Report of the
Auditor-General

Auditor-General's Department

Report 7 of 2021

Consolidated Financial Report review

Government of South Australia

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Consolidated Financial Report review

Tabled in the House of Assembly and ordered to be published, 30 March 2021

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By authority: S. Smith, Government Printer, South Australia

2021

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

Auditor-General's
Department

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29 March 2021

President
Legislative Council
Parliament House
ADELAIDE SA 5000

Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Dear President and Speaker

Report of the Auditor-General:
Report 7 of 2021 *Consolidated Financial Report review*

As required by the *Public Finance and Audit Act 1987*, I present to each of you Report 7 of 2021 *Consolidated Financial Report review*.

Content of the Report

The 2019-20 Consolidated Financial Report was published in February 2021. It fulfils the SA Government's consolidated financial reporting obligations under Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. It reports the SA Government's actual financial performance and position for the year.

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

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

Acknowledgements

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

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

Yours sincerely

Andrew Richardson
Auditor-General

Contents

1 Executive summary

1.1 Introduction

This Report provides our observations on the 2019-20 Consolidated Financial Report (CFR), in particular:

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

The CFR fulfils the SA Government's consolidated financial reporting obligations under Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. It reports the SA Government's actual financial performance and position for the year. The 2019-20 CFR was published on the Department of Treasury and Finance (DTF) website in February 2021.[1]

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

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

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

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

We provide commentary on the 2020-21 State Budget in Auditor-General's Report 8 of 2021 *State Finances and related matters*.

1.2 Conclusion

Our review of the CFR did not identify any material misstatements or control deficiencies. We did identify some opportunities to improve the way financial information is collected, validated and consolidated in preparing the CFR. They are outlined in section 1.4.

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1 *Consolidated Financial Report 2019-20*, <www.treasury.sa.gov.au/budget/current-budget/previous-budgets/2019-20-state-budget>, viewed February 2021.

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

1.3 Key overall observations

1.3.1 The whole of government reported a $2.067 billion net operating balance deficit for 2019-20, compared to a $535 million surplus last year

The $2.6 billion decline is due mainly to lower capital grants from the Commonwealth Government and higher grant expenses and National Disability Insurance Scheme contributions. It also reflects the impact of the COVID-19 pandemic through reduced income and increased expenses.

1.3.2 The whole of government reported a net lending deficit of $2.624 billion in 2019-20, up from $293 million in 2018-19

The $2.331 billion increase reflects the net operating balance deficit discussed in section 1.3.1, which funded part of the 2019-20 capital program.

1.3.3 The State is increasingly reliant on Commonwealth grant revenue

Grant revenue is the largest revenue stream for the State. As a percentage of total revenue, it has increased from 48% in 2015-16 to 51% in 2019-20. This is due to growth in GST and capital grants from the Commonwealth Government. Section 4.4.4 provides further detail on trends in grant revenue.

1.3.4 While the State's total assets and liabilities both increased in 2019-20, total assets increased by $2.8 billion more than total liabilities

Total assets increased by $5.87 billion (5%) to $132.3 billion, while total liabilities increased by $3.1 billion (4%) to $88.8 billion. Section 4.2.1 provides further detail on this $2.8 billion increase in net worth.

Total assets increased mainly due to:

- recognising $4.343 billion in right-of-use assets due to the implementation of new lease accounting requirements
- a $2.602 billion (5%) increase in buildings and structures, mainly as a result of revaluations
- partly offset by a $1.932 billion (12%) decrease in investments and placements.

Total liabilities increased mainly due to:

- a $3.176 billion (12%) increase in borrowings
- a $943 million (40%) increase in other liabilities, which mainly relates to unearned revenue associated with Commonwealth funded capital projects

- partly offset by a $1.362 billion (10%) decrease in unfunded superannuation liabilities.

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

1.3.5 Matters reflected in Independent Auditor's Reports for government agencies in 2019-20 included inherent uncertainty in some liabilities of the Return to Work Corporation of South Australia and the Lifetime Support Authority of South Australia

As noted in section 1.2, we do not provide an audit opinion on the CFR. However, we provided a management letter summarising the results of our review to DTF in February 2021. It included the agency specific audit matters we identified that would impact on the audit opinion for the CFR, if we provided one.

I noted in the letter that, while I had not modified my Independent Auditor's Reports for the Return to Work Corporation of South Australia (RTWSA) and the Lifetime Support Authority of South Australia for 2019-20, I drew attention to the inherent uncertainty associated with their care, support and claims liabilities.

1.4 What we recommended

We issued a management letter to DTF's Chief Executive in February 2021 outlining opportunities to improve the way financial information is collected, validated and consolidated in preparing the CFR. Our recommendations included:

- ensuring the South Australian Government Employee Residential Properties (SAGERP) balances are correctly reported in the general government sector for future CFR reporting
- ensuring accounting policy changes applied in the current financial year are also applied to the comparatives where practicable, in line with Australian Accounting Standard AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- DTF reviewing its data collection procedures to obtain the necessary borrowings information to meet required disclosure requirements of Australian Accounting Standard AASB 7 *Financial Instruments: Disclosures*.

1.5 Response to our recommendations

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

- reviewing the sector classification of SAGERP and ensuring SAGERP balances are included in the correct sector
- adjusting prior period comparatives for material items
- reviewing its data collection procedures to ensure all required information is collected to comply with AASB 7 disclosure requirements.

2 Background

AASB 1049 requires governments to prepare whole of government and general government sector financial reports.

The South Australian CFR for the year ended 30 June 2020 was prepared by DTF under AASB 1049 and includes both whole of government and general government sector financial reports.

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

The three government sectors are defined as follows:

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

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

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

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

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

3 Audit mandate, objective and scope

3.1 Our mandate

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

3.2 Our objective

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

- the actual financial performance and position of the whole of government
- the controls over the preparation of the 2019-20 CFR.

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

I do, however, consider it valuable and consistent with wider public expectation that we review the credibility and validity of the financial information in the CFR.

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

Auditor-General's Report 8 of 2021 *State Finances and related matters* provides commentary on the 2019-20 State Budget actual results of the general government sector.

