New capital expenditure initiatives

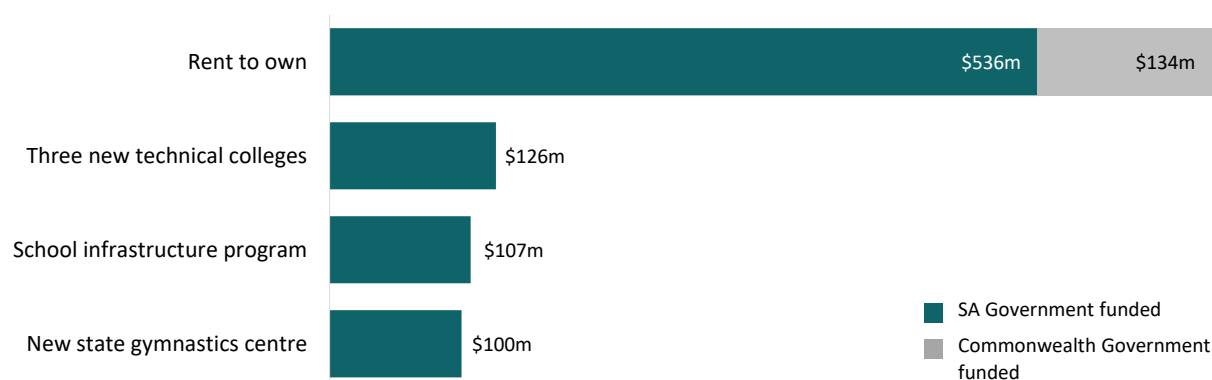
6.2.1 New capital expenditure initiatives are 40% higher than the 2025-26 Budget

New capital expenditure initiatives in the 2026-27 Budget total \$1.5 billion² (4% of the NFPS capital program), which is \$440 million (40%) higher than in the 2025-26 Budget.

These new capital expenditure initiatives are mainly for the South Australian Housing Trust (51%) and Infrastructure and Transport (21%).

Figure 6.2 shows the largest new capital expenditure initiatives in the 2026-27 Budget, which account for 66% of total new capital expenditure initiatives.

Figure 6.2: Major new capital expenditure initiatives in the 2026-27 Budget from 2025-26 to 2029-30



² New capital expenditure initiatives of \$1.5 billion exclude expenditure for new initiatives allocated to the Urban Renewal Authority for the Housing Fast-Track Fund (\$100 million) and Playford Alive acceleration (\$50 million), as this expenditure is classified as inventories and is not included in capital investment.

6.2.2 Significant new initiatives to increase housing supply and affordability

The 2026-27 Budget includes \$670 million for a Rent to Own program, which forms part of a \$1.3 billion initiative to deliver 2,000 affordable homes over eight years, funded in partnership with the Commonwealth Government. Homes will be leased at 75% of market rent to tenants for up to two years, with tenants given the option to buy the property at the end of the lease term. Around 200 to 260 homes are expected to be built each year and sold. DTF advised us that the proceeds from property sales, Commonwealth Government funding and rental revenue are expected to fully offset the program’s costs.

The 2026-27 Budget also includes other initiatives to increase housing supply, including:

- a \$100 million Housing Fast-Track Fund to acquire and sell strategic land to accelerate housing development^{aa}
- a \$500 million Apartment Fast-Track Fund, under which the SA Government will guarantee the sale of up to 50% of dwellings in eligible off-the-plan developments to enable construction to commence.^{bb} The 2026-27 Budget notes that the guarantees are expected to be called upon only in the unlikely event that a dwelling remains unsold at the end of a project. If this assumption does not hold, the SA Government could incur costs under the guarantee arrangements.

6.3 Major capital projects

6.3.1 The T2D project and new Women’s and Children’s Hospital make up 39% of total capital expenditure

Figure 6.3 details the projects with the highest capital expenditure over the four years of the 2026-27 Budget.

Figure 6.3: Major capital project expenditure over the four years of the 2026-27 Budget^{cc}



^{aa} This expenditure for this initiative is classified as inventory and is not included in capital expenditure.

^{bb} This initiative is classified as an operating initiative. The \$500 million represents the value of potential guarantees rather than an expected cost to the Government.

^{cc} The SA Water growth infrastructure project involves building water and wastewater networks at various areas including Salisbury, Angle Vale, Two Wells and Munno Para.

The Concordia water infrastructure project is an enabling infrastructure project to support the staged development of the Concordia Growth Area, a major greenfield housing development in Adelaide’s north, under the Concordia Basic infrastructure Scheme. The expenditure allocation relates to Phase 1 of the Scheme.

