

2021-22 South Australian Post Budget Investor Update

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OUR BUDGET FOR A
**STRONGER
SOUTH
AUSTRALIA**



Government
of South Australia

Budget Overview

- Significant deficits due to COVID-19 over 3 years – 2019-20, 2020-21 and 2021-22
- Returning to surplus in 2022-23, one year earlier than estimated in last year's budget
- No new savings introduced in the 2021-22 Budget – continuing with long-standing agency efficiency measures

KEY BUDGET INDICATORS

Operating statement	2020-21 Estimated Result	2021-22 Budget	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Net operating balance — GG sector (\$m)	-1,782	-1,397	48	498	379
Net lending — GG sector (\$m)	-2,875	-3,238	-1,848	-1,973	-1,663
Net debt — GG sector (\$m)	14,371	18,168	20,423	22,851	24,923
Net debt — NFP sector (\$m)	21,952	26,172	28,898	31,494	33,623

Improved Revenue Outlook

- An improved economic outlook has resulted in upwards revisions to GST and state taxation revenues over the forward estimates
- GST revenue grants over the 4 years from 2020-21 to 2023-24 are expected to be \$2.5 billion higher than estimated in the 2020-21 Budget
- GST grants are still lower than pre COVID-19 expectations included in the 2019-20 MYBR by \$374 million in 2020-21, \$364 million in 2021-22 and \$198 million in 2022-23

GST REVENUE					
	2020-21 Est Result / Budget	2021-22 Budget	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
2021-22 Budget	6,532	6,711	7,180	7,691	7,910
2020-21 Budget	5,606	6,043	6,707	7,305	n.a
Change	926	668	474	385	n.a
2019-20 MYBR	6,907	7,075	7,379	n.a	n.a
Change	-374	-364	-198	n.a	n.a

Sustainable Net Debt

- Our ongoing investment in state infrastructure results in increased debt levels across the forward estimates
- NFPS net debt levels are forecast to be \$1.1 billion lower at 30 June 2021 than estimated in the 2020-21 Budget mainly reflecting the improved tax and GST grant forecasts
- The government's NFPS net debt to revenue position over the forward estimates is broadly comparable with jurisdictions with similar or higher credit ratings

NFPS NET DEBT

	2020-21 Est. Result /Budget	2021-22 Budget	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
2021-22 Budget	21,952	26,172	28,898	31,494	33,623
2020-21 Budget	23,038	27,662	30,695	33,171	n.a.
Change	-1,086	-1,490	-1,797	-1,677	n.a.
Net debt to revenue (%)	99.5	113.2	120.3	125.0	129.6

Our Economy

- The economy has recovered more strongly than expected, reflecting stimulus spending and increased confidence
- Estimated GSP growth of 2¼% in 2020-21 – last year’s budget estimated GSP contraction of ¾%
- GSP growth for next year accelerates to 3½%