3.3 What we reviewed and how

Our review in 2019-20 covered:

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

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

4 2019-20 Consolidated Financial Report financial performance

Key points

- The whole of government reported a $2.067 billion net operating balance deficit for 2019-20, compared to a $535 million net operating balance surplus in the prior year.
- The State's net worth increased by $2.767 billion, mainly because of the revaluation of non-financial assets, offset by the large net operating balance deficit.
- There is a $582 million difference between the whole of government and general government sector 2019-20 net operating balances because the CFR consolidates transactions in all sectors and eliminates intra-sector transactions.
- Grants are a key revenue stream, representing 51% of total whole of government revenue in 2019-20.
- Employee expenses are the largest component of expenditure in 2019-20 at 37%, compared to 39% in 2018-19.
- The whole of government reported a net lending deficit of $2.624 billion in 2019-20, compared to a net lending deficit of $293 million in the prior year. This is mainly due to the large operating deficit in 2019-20, which in turn increases the net lending deficit.

4.1 Net operating balance

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

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

The whole of government reported a $2.067 billion net operating balance deficit for 2019-20, compared to a $535 million net operating balance surplus for 2018-19.

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

Figure 4.1: Net operating balances

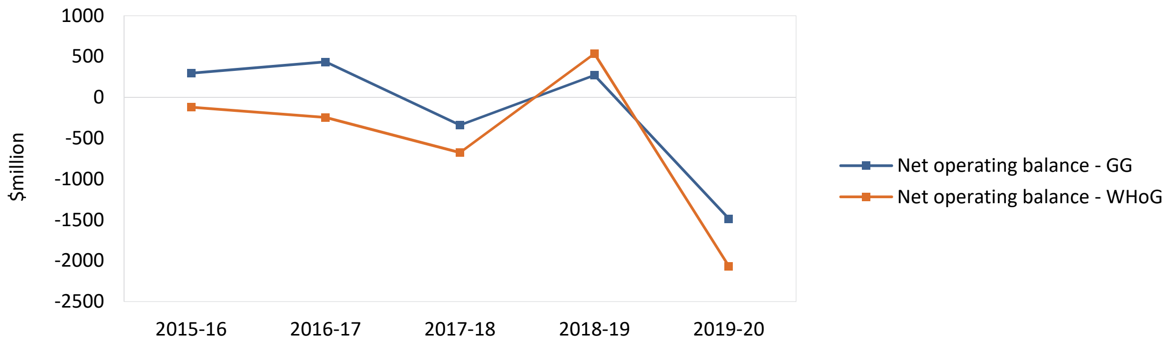


Figure 4.1 shows that apart from 2018-19, there has been a trend of increasing deficits across the five years. Section 4.4 provides further detail about changes in revenue and expenditure.

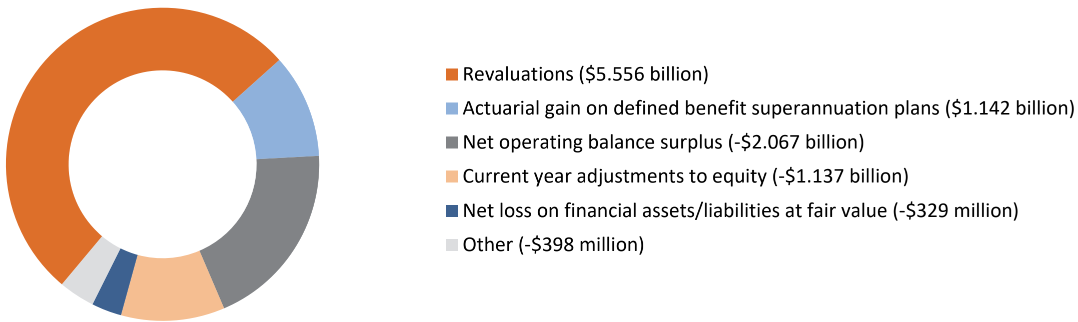
The $2.602 billion increase in the whole of government net operating balance deficit in 2019-20 was greater than the $1.757 billion increase in the general government sector net operating balance deficit over the same period. The $845 million variance reflects increases in PNFC ($729 million) and PFC ($246 million) net operating balance deficits and a $130 million decrease in consolidation eliminations, including the impact of reduced dividends and income tax equivalent payments (refer note 10.1 to the CFR).

4.2 Total change in net worth

4.2.1 The State's net worth increased by $2.767 billion, mainly because of the revaluation of non-financial assets, offset by the large net operating balance deficit

Figure 4.2 shows the drivers for the $2.767 billion increase in net worth in 2019-20 for the whole of government in the Statement of Comprehensive Income.

Figure 4.2: Reasons for net worth increase in 2019-20



The change in net worth is mainly the result of:

- an increase in asset revaluation reserves ($5.556 billion). The main revaluation increases were $6.115 billion on Department of Planning, Transport and Infrastructure (DPTI) property and network assets and $286 million on SAHT properties, offset by a $1.163 billion decrease on SA Water pipe assets, wastewater treatment plants, the desalination plant and water filtration plants

- a net actuarial gain on defined benefit superannuation plans ($1.142 billion), primarily as a result of movement in the rate of salary increases (from 4% in 2018-19 to 2.5% in 2019-20), long-term CPI increases (from 2.5% in 2018-19 to 2% in 2019-20, discount rate (from 1.7% in 2018-19 to 1.5% in 2019-20) and expected long-term return on plan assets (from 7% in 2018-19 to 6.5% in 2019-20) assumptions used by the actuary to value the defined benefit obligation.

The change in net worth was also influenced by the net operating balance deficit ($2.067 billion) and the following other economic flows:

- current year adjustments to equity ($1.137 billion), which were mainly to implement new lease accounting requirements as a result of Australian Accounting Standard AASB 16 *Leases* ($185 million) and new revenue accounting requirements set out in Australian Accounting Standards AASB 15 *Revenue from contracts with customers* and AASB 1058 *Income of not-for-profit entities* ($901 million)
- a net loss on financial assets/liabilities at fair value ($329 million)
- other net actuarial losses ($306 million) primarily driven by an increase in the RTWSA Compensation Fund outstanding claims liability ($258 million), agency annual leave liabilities ($25 million) and insurance claims provisions ($26 million).