 \$656 million High Productivity Vehicle Network – Stage 1	 \$632 million Rent to Own program	 \$620 million SA Water growth infrastructure
 \$320 million Public housing modernisation	 \$300 million Concordia water infrastructure	 \$280 million South Eastern Freeway upgrade

The T2D project and new Women’s and Children’s Hospital account for 39% of the total NFPS capital program in the 2026-27 Budget.

The total estimated project cost for the T2D project in the 2026-27 Budget is \$15.4 billion, with \$1.695 billion allocated beyond the forward estimates. DTF advised us that the project is tracking on budget and on schedule to meet the completion date of December 2031.

The total estimated project cost for the new Women’s and Children’s Hospital is \$3.2 billion. DTF advised us that:

- the concept design report is complete, and the project has progressed to schematic design
- the project cost estimate will be refined to a greater confidence level through the schematic design process
- the hospital is expected to reach practical completion in June 2031, with first patients expected in December 2031.

6.3.2 Additional funding secured for High Productivity Vehicle Network – Stage 1 but full funding remains unresolved

The High Productivity Vehicle Network program is focused on improving freight productivity on existing corridors by moving more freight with fewer vehicles, enhancing safety for all road users. The program is being delivered in two stages.

Stage 1 of the program will deliver upgrades between the Swanport Bridge on the Princes Highway and Truro on the Sturt Highway to enable high productivity vehicles to bypass metropolitan Adelaide. The Stage 1 project is funded jointly by the Commonwealth and SA Government. However, funding for the full \$1.1 billion Stage 1 project scope is not settled.

In our previous State Finances report, we noted that the Commonwealth Government committed \$525 million towards the Stage 1 project, representing 50% of the original \$1.1 billion project cost. The SA Government considers the project nationally significant and has advocated for an 80:20 Commonwealth-State funding split. Consistent with this position, the 2025-26 Budget included a SA Government contribution of \$131 million (20%) towards a reduced Stage 1 project scope costing \$656 million.

This year, DTF advised us that:

- additional Commonwealth funding was provided for Stage 1 in the Commonwealth's 2025-26 Mid-Year Economic Fiscal Outlook, based on a 60:40 Commonwealth-State funding split. As a result, the Stage 1 project cost was realigned to \$787.5 million in the 2026-27 State Budget to recognise the additional Commonwealth funding, while maintaining a 20% SA Government contribution
- South Australia has not agreed to the 60:40 funding split. Negotiations on funding for the remaining Stage 1 scope on an 80:20 basis are continuing
- final project costs will be informed by the detailed business cases developed for the individual Stage 1 and Stage 2 projects. The Stage 1 business case is expected to be completed in early 2027, while the Stage 2 business case has not yet commenced
- the total cost of the entire High Productivity Vehicle Network program scope outlined in an earlier business case submitted to Infrastructure Australia is about \$2 billion.

6.3.3 Additional funding of \$90 million for the South Eastern Freeway Upgrade, in addition to \$200 million in previous Budgets

The 2026-27 Budget includes \$280 million for the South Eastern Freeway. The cost and delivery time frame of the South Eastern Freeway safety upgrade project has increased over successive budgets.

Since the 2023-24 Budget, the project has received an additional \$290 million in funding, including an additional \$90 million (\$4 million beyond the forward estimates) in the 2026-27 Budget for safety upgrade works. This has increased the total project cost from \$150 million to \$440 million. At the same time, the expected completion date has been revised from June 2026 to June 2031. The project is jointly funded by the Commonwealth Government (\$265 million) and the SA Government (\$175 million).

6.4 Key capital program risks

6.4.1 There continues to be a large pipeline of infrastructure projects across Australia and constraints on construction capacity

South Australia's capital program is being delivered in an increasingly constrained infrastructure market. Infrastructure Australia reports that Australia is experiencing a large and growing infrastructure pipeline,²⁴ while the 2026–27 Budget notes that South Australia's construction pipeline is at a record high level. This reflects significant investment activity within South Australia, including housing developments and the ramp-up of construction on the T2D project.