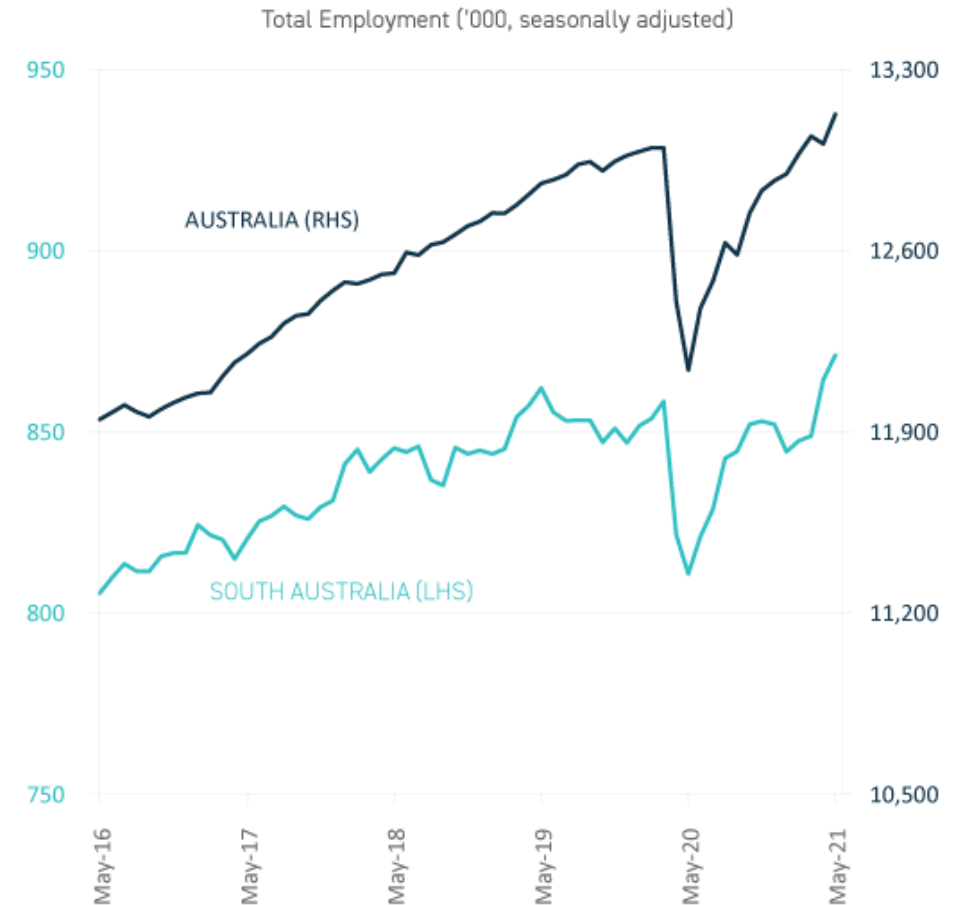
ECONOMIC FORECASTS

	2019-20 Actual	2020-21 Estimate	2021-22 Forecast	2022-23 Projection	2023-24 Projection	2024-25 Projection
Australia^(a)						
Gross Domestic Product (GDP)	-0.2	1¼	4¼	2½	2¼	2½
South Australia						
Gross State Product (GSP)	-1.4	2¼	3½	2¼	2¼	2¼
State Final Demand (SFD)	-2.1	2¼	3½	2¼	2¼	2¼
Employment	-0.5	1	2	1¼	1¼	1¼
Adelaide Consumer Price Index (CPI)	1.8	1½	1¾	1¾	2	2½

(a) Australian forecasts from Commonwealth Government’s 2021-22 Budget, Budget Strategy and Outlook, Budget Paper No.1.

Jobs Growth

- Employment in South Australia recovered swiftly after May 2020 – 60,300 jobs created since May 2020
- There has been significant employment growth in April and May 2021, bringing employment to its highest level on record
- Employment is forecast to grow by 1% in 2020-21 and by 2% in 2021-22



Budget Priorities

- 1. Jobs**
- 2. Health – Especially Mental Health**
- 3. Education – Especially Early Learning**

Creating Jobs

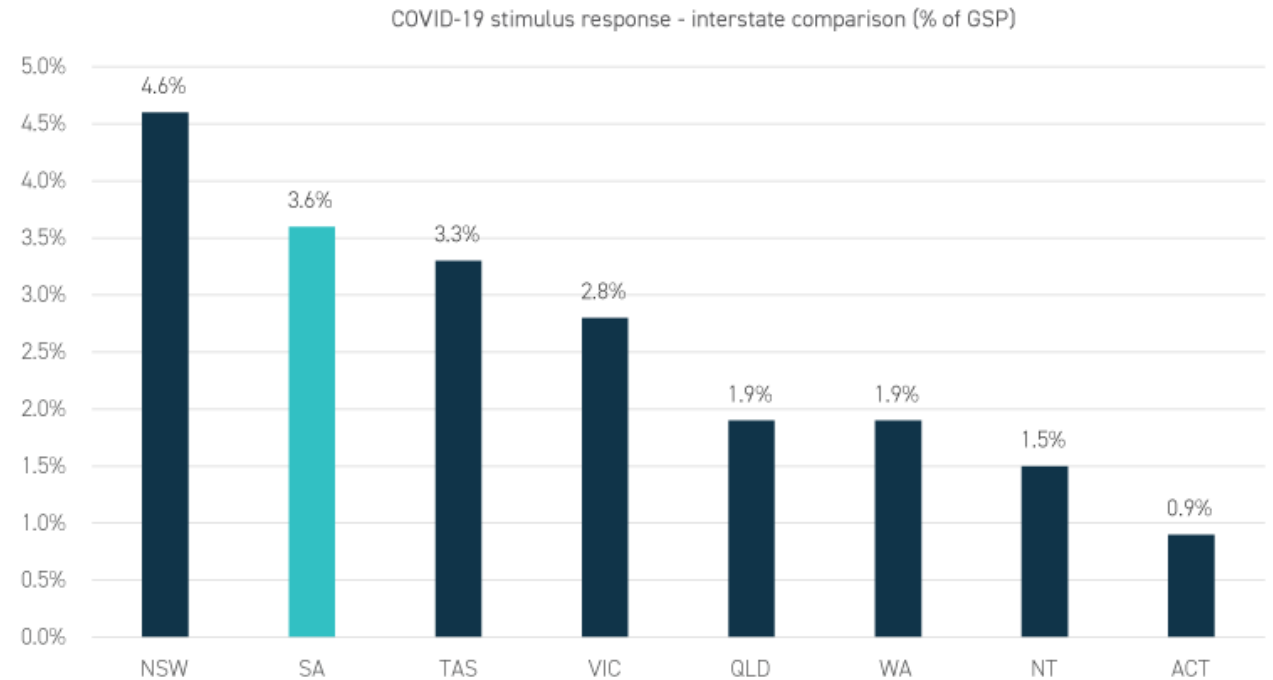
\$200 million Jobs and Economic Growth Fund



