



THE ADJUSTED BUDGET

Commission Position Paper CGC 2008/30

***SUBMISSION BY SOUTH AUSTRALIAN
DEPARTMENT OF TREASURY AND FINANCE***

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SOUTH AUSTRALIAN SUBMISSION ON THE ADJUSTED BUDGET

Balancing adjustment

SA understands the CGC motivation to align the flow standard budget result term with the stock accumulated surplus concept to be used in a calculation of needs arising from differential population growth dilution of accumulated surplus. It is paradoxical for the accumulation of the standard budget result term to be negative while a positive net financial worth balance is to be used to calculate needs in respect of the standard budget result term. SA has also pointed out that if the net financial worth balance to be used in the dilution needs calculation includes accumulated valuation gains (primarily in respect of PNFCs physical assets in fact), on the same argument the standard budget should include valuation gains, and the budget result term should be total changes in net financial worth (ie from both transactions and valuation effects). That is, the standard budget result term should be the bottom line of a harmonised GFS/GAAP type income statement.

Alternatively if it is intended that the standard budget remain comprised of transactions only, and for the standard budget result term to be Net Lending, it seems appropriate that the stock balance to be used in the dilution needs calculation is an estimate of accumulated Net Lending.

In any event it is necessary for any items which appear in the standard budget to receive proper consideration as to their assessment. It would be unsatisfactory for items to be included in the standard budget in order to achieve internal consistency with the intended dilution needs assessment, and then to assess those items EPC to give a result 'on automatic pilot' the same as would occur with a standard budget which is internally inconsistent.

A particular puzzle seems to arise with land sales revenue which is intended to be excluded from the standard budget since it is excluded from the calculation of non-replacement capital expenditure and thus the net lending type budget result term to align with the non-inclusion of land holdings in the physical assets stock dilution assessment for non-replacement capital. But if it reappears in the budget balancing items category, explicit consideration seems called for as to whether an EPC assessment would be appropriate.

SA suggests it may be clearer to leave land revenue in the standard budget on all fours with other forms of capital revenue, rather than relocate it to a budget balancing category. There are issues to do with the impact on net financial worth from past land sales and valuation practices by PNFCs in respect of the net financial worth needs assessment; and also accounting issues regarding land in the general government sector relevant to a net worth needs assessment. But these are probably best dealt with by explicit consideration in the context of the proposed calculation of needs relating to net financial worth and differential population growth.

Treatment of ‘capital revenue nec’, ‘revenue relating to assets acquired below fair value’ and ‘expenses relating to assets donated’

South Australia supports the inclusion of ‘capital revenue nec’, ‘revenue relating to assets acquired below fair value’ and ‘expenses relating to assets donated’ into the Adjusted Budget calculation. However, South Australia does not agree with including these amounts in the Miscellaneous Revenue assessment. Besides preserving the equality of the adjusted budget net lending and the GFS net lending, these transactions should be included because, respectively, they represent revenue against which a liability/receivable for capital is/was created, recognise the savings made on acquiring an asset below fair value and recognise the forgone use/consumption of the donated asset. These amounts are clearly capital related and as such should be netted off capital expenditure, which forms part of the Capital assessment.

Which specific purpose payments (SPPs) and Commonwealth own purpose expenses (COPEs) should be included?

SA will comment further on this issue in response to the Commission’s forthcoming Discussion Paper. At this point we would suggest that capital grants for specific projects where funds ought not be (potentially) redistributed through CGC assessments be treated by offset against the relevant capital expenditure. This is likely to be a significant item in the standard budget following the November 2008 COAG financial agreement and the Nation Building and Jobs Plan initiative of February 2009.

South Australia supports the Commission’s decision to include COPEs where the average policy is to fund State agencies and to exclude them where the average policy is to fund non-government agencies.

To what extent should local government activities be excluded?