4.3 Net lending/borrowing position

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

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

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

Figure 4.3: Net lending/borrowing position

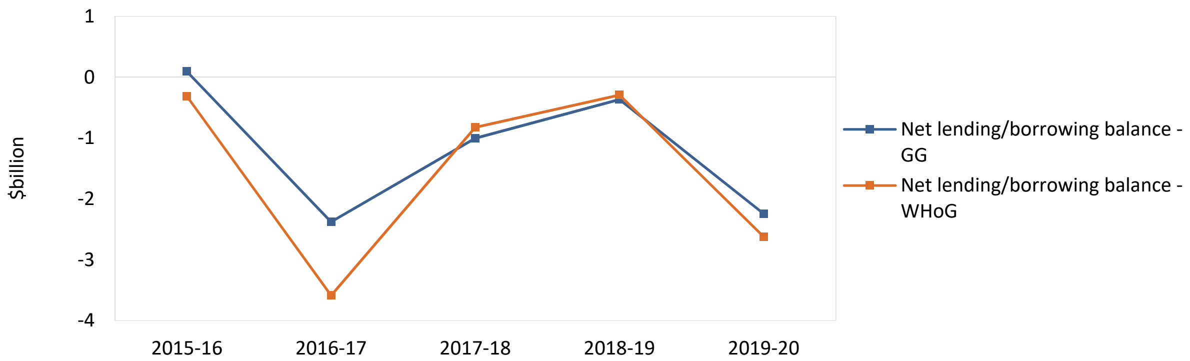


Figure 4.3 shows the significant variability in the net lending/borrowing position over the past five years, with a significant increase in the net lending/borrowing deficit in 2019-20 when compared to the previous two years.

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

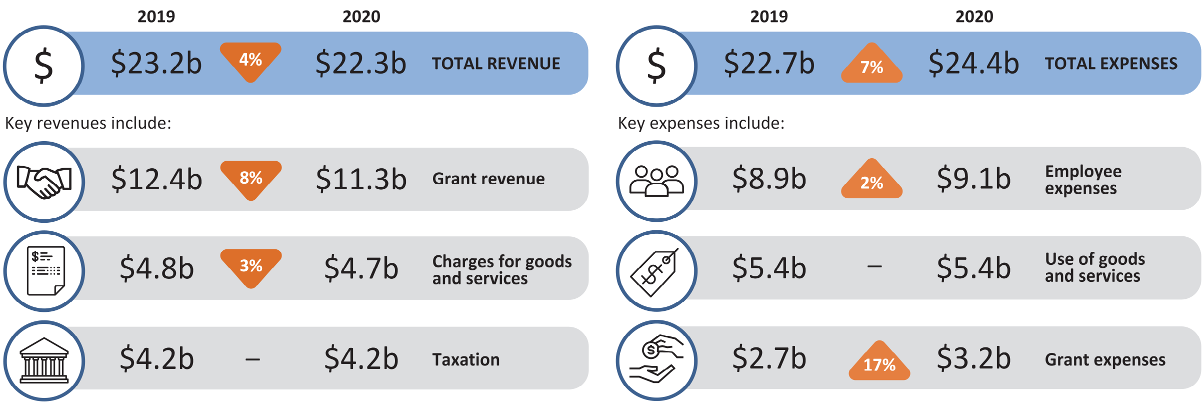
The $2.331 billion deterioration in the net lending/borrowing position in 2019-20 reflects the $2.602 billion decrease in the net operating balance discussed in section 4.1.1, offset by a $270 million decrease in the net acquisition of non-financial assets. The decrease in the net acquisition of non-financial assets is due mainly to lower asset acquisitions, lower asset sales and the reversal of higher depreciation and amortisation expense included in the net operating balance.

4.4 Revenue and expenditure

4.4.1 A 4% reduction in total revenue and a 7% increase in total expenditure

Figure 4.4 shows changes in revenue and expenditure between 2018-19 and 2019-20 for key items.

Figure 4.4: Analysis of variations in revenue and expenditure



Total revenue decreased in 2019-20 by $921 million (4%). Total expenditure increased by $1.681 billion (7%).

4.4.2 A decrease in total revenue mainly due to lower grants and interest income, offset by increases in other revenues

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

- grant revenue – decreased by 8% or $1.052 billion. This was mainly a result of lower GST grant revenue from the Commonwealth Government and decreased capital grants under the Intergovernmental Agreement on Federal Financial Relations, reflecting early payments for DPTI projects in 2018-19, partially offset by increased specific purpose grants from the Commonwealth Government
- interest income – decreased by 29% or $223 million due mainly to decreased interest rates
- charges for goods and services – decreased by 3% or $156 million, mainly due to Lifetime Support Scheme levies being reported under other revenues in 2019-20
- other revenues – increased by 50% or $498 million, mainly due to Compulsory Third Party Insurance ($417 million) and Lifetime Support Scheme levy ($161 million) collections being reported for the first time in 2019-20 under other revenues.

Auditor-General's Report 13 of 2020 *Annual Report for the year ended 30 June 2020, Part C: Agency audit reports* provides further details on major variations between years for individual agencies.

4.4.3 An increase in total expenditure mainly due to higher grant expenses, depreciation and amortisation and other expenses

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

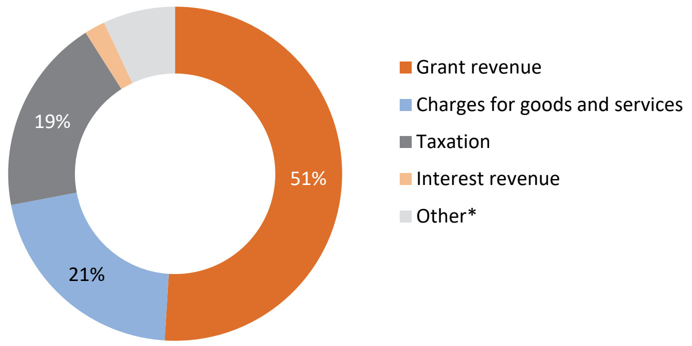
- grant expenses – increased by 17% or $474 million. This growth was due mainly to increases in other current transfer payment expenses of $490 million, primarily due to State and Commonwealth payments totalling $397 million to non-government schools being brought forward from 2020-21 to 2019-20 to help non-government schools meet cash flow requirements due to the impact of COVID-19 and other Commonwealth funding arrangements with non-government schools
- depreciation and amortisation – increased by 17% or $268 million. This was mainly due to increases in depreciation of the road network, rail and bus tracks of $89 million, reflecting the asset revaluation from 1 July 2019, and leased buildings of $157 million, reflecting the first time recognition of right-of-use assets under new lease accounting requirements
- other expenses – increased by 62% or $1.021 billion. This was primarily due to increases in National Disability Insurance Scheme contributions to the Commonwealth of $404 million and the transfer of Compulsory Third Party Insurance collections of $352 million to private insurers being reported for the first time in 2019-20 under other expenses.