- The Economic and Business Growth Fund has been renamed the Jobs and Economic Growth Fund
 - There is **\$200 million** of funding available in the Fund to continue to support jobs and economic development in the state
- The Jobs and Economic Growth Fund is available to support initiatives that create long term sustainable jobs and economic growth in new and existing industries in the state
- It is available to provide support for modern manufacturing proposals and other Commonwealth industry development assistance in key sectors, which may include
 - Plant protein
 - Space
 - Defence
 - Hydrogen

\$4 Billion Stimulus Package

- The Commonwealth Parliamentary Budget Office (PBO) undertook an analysis of each jurisdiction's stimulus response to the COVID-19 pandemic
- The PBO analysis identified that SA's \$4 billion stimulus package was the second largest response as a percentage of GSP
- The government's stimulus package is timely, targeted and temporary – ensuring a fiscally responsible and measured response when it is needed



Lower Costs for SA Businesses



- A small nursery business with a payroll of \$750,000 is estimated to save \$7,730 in 2020-21 compared to what they would have paid if the policy settings of 2017-18 had been continued
- Similarly, the annual savings for a business with payroll of \$5.5 million are estimated to be \$5,178
- That business may also have received \$203,000 in direct COVID-19 relief as well as deferral of \$107,500 in payroll and land tax

Lower Costs for Businesses – Representative Businesses

Business information	Average Business	Small Business*
Total Payroll (\$)	5,500,000	750,000
Capital value of property (\$)	1,779,000	1,525,000
Land value of property (\$)	1,156,350	991,250
Water usage (kL)	409	335
Electricity usage (kWh)	20,000	20,000
Size of vehicle fleet	5	2

Savings	\$	\$
Payroll tax	0	3,750
Land tax	2,008	1,348
Emergency Services Levy	124	107
Water bill	1,503	1,242
Electricity bill	1,112	1,112
Compulsory Third Party	430	172
Total savings	5,178	7,730

DTF modelling based on rates and charges in 2017-18 and 2020-21

*Example based on a small nursery

Lower Costs for SA Businesses



- \$10.7 million in additional land tax relief in 2021-22
 - Taxpayers negatively impacted by changes to land tax aggregation rules will benefit from additional relief through the land tax transition fund
 - Relief to increase from 30% to 70% of the relevant increase in eligible taxpayers land tax bill in 2021-22
 - The total value of estimated relief through the land tax transition fund across 3 years is now \$48.7 million
- A build-to-rent land tax discount
 - A 50% land tax discount will be introduced for eligible new build-to-rent housing projects
 - The discount will reduce the land value for land tax purposes by 50% to the 2039-40 land tax year