South Australia supports the Commission’s decision to continue to assess State financial assistance to local governments in the relevant categories. South Australia does not agree with the Northern Territory’s view that a special assessment is needed for payments made to assist in the restructuring of local government to regional councils. Victoria, New South Wales and South Australia have all gone through a period of local government amalgamations and have not received any special consideration. Furthermore, the Northern Territory amalgamation process is expected to yield benefits in the form of cost savings through economies of scale for plant, labour and overhead.

Do states make payments (financial assistance to local governments – not Cwlth FAGs through the States eg. NT payments to LGs for restructuring) to local governments, and if so where are they classified in the GFS?

South Australia has forecast payments of \$40m to \$50m per annum to local government (Table A.14 (b) of the 2008-09 MYBR). This comprises the following types of payments:

- Libraries Board - Grants to local government relate to grants to libraries.
- Transport
 - Council Median Maintenance Council Allocations for Specific Works
 - AusLink Blackspot Program
 - State Blackspot Program
 - Travelsmart SA
 - State Black Spot - Cycling
 - State Bicycle Fund
 - Community Passenger Network
 - Grant Funds for Council to maintain vegetation disturbed as part of Sturt Highway Duplication - Light Council
 - Recreational Boating Facilities Fund
 - Remote Air Services Subsidy (RASS) Scheme / Airport Inspection Program
- Families and Communities - Grants to local govt relate to the following:
 - Grants to councils to provide people with a disability with community support and community access
 - Grants to councils for Family and Community Development program funding relating to youth programs, family programs and neighbourhood development programs
 - Grants to various local government councils to provide the elderly with personal care, home maintenance and modification, domestic assistance, transport and social support.
 - Grant to West Torrens Council for the elderly to encourage them to come together to plan and develop their skills and activities.
 - Grant to Enfield Council to maintain the Parks Community Centre.
 - Small one-off grants to approximately seven local government councils for community capacity building under the Community Benefit SA program.

To what extent should differences between the administrative and accounting arrangements of the States be taken into account when making interstate comparisons?

○ **ACT municipal transactions**

South Australia supports the Commission's decision to include ACT municipal transactions in the assessment as long as they continue to have no material effect.

○ **General government assistance to GBEs**

While there is a difference between ongoing CSO payments and capital payments, the difference between above-the-line capital grants and below-the-line capital injections to GBEs is not clear.

SA notes that if the standard budget result term were total change in net financial worth as discussed above, all such capital transactions would have a net nil impact.

South Australia supports the Commission's decision to include 'cross-subsidies between GBEs' and 'reduced dividends in lieu of grants', as long as both sides of the transaction are represented. Where the expenditure is recognised, an equivalent dividend receipt should also be recognised.

Does SA have cross-subsidies within GBE's or 'reduced dividend' requirements for GBEs provided in a transparent way? If yes, could you provide reliable data for the past five years and advise whether and if so how they affect your GFS data?

South Australia's PNFC ownership framework is reasonably transparent. Our Finance area is not aware of any cross-subsidies within GBEs.

Does SA have any concerns about any of the proposals set out in this paper or any of the technical issues relating to the compilation of the adjusted budget discussed in Attachment A?

South Australia supports the proposals set out in this paper. Other than the already known issues with agency programs not specifically matching to GPC codes, there are no concerns with the technical issues.

If SA has classified expenses on transport of school students to the transport GPCs, what is your progress on improving the quality of these data and classifying them to the education GPCs?

South Australia allocates its transportation of students expenses to the education GPCs. However, the operating costs for the DECS fleet of country buses are not readily identifiable from the costs that the department allocates to its programs. Consequently no expenses are allocated to the GPC for the transportation of rural students.

Contact officers:

John Henderson
Director, Commonwealth–State Finances
08-82269698
Henderson.john@saugov.sa.gov.au

Belinda Sheldrick
Economic Analyst, Commonwealth–State Relations
08-82263761
Sheldrick.belinda@saugov.sa.gov.au