At the same time, Infrastructure Australia reports that infrastructure demand continues to exceed available capacity, with labour and skills shortages and low productivity constraining the sector's ability to deliver projects on time and on budget. It identifies labour as the most significant delivery risk, with workforce shortages reaching up to 300,000 workers across Australia by 2027.²⁵

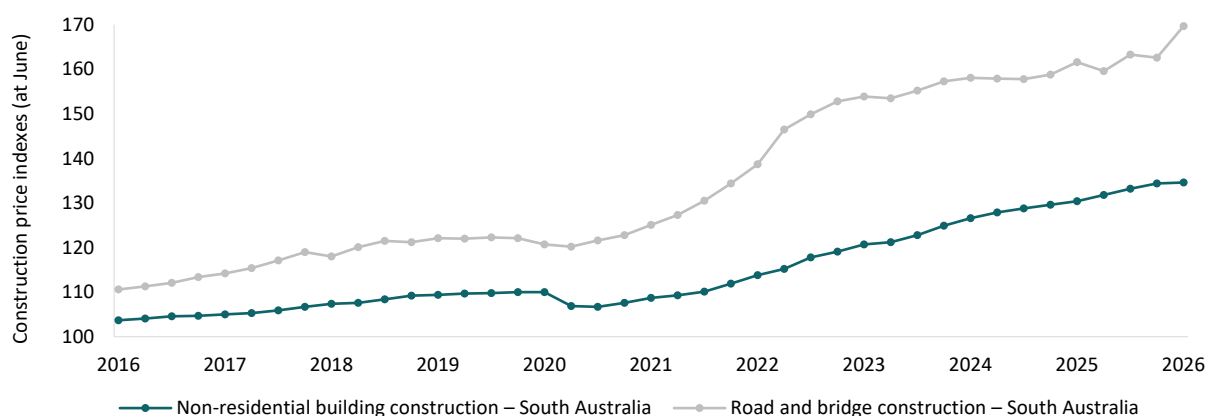
The 2026-27 Budget indicates that labour shortages are not expected to ease in the short term and are contributing to longer construction time frames and increased costs. Together, these conditions increase the risk of project delays, cost escalation and challenges in delivering the SA Government's capital program on time and within budget.

6.4.2 Capacity constraints and supply chain disruptions continue to drive up construction costs

Supply chain disruptions, skilled labour shortages and strong demand for trades and construction materials have contributed to substantial increases in construction costs over the last four years.

Figure 6.4 shows that construction costs in South Australia continued to increase in the 12 months to June 2026, with non-residential building construction costs rising by 3.2% and road and bridge construction costs increasing by 5%.

Figure 6.4: Construction price indexes – South Australia – June 2016 to June 2026²⁶



The ABS indicates that labour shortages were a key driver of higher non-residential building construction costs in the 12 months to June 2026, as strong demand from public infrastructure projects increased competition for a limited pool of skilled workers. At the same time, supply disruptions linked to the conflict in the Middle East increased the cost of key construction materials and fuel, contributing to the increase in non-residential building and road construction costs.²⁷

The 2026-27 Budget recognises that the conflict in the Middle East may put further pressure on existing construction sector capacity constraints, increasing the risk that key infrastructure projects cannot be delivered on time and within budget.

Risk insight

Infrastructure SA notes that population growth, housing demand and economic development are driving the need for substantial infrastructure investment in South Australia. However, current market capacity and skills shortages are driving up costs and making it increasingly difficult to execute large-scale infrastructure efficiently.²⁸

Infrastructure SA also notes that, given the significant infrastructure pipeline and constrained market, careful prioritisation and sequencing of key projects is important to reduce market pressure and delivery risk.²⁹

The 2026-27 Budget recognises that the high demand for infrastructure-related labour and materials increase the risks of cost escalations for the capital program. While project budgets include allowances for cost escalations, higher than expected increase in construction costs could result in projects exceeding their budgets.

6.4.3 The T2D project and new Women's and Children's Hospital have greater risk exposure due to their scale and complexity

Infrastructure Australia describes projects that cost over \$1 billion as megaprojects and observed that the number of megaprojects as a proportion of state infrastructure pipelines is increasing.³⁰ This trend is also seen in South Australia, with megaprojects like the T2D project (\$15.4 billion) and the new Women's and Children's Hospital (\$3.2 billion) making up a significant part of the SA Government's capital program in the 2026-27 Budget.