Jobs and Skills



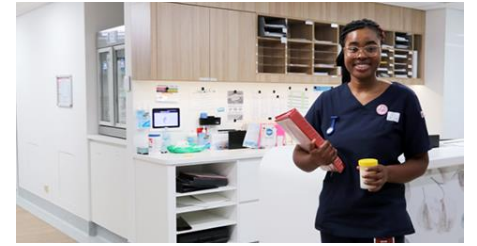
- \$69 million over 2 years for the extension of the existing JobTrainer Fund National Partnership Agreement with the Commonwealth until June 2022
 - JobTrainer funds training places supporting skills for in-demand jobs creating pathways to employment
- Extension of the payroll tax exemption for trainees and apprentices for 12 months to 30 June 2022
- \$215.5 million over 4 years to support TAFE as a contemporary training provider and align training services with the government's direction for the delivery of vocational education and training
- \$12.7 million investment by TAFE over 2 years for system and process improvements to deliver improved technology across regional infrastructure enabling campuses to be contemporary, digitally enabled 'student learning hubs'

Jobs and Skills



- \$22.8 million over 5 years to meet an increase in demand for the Post-Production, Digital and Visual Effects Rebate Scheme and continuation of the scheme from 2022-23
- \$20.8 million to enable Renewal SA to continue to invest in existing buildings at Lot Fourteen to enable the expansion of space, digital, hi-tech and cyber companies
- \$6.6 million over 4 years to increase screen production funding for the South Australian Film Corporation – funded from savings from the abolition of the payroll tax exemption and ex-gratia scheme
- \$2.6 million over 4 years to support small businesses to develop digital and cyber security capabilities, and enter national markets

Improving Health Capabilities



- \$163.5m Mental Health Package
- Increasing emergency department capacity with 140 new treatment spaces to emergency departments and Emergency Extended Care Units
- Reducing demand in our emergency departments by creating appropriate alternative service delivery options
- Tackling bed blocking by improving capacity in public hospitals by creating more appropriate accommodation options
- Increasing resources to SA Ambulance Service by recruiting 74 FTEs to the South Australian Ambulance Service as a result of the recent agreement with the union

New Women's and Children's Hospital

- New hospital will include 500 treatment spaces, providing more bed capacity, more operating theatres, and a bigger emergency department
- Overall, the hospital will provide for a 13% increase in capacity from the current hospital, to cater for the needs of South Australian mothers and children for decades to come
- Final estimated cost of \$1.95 billion, subject to review by Infrastructure SA
- The business case now estimates construction will conclude in 2026 and will open for patients in 2027



Early Learning Strategy



- The strategy outlines a suite of initiatives including:
 - \$50.1 million which includes \$35.1 million in new funding to expand the reach, frequency and number of child developmental health checks
 - Helping parents in their role as first teachers, including by partnering and providing grants to Playgroups SA and Raising Literacy Australia to give more families easy access to tips, tricks and resources to support their children's development
 - Investing in new resources for teachers to build on the high-quality learning and development in every public preschool
 - Providing strategic vision and direction across the early years system, through the establishment of a new Office for the Early Years, within the Department of Education
 - Improving identification of developmentally vulnerable children and enable early intervention and support

Building What Matters

- Investing program totals \$17.9 billion over the next 4 years
- This is \$1.2 billion more than the 2020-21 Budget, which had a four year program totalling \$16.7 billion over the period 2020-21 to 2023-24
- New investing expenditure initiatives in the general government sector total \$1.3 billion over the next four years
- New projects include:
 - \$801.4 million on road infrastructure projects
 - A new Rostrevor High School
 - The new Riverbank Arena



BUILDING WHAT MATTERS

\$17.9 billion

over the next 4 years on critical infrastructure across government continuing the government's record program of infrastructure renewal.

\$8.8b	ROADS AND PUBLIC TRANSPORT
\$2b	HEALTH
\$665m	EDUCATION AND SCHOOLS

SPEND PROFILE OF SIGNIFICANT INFRASTRUCTURE PROJECTS INCLUDING BEYOND THE CURRENT FORWARD ESTIMATES (FE) (\$M)

	UP TO 2020-21	2021-22	2022-23	2023-24	2024-25	BEYOND FE	COMPLETE
NORTH-SOUTH CORRIDOR ¹	53	151	395	1385	1407	6547	2029-30
\$9.9 billion							
NEW WOMEN'S AND CHILDREN'S HOSPITAL ²	28	84	200	350	474	814	2026-27
\$1.95 billion							
ABORIGINAL ART AND CULTURES CENTRE	5	57	68	70	-	-	2023-24
\$200 million							
RIVERBANK ARENA	-	-	10	20	49	583	2027-28
\$662 million							

¹ Estimates are preliminary and will be finalised once the business case is complete.