Auditor-General's Report 13 of 2020 *Annual Report for the year ended 30 June 2020, Part C: Agency audit reports* provides further details on major variations between years for individual agencies.

4.4.4 The State is heavily reliant on Commonwealth grant revenue

Figure 4.5 shows the composition of whole of government revenue in the 2019-20 CFR.

Figure 4.5: Composition of revenue

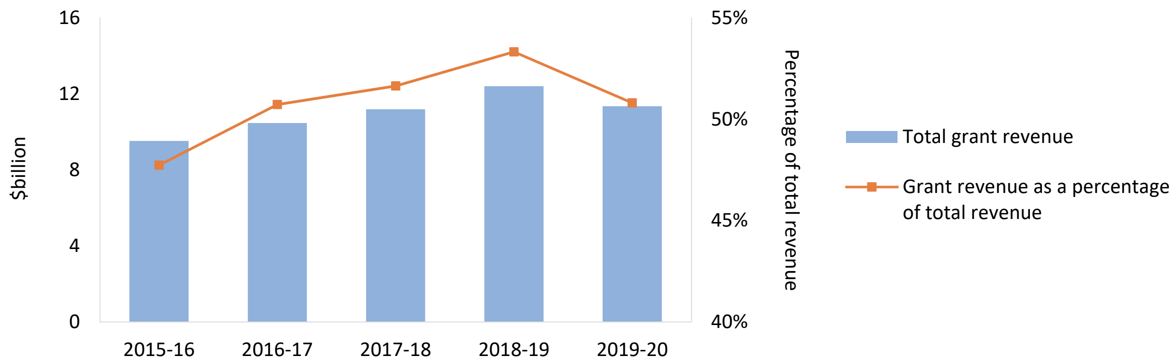


* Includes dividends and income tax equivalents and other revenues.

Figure 4.5 highlights that grant revenue, which is virtually all Commonwealth sourced, is the largest revenue stream for the State, representing more than half of total revenue from transactions in 2019-20.

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

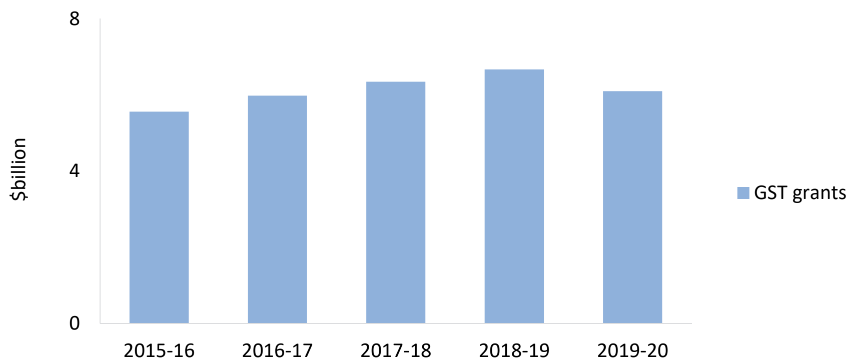
Figure 4.6: Grant revenue as a percentage of total revenue



Grant revenue, as a percentage of total revenue, increased from 48% in 2015-16 to 53% in 2018-19, before falling to 51% in 2019-20. This fall in 2019-20 largely reflects the movement in GST grants from the Commonwealth Government, which made up 54% of total grant revenue in 2019-20.

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

Figure 4.7: GST grants

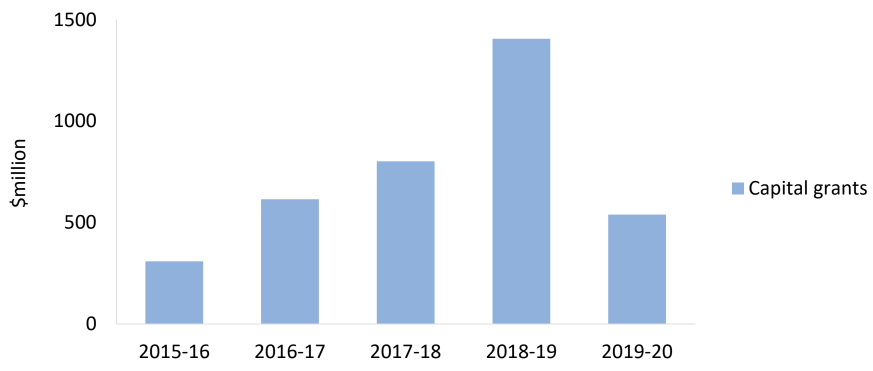


The 9% or $575 million decrease in GST grants in 2019-20 was due mainly to COVID-19 restrictions on spending levels reducing the overall GST funding pool and the reduction of South Australia's share of GST revenue as a result of the Commonwealth Grant Commission's 2020 Methodology Review.

The fall in grant revenue in 2019-20 also reflects decreased capital funding from the Commonwealth of $867 million, reflecting early payments for DPTI projects in 2018-19.

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

Figure 4.8: Capital grants



The other major revenue streams for the State are goods and services charges (21%) and taxation (19%).

4.4.5 Taxation revenue remained steady in 2019-20

Taxation revenue was $4.182 billion in 2019-20, compared to $4.168 billion in the prior year. The $14 million increase mainly reflected:

- a $46 million (6%) increase in stamp duties on property
- a $46 million (8%) increase in motor vehicle registration fees
- a $22 million (6%) increase in land tax.