These major and complex infrastructure projects lead to increased risks for the SA Government's capital program. Infrastructure SA notes that big projects often have greater complexity and risk with implications for scheduling and costs. Further, their long planning horizons and complex interfaces further add to risk.³¹

For these megaprojects, even small percentage budget overruns could have a significant impact on the State's overall financial position, including increased net lending deficits and net debt. Based on experience with transport infrastructure projects in South Australia, 10% is a relatively small budget overrun. This would amount to a \$1.5 billion cost increase for the T2D project.³²

Risk insight

Infrastructure Australia notes that:

- megaprojects are inherently more complex and riskier
- there is clear evidence that megaprojects often experience cost increases and delivery delays and do so to a greater degree than lower-value projects that experience overruns
- increasing project scopes also drives cost in an overheated market and increases project complexity and delivery risk.³³

The T2D project and the new Women's and Children's Hospital are among the largest and most complex infrastructure projects ever undertaken by the SA Government. Their scale, complexity, long delivery time frames and unique delivery challenges increase the risk of cost overruns and delays.

6.4.4 New Women's and Children's Hospital costs remain uncertain until key decisions are finalised

The current budget for the new Women's and Children's Hospital is \$3.2 billion, established in 2022 when the SAPOL Barracks site was announced as the preferred location.³⁴ Since then, construction costs have increased significantly, as shown in figure 6.4, and some key project elements remain unresolved, including the budget impacts of the final schematic design and the appointment of a major construction contractor. Until these matters are finalised, the full cost of delivering the project remains uncertain, increasing the risk that the current budget may not be sufficient. If project costs exceed current estimates, additional funding may be required, which could increase borrowing requirements and contribute to higher net debt. Project scope or delivery time frames may also need to be revised.

Appendix 1 – Review mandate, objective and scope

Our mandate

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

Our objective

The objective of this report is to provide independent commentary and analysis on the 2026-27 Budget to highlight key trends and risks for the State's public finances.

What we reviewed and how

We reviewed the 2026-27 Budget Papers to identify key trends and risks for the State's public finances. This involved:

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

Our analysis is based on data provided in the 2026-27 Budget Papers, supplemented by information provided to us by DTF.

What we did not review

This report primarily comments on Budget information. The data and assumptions underlying this information are not subject to audit and no audit opinion is provided on the accuracy of historical or forecast figures presented in the 2026-27 Budget. We also have not performed work to provide an opinion on the effectiveness of the SA Government's budgetary control.

Appendix 2 – Budget presentation framework

By agreement between the Commonwealth, State and Territory Governments, each jurisdiction presents its Budget Papers and mid-year budget update on a uniform presentation framework (UPF) basis.

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

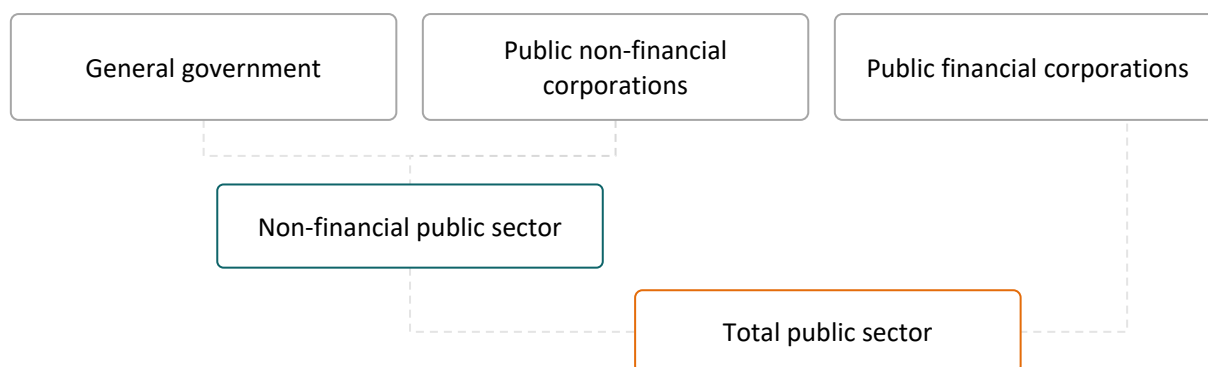
Institutional sectors

Budget reporting is prepared for the following institutional sectors:

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

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

Figure A1: Sectors of government activity



PFC sector data is not published in the Budget Papers.

Appendix 3 – Abbreviations and terms used in this report

Abbreviation/Term	Description
DTF	Department of Treasury and Finance
FTE	Full-time equivalent
GSP	Gross state product
GST	Goods and services tax
MYBR	Mid-year budget review
NDIS	National Disability Insurance Scheme
NFPS	Non-financial public sector
PFC	Public financial corporations
PNFC	Public non-financial corporations
RBA	Reserve Bank of Australia
S&P	Standard & Poor's
SAFA	South Australian Government Financing Authority
SA Water	South Australian Water Corporation
T2D project	North-South Corridor River Torrens to Darlington project
UPF	Uniform presentation framework

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