² Costing subject to Infrastructure South Australia review which may impact estimated project costs.

Building What Matters

Riverbank Arena

- Total cost of \$662.3 million, excluding proceeds from the sale of the Adelaide Entertainment Centre
- \$78.9 million funding to 2024-25 to finalise planning and commence early site works, including:
 - Construction of a tunnel under Morphett Street
 - Preparatory utilities infrastructure works
- The Arena will have a capacity of 15,000 to attract the world's leading contemporary live entertainment and provide additional exhibition facilities that are fully integrated within the Adelaide Convention Centre



North-South Corridor – Torrens to Darlington

- Estimated cost of the North-South Corridor (Torrens to Darlington) is now \$9.9 billion
 - Revised preliminary estimate reflects an updated road layout which includes wider tunnels to allow for 3 lanes, informed by updated traffic modelling projecting increased traffic volumes
 - Costings will be finalised on completion of the business case
- Estimated to slash travel time by 24 minutes and save commercial freight operators up to \$8.80 per trip
- The project is estimated to create up to 4000 jobs during construction and is still projected to be completed in 2030



Building What Matters

Roads and Transport



- New funding for road and public transport infrastructure includes:
 - \$202 million over three years to construct a bypass of the Truro township and upgrades to Accommodation Hill on the Sturt Highway
 - \$180 million to complete the next stage of the duplication of the Augusta Highway from near Nantawarra to Lochiel
 - \$105 million in 2022-23 to improve road safety across South Australia, bringing total funding to \$315 million with works to be undertaken from 2020-21 to 2022-23
 - \$99 million over 10 years to improve railway stations on the metropolitan rail network, including new shelters, seating and bins, lighting upgrades and other minor works such as painting and landscaping
 - \$80 million over two years for the Strzelecki Track upgrade, bringing total funding for the project to \$215 million
 - \$60 million over two years to undertake further works on the Heysen Tunnels, bringing total funding for the project to \$75 million

Building What Matters

Roads and Transport



- New funding for road and public transport infrastructure includes:
 - \$48.5 million over two years to construct a new multi storey car park at Tea Tree Plaza for Park 'n' Ride services
 - \$45 million over three years to upgrade the Marion Road and Sir Donald Bradman Drive intersection
- Brighton Road, Hove Level Crossing not progressing
 - The original project was originally estimated to cost \$170 million but the two most favoured options involved very significant possible cost blowouts - one option was costed at \$290 million and the other was costed at \$440 million to \$450 million
 - Local community concerns were expressed about both of these options and the Federal Government has made it clear that it was not willing to fund the additional cost of the \$440 million to \$450 million option

Lower Costs for Households



- An average Adelaide household with 2 children and 2 cars is now around \$940 a year better off over a range of bills
- Lower water and sewerage bills, ESL bills, electricity bills and car registration/CTP bills together with the doubling of the value of sports vouchers have provided significant financial benefits to families

Typical Adelaide Household (2 children, 2 cars)

	Savings
Water and sewerage	\$191
Cheaper Emergency Services Levy bills	\$184
Cheaper electricity	\$269
Reduced car registration costs through lower CTP	\$196
Doubling Sports Vouchers	\$100
Total	\$940

An Exciting Future

- As we manage our way out of the financial and economic destruction caused by COVID-19, South Australia is at the dawn of an exciting future which includes:
 - Thousands of new jobs building submarines and ships
 - Rockets being launched as part of an exciting new space industry
 - Lot Fourteen continuing as a focus for innovation in sectors like cyber security and space
 - A state of the art new hospital for women and children
 - The completion of the North South Corridor project
 - New job opportunities in areas like hydrogen and plant protein
 - An iconic and nationally significant Aboriginal Art and Cultures Centre which is attracting visitors from interstate and overseas to Adelaide
 - Significant improvements in health and education services especially in areas of mental health and the early years of education