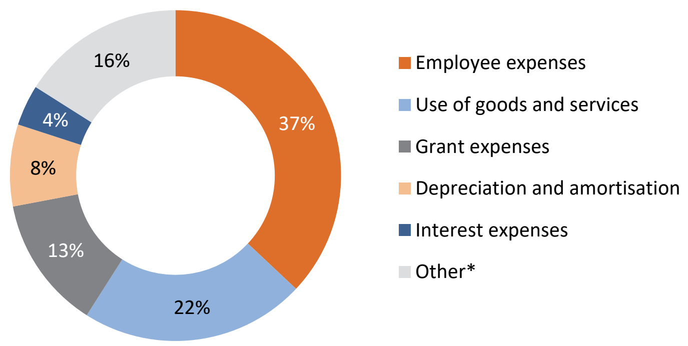
These increases were offset by:

- an $88 million (21%) decrease in gambling taxes, primarily due to lower gaming machine collections due to the closure of venues in response to COVID-19, partly offset by higher gambling taxes from the Lotteries Commission of South Australia
- a $25 million (2%) decrease in taxes on employers' payroll and labour force, reflecting the impact of COVID-19 on the labour market and the exemption of Commonwealth JobKeeper payments from payroll tax.

4.4.6 Employee expenses as a percentage of total expenditure decreased in 2019-20

Figure 4.9 shows the composition of whole of government expenses in the 2019-20 CFR.

Figure 4.9: Composition of expenditure



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

Figure 4.9 highlights that employee expenses are the largest component of expenditure for the State, representing 37% of total expenses from transactions in 2019-20. The other major components of expenditure are the use of goods and services expenses (22%) and grant expenses (13%).

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

Figure 4.10: Employee expenses as a percentage of total expenses

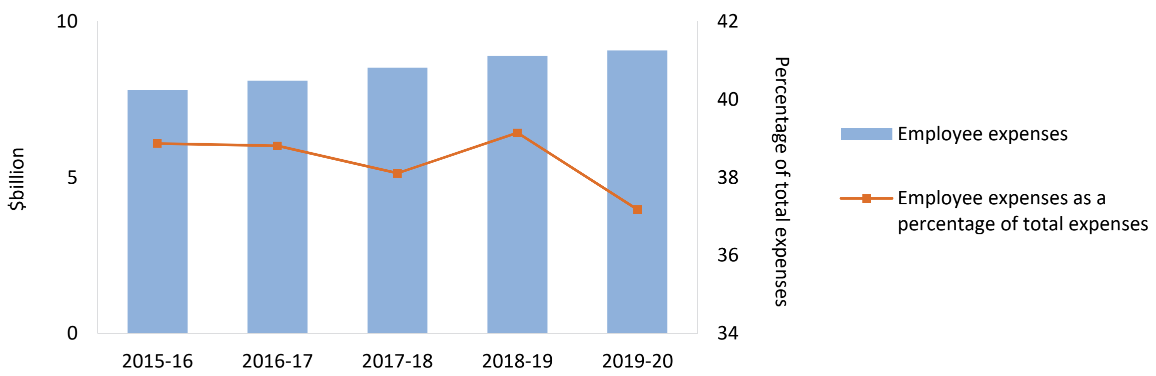


Figure 4.10 highlights that employee expenses as a percentage of total expenses trended downwards between 2015-16 and 2017-18 before increasing in 2018-19 and decreasing again in 2019-20.

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

The decrease in 2019-20 primarily reflects the increases in grants and other expenses, resulting in an overall increase in expenses rather than a reduction in employee expenses.

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

Figure 4.11: Year on year percentage change in employee expenses

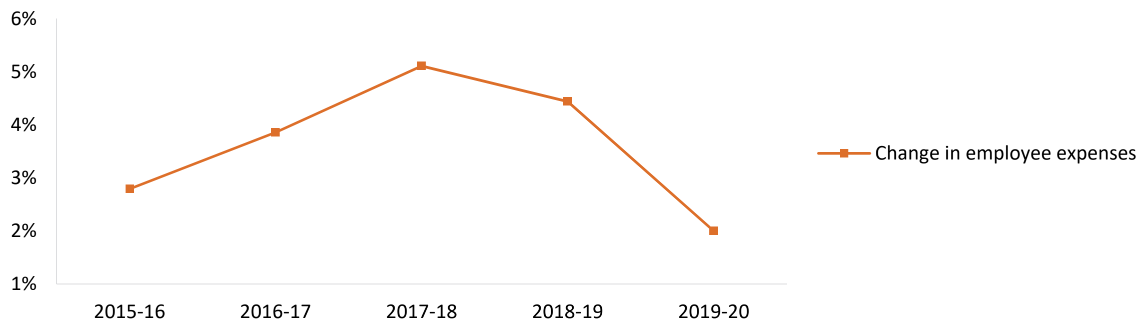


Figure 4.11 highlights that percentage year on year growth in employee expenses from 2015-16 to 2017-18 trended up, rising to 5% in 2017-18, before the lower growth of 4.4% in 2018-19 and 2% in 2019-20.

The trend up was mainly due to enterprise agreement increases and additional FTEs in each year since 2015-16.

The sharp decrease from 2018-19 to 2019-20 was due mainly to constraint in enterprise agreement increases and a minor decrease in FTEs.

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

Figure 4.12: Whole of government FTEs[3]

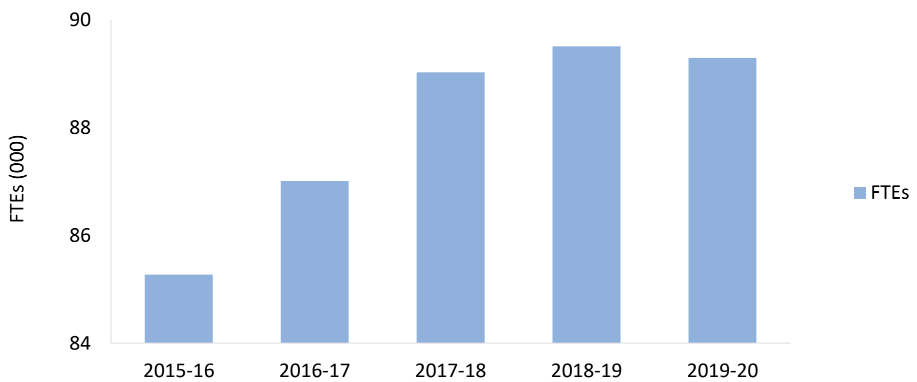


Figure 4.12 highlights that there has been an upward trend in total FTE numbers since 2015-16, reaching the highest level of 89 507 FTEs in 2018-19 before a minor fall in 2019-20 to 89 293 FTEs.

The 214 (0.3%) decrease in FTEs in 2019-20 is primarily due to a reduction in FTEs at TAFE SA, the Adelaide Venue Management Corporation, the Department for Correctional Services and the Adelaide Festival Centre Trust, offset by additional FTEs in local health networks to respond to COVID-19.

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

4.5 Further commentary and analysis

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

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

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

- the net actuarial gain (loss) on defined benefit superannuation plans – a $1.142 billion gain in 2019-20 compared to a $2.632 billion loss in the prior year. This is mainly a result of the changes in assumptions used by the actuary to value the defined benefit obligation, as explained in section 4.2.1
- other net actuarial gains (losses) – decreased by $545 million to a loss of $306 million. This is primarily driven by decreases in the revaluation of long service leave liabilities ($285 million) and the RTWSA Compensation Fund outstanding claims liability ($218 million)
- gains (losses) on financial assets and financial liabilities at fair value – decreased by $334 million to a loss of $329 million.

4.5.2 The difference between the whole of government and general government sector net operating balances is $582 million

The net operating balance for the whole of government in 2019-20 was a deficit of $2.067 billion. This compares to a $1.485 billion net operating balance deficit for the general government sector, a $582 million difference.

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

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

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

The significant transactions the general government sector had with the PNFC and PFC sectors in 2019-20 are outlined in note 10.5 of the CFR on related party transactions. The following revenue was received by the general government sector from the PNFC and PFC sectors:

- dividend revenue from SA Water ($228 million)
- land tax received from the SAHT ($214 million)

- guarantee fees from PNFCs and PFCs ($136 million)
- income tax equivalents from SA Water ($93 million)
- interest revenue on deposit accounts ($51 million).

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

- the purchase of land and buildings relating to TAFE SA properties from the Urban Renewal Authority (URA) ($601 million)
- loan interest paid to SAFA ($256 million)
- equity capital contributions to the SAHT ($241 million)
- the disposal of the State's emergency electricity generator assets to the State Owned Generators Leasing Co Pty Ltd ($217 million)
- community service obligation payments to SA Water ($169 million)
- equity capital contributions to URA ($127 million).

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

Operating losses in the PNFC and PFC sectors also drive differences between the whole of government and general government sector net operating balances. The SAHT, RTWSA, SAFA and URA recorded the only significant operating losses for the PNFC and PFC sectors in 2019-20.

5 2019-20 Consolidated Financial Report financial position

Key points

- Total assets increased by $5.869 billion (5%) to $132.273 billion.
- The State's major non-financial assets are buildings, structures and land.
- The State's buildings and structures increased by $2.602 billion (5%) to $58.089 billion.
- The State's investments decreased by $2.074 billion (5%) to $42.47 billion.
- Total liabilities increased by $3.102 billion (4%) to $88.847 billion.
- The State's major liabilities are superannuation fund deposits, borrowings and unfunded superannuation liabilities.
- The State's superannuation fund deposits decreased by $215 million (1%) to $32.37 billion.
- The State's borrowings increased by $3.176 billion (12%) to $29.084 billion, mainly to fund capital expenditure in 2019-20 and respond to COVID-19.
- Unfunded superannuation liabilities decreased by $1.362 billion (10%) primarily as a result of changes in assumptions used by the actuary to value the defined benefit obligation, as explained in section 4.2.1.
- The State's net assets and net worth are $43.426 billion, which is a $2.767 billion (7%) increase from the prior year.

5.1 Assets and liabilities

5.1.1 The State's total assets and liabilities both increased in 2019-20

Total assets increased by $5.869 billion (5%) to $132.273 billion in 2019-20, while total liabilities increased by $3.102 billion (4%) to $88.847 billion.

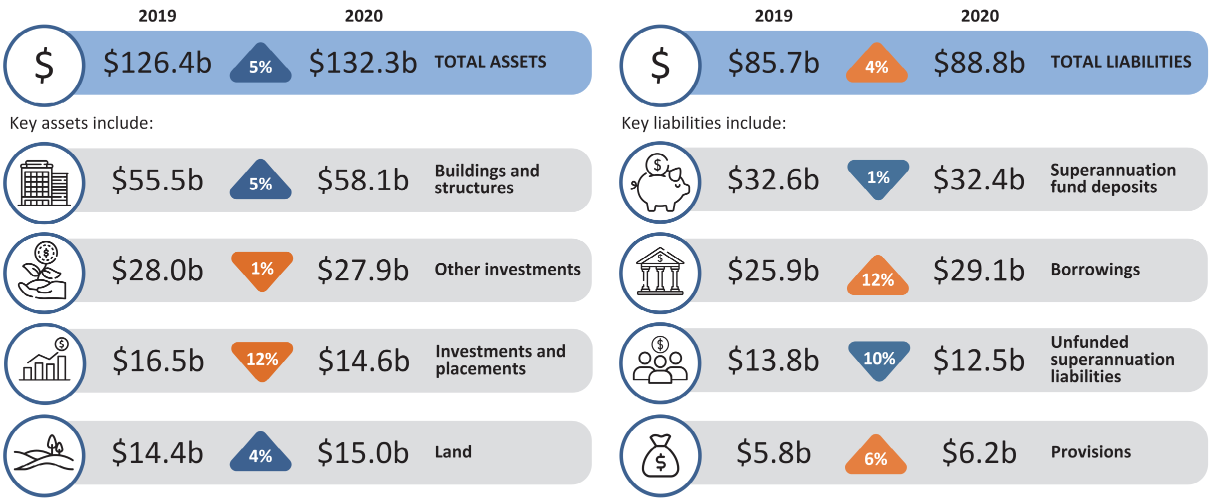
Assets and liabilities change mainly due to:

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

In 2019-20 there were further changes to asset and liability balances as a result of changes to lease accounting requirements and revenue accounting rules, requiring new assets and liabilities to be recognised for the first time.