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SAFA 2021-22 Funding

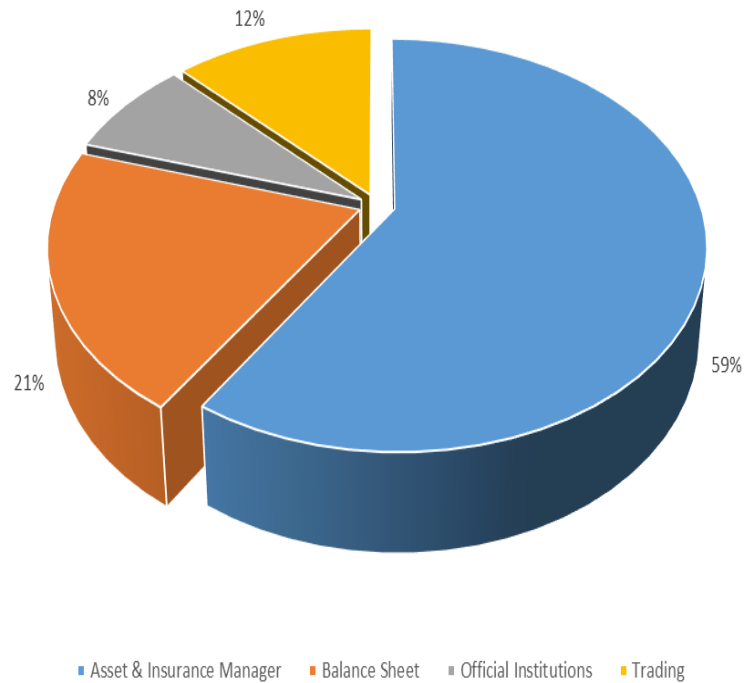


Access to markets

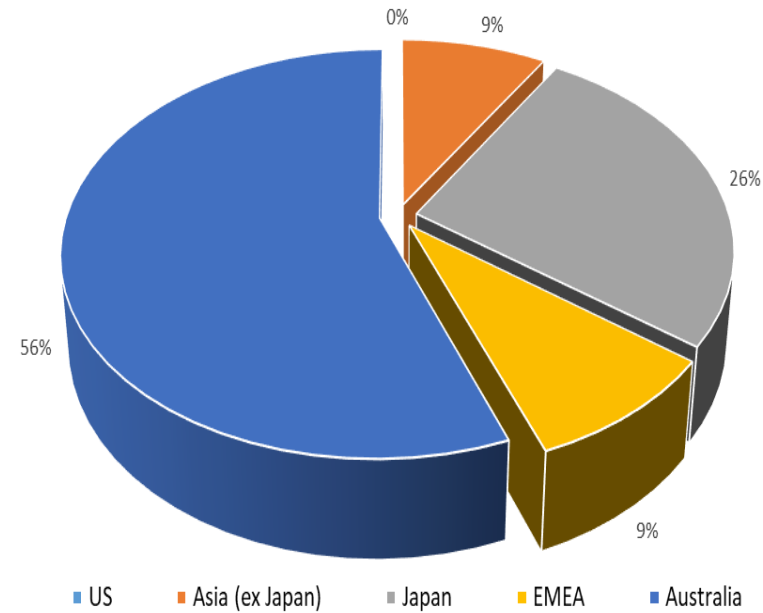
- Funding risk policy is reviewed annually and in 2020-21 SAFA actively lengthened its debt duration to take advantage of lower long-term rates and better manage refinancing risk.
- In August 2020, SAFA issued its first 20-year bond with a yield of 2.20% to an offshore investor and has grown this line to \$953 million.
- In the 2020-21 FY, SAFA issued \$5.95 billion in bonds, including \$500 million each of the 2024, 2026 and 2030 Select Lines, \$1 billion each of the 2028 and a new 2034 Select Line, and \$1.5 billion of the 2032 Select Line.
- SAFA provides regular guidance to the market of its borrowing intentions and funding program and there has been no impediment in accessing markets notwithstanding periods of significant volatility in 2020-21.