Figure 5.1 shows changes in assets and liabilities between 2018-19 and 2019-20 for key items.

Figure 5.1: Analysis of variations in assets and liabilities



5.1.2 Increase in total assets mainly due to increases in right-of-use assets, buildings and structures and land additions, offset by a decrease in investments

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

- right-of-use assets – recognised under this classification for the first time in 2019-20 due to new lease accounting requirements. The balance of $4.343 billion reflects amounts previously classified as other classes of assets of $3.1 billion and additional right-of-use assets recognised for the first time, partially offset by depreciation
- buildings and structures – increased by 5% or $2.062 billion. This is mainly due to revaluation increments of $5.001 billion (mainly relating to the road network, bus and rail tracks, buildings and water, sewerage and drainage assets) and additions/capitalised expenditure of $1.984 billion (mainly relating to the road network, bus and rail tracks and water, sewerage and drainage assets), offset by $2.884 billion of buildings and structures under finance lease transferred to right-of-use assets and $1.302 billion in depreciation charged for the year
- land – increased by 4% or $561 million. This is mainly due to the revaluation of land held by the SAHT ($293 million), Department of the Premier and Cabinet ($69 million), Department for Environment and Water ($62 million) and DPTI ($34 million)
- investments and placements – decreased by 12% or $1.932 billion. This is mainly due to a $1.7 billion decrease in securities held by SAFA, to partly fund the Treasurer's overall funding requirement in 2019-20.

Auditor-General's Report 13 of 2020 *Annual Report for the year ended 30 June 2020, Part C: Agency audit reports* provides further details on major variations between years for individual agencies.

5.1.3 Increase in total liabilities mainly due to increases in borrowings, provisions and other liabilities, offset by a decrease in unfunded superannuation liabilities

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

- borrowings – increased by 12% or $3.176 billion. This is mainly due to a $1.757 billion increase in debt securities held by SAFA, to fund the Treasurer's overall funding requirement in 2019-20, and a $1.384 billion increase in lease liabilities resulting from applying new lease accounting requirements
- other liabilities – increased by 40% or $943 million. This is mainly due to a $1.082 billion increase in unearned revenue, mainly relating to Commonwealth revenue received in advance for capital projects for DPTI and the Department for Health and Wellbeing
- provisions – increased by 6% or $338 million. This is mainly due to a $273 million increase in the RTWSA Compensation Fund outstanding claims liability and a $159 million increase in SAFA insurance provisions, offset by a $142 million decrease in Motor Accident Commission motor vehicle insurance claim provisions
- unfunded superannuation liabilities – decreased by 10% or $1.362 billion. This reflects a $1.834 billion decrease in the defined benefit superannuation plans obligation, offset by a $473 million decrease in defined benefit plan assets. The decrease in the defined benefit obligation is primarily a result of changes in assumptions used by the actuary to value the obligation. In particular, a decrease in the rate of salary growth from 4% to 2.5%, a decrease in long-term CPI growth from 2.5% to 2%, a decrease in the discount rate from 1.7% to 1.5% and a decrease in the expected long-term return on plan assets from 7% to 6.5%.

Auditor-General's Report 13 of 2020 *Annual Report for the year ended 30 June 2020, Part C: Agency audit reports* provides further details on major variations between years for individual agencies.

5.1.4 State assets primarily comprise buildings, structures and land

Figure 5.2 shows the composition of whole of government assets in the 2019-20 CFR.

Figure 5.2: Composition of assets

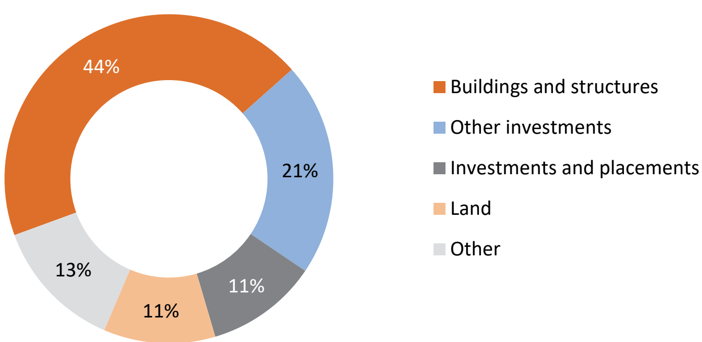


Figure 5.2 shows that the State's assets primarily comprise buildings and structures (44%), other investments (21%), investments and placements (11%) and land (11%).

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

5.1.5 State liabilities primarily comprise borrowings and unfunded superannuation liabilities

Figure 5.3 shows the composition of whole of government liabilities in the 2019-20 CFR.

Figure 5.3: Composition of liabilities

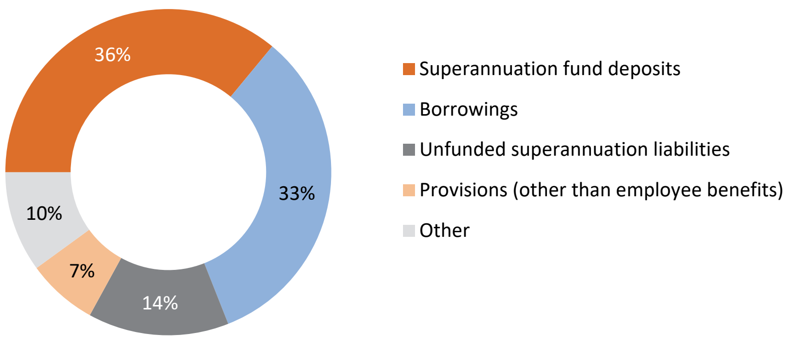


Figure 5.3 shows that the State's liabilities primarily comprise superannuation fund deposits (36%), borrowings (33%) and unfunded superannuation liabilities (14%).

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

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

Figure 5.4: Borrowings

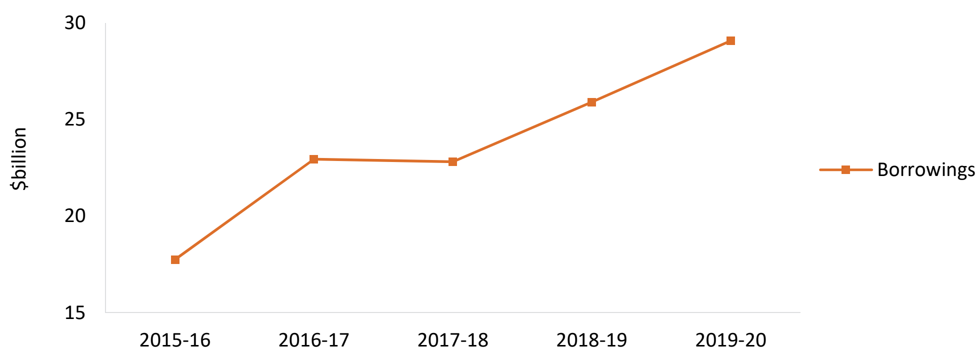


Figure 5.4 highlights that borrowings increased significantly in 2016-17, 2018-19 and 2019-20.

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

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

The $3.176 billion increase in 2019-20 was due mainly to a $1.757 billion increase in debt securities held by SAFA, to fund the Treasurer's overall funding requirement in 2019-20, and a $1.384 billion increase in liabilities associated with leases, reflecting new lease accounting requirements.

5.2 Further commentary and analysis

5.2.1 Net worth increased in 2019-20

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

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

Figure 5.5: Net worth

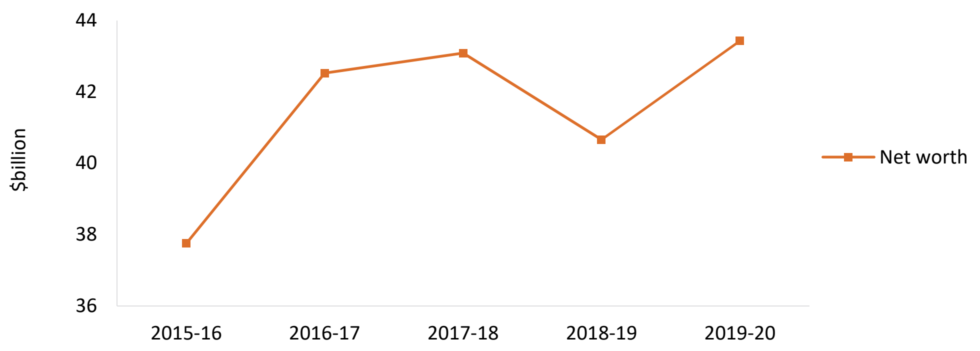


Figure 5.5 highlights a trend of increasing State net worth, except in 2018-19.

The $2.426 billion decrease in net worth in 2018-19 was mainly due to an increase in borrowings, unfunded superannuation liabilities and superannuation fund deposits, partially offset by growth in superannuation funds, cash, buildings and structures and land.

The major drivers of the $2.767 billion increase in net worth in 2019-20 are discussed in sections 5.1.2 and 5.1.3.

5.2.2 Unfunded superannuation liability is a key driver of net worth

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

Figure 5.6: Unfunded superannuation liability and net worth

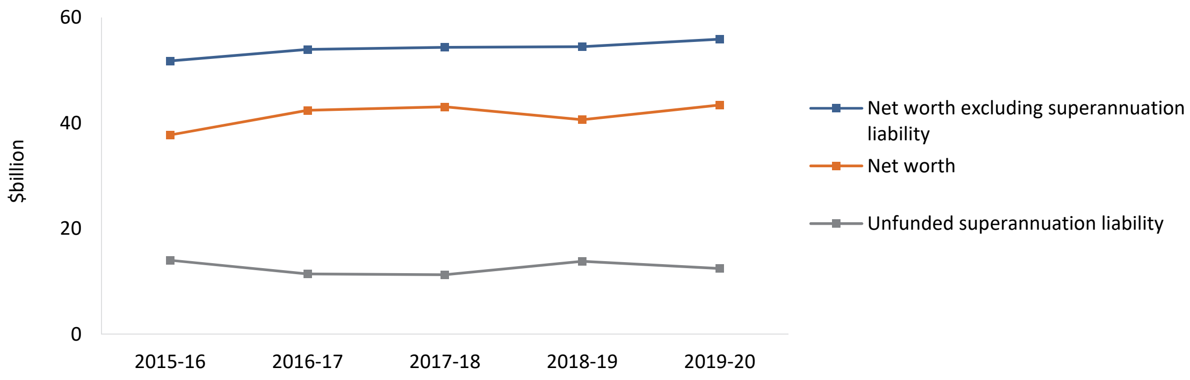


Figure 5.6 shows that the movement in net worth over the past five years has been the inverse of movements in the unfunded superannuation liability. It also shows that without the unfunded superannuation liability, there has been a slight upward trend in net worth over the past five years.

The unfunded superannuation liability is a long-term liability to current and past members of closed defined benefit superannuation schemes. The 2019-20 State Budget reported that while financial market and interest rate volatility in the recent past has resulted in multi-billion dollar revisions to the value of the liability recorded on the balance sheet, there has been no material change in the actual expected payments to beneficiaries underlying the liability.[4]

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

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

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

[4] 2019-20 Budget Paper 3 *Budget Statement*, page 63.

Appendix – Abbreviations used in this Report

Abbreviation	Description
AASB 7	Australian Accounting Standard AASB 7 *Financial Instruments: Disclosures*
AASB 16	Australian Accounting Standard AASB 16 *Leases*
AASB 1049	Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*
ABS	Australian Bureau of Statistics
CFR	Consolidated Financial Report
DPTI	Department of Planning, Transport and Infrastructure
DTF	Department of Treasury and Finance
FTE	Full-time equivalent
Funds SA	Superannuation Funds Management Corporation of South Australia
GST	Goods and services tax
PFC	Public financial corporation
PNFC	Public non-financial corporation
RTWSA	Return to Work Corporation of South Australia
SAFA	South Australian Government Financing Authority
SAGERP	South Australian Government Employee Residential Properties
SAHT	South Australian Housing Trust
SA Water	South Australian Water Corporation
URA	Urban Renewal Authority