Debt Ownership

SAFA Primary Issue Distribution by Holder Type
2020-21



SAFA Geographical Distribution
2020-21



Fixed and Floating Debt

	End FY	Total Outstanding (\$b)	Fixed rate (\$b)	Floating (\$b)	Unweighted Average Term to Maturity (years)	Unweighted Average Duration *	Weighted Average Duration *
Actual	2012	10.10	10.10	-	3.83	3.27	
Actual	2013	11.31	9.31	2.00	3.82	2.87	
Actual	2014	12.70	9.20	3.50	3.97	2.67	
Actual	2015	14.22	8.22	6.00	4.17	2.63	
Actual	2016	13.72	9.72	4.00	4.28	3.06	
Actual	2017	17.06	13.06	4.00	4.42	3.53	
Actual	2018	17.07	13.07	4.00	4.25	3.59	
Actual	2019	18.82	16.82	2.00	4.67	4.14	
Actual	2020	20.08	18.82	1.26	5.26	4.62	
Actual	2021	23.85	22.59	1.26	6.86	5.96	5.50
Projected**	2022	29.10	26.58	2.51	7.67	6.08	5.38
*Duration can be impacted by the portion of floating rate debt in the portfolio. The large change in term and duration of debt reflects the longer dated issuance undertaken during 2020-21 and projected for 2021-22							
**Rates are as at 22 June 2021, calculations as at 30 June 2022.							

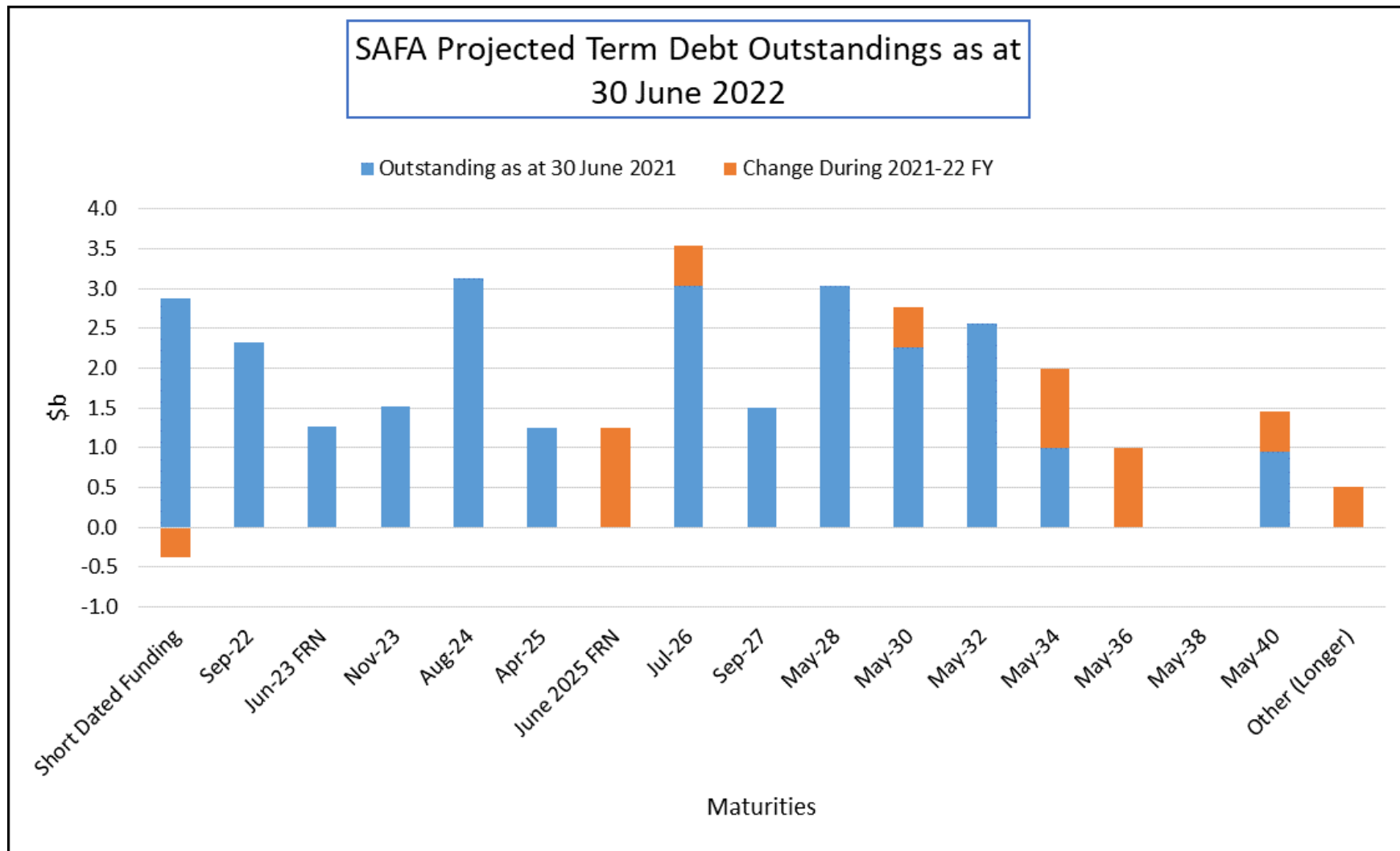
Funding Task

	2020-21 Actual	2021-22 Estimate
SA Public Sector (\$b)	5.3	4.2
Pre-funding of SA Public Sector (\$b)	-1.3	-0.8
Funding future term maturities (\$b)	1.9	1.8
Sub-total term funding (\$b)	5.9	5.2
Commercial paper (\$b)	2.0	1.5
AONIA (\$b)	0.9	1.0
Sub-total short term funding (\$b)	2.9	2.5
Total funding task (\$b)	8.8	7.7
Maturities (\$b)	4.5	2.9

2021-22 Funding Task

- Continue to hold sufficient levels of liquidity to ensure the State meets all its financial obligations.
- Maintain approximately AUD 2.5 billion of short-term debt outstanding.
- Focus on further short dated AONIA FRN issuances to supplement CP issuance.
- Issue \$5.2 billion of term debt during 2021-22 for new money (\$4.2b) and refinancing (\$1.8b) purposes. Task reduced due to \$0.8b held in pre-funding.
- Build each even calendar year Select Line bond to AUD 3.5 billion for term funding, and manage odd calendar years to have up to AUD 3 billion via a combination of fixed and floating rate debt.
- Issue a new 2036 fixed rate Select Line, and a new 2025 AONIA FRN.
- May extend the debt profile beyond the existing 20 year maturity.
- May consider buybacks of shortest dated Select Line to mitigate refinancing risk.

2022 Projected Term Debt



Forward Funding Estimates

	2020-21 ESTIMATE -\$B	2021-22 BUDGET -\$B	2022-23 FORECAST -\$B	2023-24 FORECAST -\$B	2024-25 FORECAST -\$B
2020-21 BUDGET	23.0	27.7	30.7	33.2	
2021-22 BUDGET	21.9	26.2	28.9	31.5	33.6
CHANGE IN BUDGET POSITION	-1.1	-1.5	-1.8	-1.7	
2020-21 TERM ESTIMATE	6.2				
2020-21 TERM ACTUAL	5.9				
PRE-FUNDING	0.8				
NEW CLIENT MONEY		4.2	2.7	2.6	2.1
LESS PRE-FUNDING		3.4			
REFINANCING		1.8	4.0	3.6	2.9
GROSS TERM FUNDING		5.2	6.7	6.2	5.0
MATURITIES		0	-3.6	-1.5	-6.1

Treasury Risk

- SAFA has a low appetite for risk across its operations, and during 2021 enhanced its operational risk management framework.
- Effective risk management is at the core of its treasury operations.
- Interest rate risk is monitored against limits within each of SAFA's active portfolios using basis point sensitivity, duration/modified duration and Value-at-Risk.
- The majority of SAFA's total portfolio is match-funding for clients.

Liquidity Risk

- SAFA is required to maintain a base liquidity buffer of at least AUD 1.5 billion or sufficient to cover debt maturing for 60 days.
- SAFA's liquidity guidelines require SAFA to:
 - Fully fund Select Line maturities 12 months in advance with a commitment of 80% to be funded 15 months prior
 - Demonstrate that it is able to remain liquid for at least 90 days
- SAFA conducts liquidity stress testing.

SAFA ESG Strategy

- SAFA understands the requirement for its investors to be able to assess the State's ESG credentials, and the extent that SAFA's borrowing program supports outcomes aligned to the United Nations Sustainable Development Goals (UN SDG's).
- SAFA's 2020-21 Business Plan included the delivery of an ESG Framework.
- SAFA also intends to apply the guidance of APRA in relation to the management of climate risk and material disclosures.
- SAFA's ESG Framework will highlight the State's policies and regulatory initiatives that address the UN SDG's, and will highlight the government's five policy directions to manage climate change:
 1. unlock innovation and economic opportunity
 2. reduce net emissions
 3. build resilience and adapt
 4. provide accessible information
 5. government leading by example
- SAFA intends to deliver its ESG Framework within the next 12-months, and is aiming to include third-party verification.

SAFA

*South Australian Government
Financing Authority*



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