



**Local Government
Finance Authority**

2021

ANNUAL REPORT

MEMBER COUNCILS

AS AT 30 JUNE 2021

Adelaide City Council	City of Mount Gambier
Adelaide Hills Council	District Council of Mount Remarkable
Adelaide Plains Council	Rural City of Murray Bridge
Alexandrina Council	Naracoorte Lucindale Council
The Barossa Council	Northern Areas Council
Barunga West Council	City of Norwood, Payneham & St Peters
Berri Barmera Council	City of Onkaparinga
City of Burnside	District Council of Orroroo Carrieton
Campbelltown City Council	District Council of Peterborough
District Council of Ceduna	City of Playford
City of Charles Sturt	City of Port Adelaide Enfield
Clare & Gilbert Valleys Council	Port Augusta City Council
District Council of Cleve	City of Port Lincoln
District Council of Coober Pedy	Port Pirie Regional Council
Coorong District Council	City of Prospect
Copper Coast Council	Renmark Paringa Council
District Council of Elliston	District Council of Robe
The Flinders Ranges Council	Municipal Council of Roxby Downs
District Council of Franklin Harbour	City of Salisbury
Town of Gawler	Southern Mallee District Council
Goyder Regional Council	District Council of Streaky Bay
District Council of Grant	Tatiara District Council
City of Holdfast Bay	City of Tea Tree Gully
Kangaroo Island Council	District Council of Tumby Bay
District Council of Karoonda East Murray	The City of Unley
District Council of Kimba	City of Victor Harbor
Kingston District Council	Wakefield Regional Council
Light Regional Council	Corporation of the Town of Walkerville
District Council of Lower Eyre Peninsula	Wattle Range Council
District Council of Loxton Waikerie	City of West Torrens
Corporation of the City of Marion	City of Whyalla
Mid Murray Council	Wudinna District Council
City of Mitcham	District Council of Yankalilla
Mount Barker District Council	Yorke Peninsula Council

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CHAIR'S REVIEW



Michael Sedgman
Chair

The LGFA continued to fulfil its vision of being the preferred financial partner of the South Australian Local Government sector over the past year.

The 2020-21 financial year witnessed an economic rebound both globally and locally, from the lows experienced at the start of the COVID-19 pandemic. Unemployment rates recovered from the highs experienced early in the pandemic primarily due to strong coherent support from governments and central banks.

The first half of the financial year was affected by lockdowns which forced the LGFA and council staff alike to work from home. Usual events like the LGA annual general meeting were required to be scaled back to fit social distancing restrictions imposed by the State Government. The second half of the year saw a loosening of restrictions, allowing larger numbers at events and functions, and for LGFA staff to re-start their visitation program.

In August 2020, the LGFA Board approved a \$350,000 grant to the Local Government Functional Support Group (LGFSG). The grant was a once off contribution for the purpose of increasing the technical and support capabilities of the group. The LGFA are proud to be involved with this important support mechanism.

The LGFA Board held a strategic planning workshop in October 2020, where it committed to the development of new credit and capital policies. These new policies will ensure that the LGFA lends on a responsible basis, while at the same time holds sufficient capital reserves that reflect the risk we take lending to the South Australian local government sector. The Board also resolved to investigate a cadetship program into hard-to-find skill sets within the South Australian local government sector. The initiative is only in its infancy, however, has already garnered interest from other local government bodies.

Early during the COVID-19 emergency, the LGFA Board approved discounted convertible cash advance debenture facilities for councils. The Board also committed to offering discounted loans to a proposed State infrastructure partnership program. In early November 2020, the State Government announced the Local Government Infrastructure Partnership Program (LGIPP). The grants program allocated \$106.9 million of economic stimulus grants linked to infrastructure projects all over the State, and the LGFA committed to offering discounted loan facilities to fund the matched contributions for approved projects.

In response to the successful scheme, the LGA, LGFA, LGA Procurement, LG Professionals SA and Norman Waterhouse Lawyers joined forces to provide a Shovel Ready Connect service. This service was used by many councils as a sounding board for potential projects and once grant funds were allocated, to discuss residual funding and procurement strategies.

The LGFA have been promoting the responsible use of debt and contemporary treasury management for a number of years now and while our loan portfolio reduced over the past year, it was still promising to see that floating rate cash advance debenture products were becoming a greater percentage of our overall loan portfolio. This floating rate, come and go loan product, allows for efficient treasury management and if used correctly, can significantly reduce a council's interest costs. Total loan funds held by councils and prescribed local government bodies at year end decreased from \$829 million to \$781 million.

Despite competition from banks and other financial institutions, we continued to write 100% of the loan business and estimate our share of available deposits was in excess of 90%. I would like to thank all our members for their continued support.

Financial performance this year has been sound, with a \$6 million pre-tax profit being generated which was mainly attributed to typical margin-based banking and the return on our capital reserves. This profit was achieved even after offering discounted loan facilities to



South Australian councils and prescribed local government bodies. These 3-year discounted facilities have reduced the Authority's profitability; however, we were still able to make a meaningful bonus payment to the sector.

The income tax equivalent of \$1.6 million will be paid to the State Government for use by local government to fund research and development projects. A bonus to councils and prescribed local government bodies of \$2.5 million has been approved for distribution by the Board of Trustees. This bonus takes the total bonuses paid since inception to \$49.5 million.

The Board continued to focus on governance and risk management issues. The Audit and Risk Committee once again provided value to the Board and the overall organisation through the formulation and adoption of a risk appetite statement towards the end of the financial year. While some stability returned to the world, the year was still challenging for the Authority and I would like to thank our CEO Davin Lambert and his team for their continued focus on our local government clients and their financial needs. The discounted facilities that were offered to the sector will provide real benefit over the next 3 years.

I am pleased to report that the Auditor-General's Department and Galpins (Auditors), who review our Financial Management Compliance Program, have both given the LGFA an excellent report card. There were no qualifications in the audit of our financial report.

I would like to thank the State Government for their continued support by providing funding via committed facilities administered by the South Australian Government Financing Authority (SAFA), and for also providing the Treasurer's guarantee of our liabilities (including deposits from the South Australian local government sector).

I would also like to acknowledge the efforts and considerable support of my fellow Board members, including our newest Trustee Terry Buss who joined the Board in January 2021. I appreciate the time taken to explore pertinent issues that arose at our strategic planning day and at our board meetings held throughout the year.

Finally, I would like to express the Board's appreciation to John Comrie who was Chair of the LGFA Board from 2017 to the end of his second term in December 2020. John served on the board for 4 years as a representative of the LGA and his wisdom, considered perspective and passion for the local government sector has helped to shape the Authority and set it up for continuing success in to the future.

Michael Sedgman
September 2021

CHAIR'S REVIEW

THE BOARD



Mr Michael Sedgman
Chair

Chief Executive Officer
Rural City of Murray Bridge
LGFA Elected Member



Dr Andrew Johnson
Deputy Chair

Audit & Risk Committee Chair
Chief Executive Officer
LGASA Mutual Pty Ltd
Executive Director Corporate
Governance
Local Government Association
LGA Nominee



Mr Matt Pinnegar

Chief Executive Officer
Local Government Association
Deputy: Ms Lisa Teburea
Executive Director Public Affairs



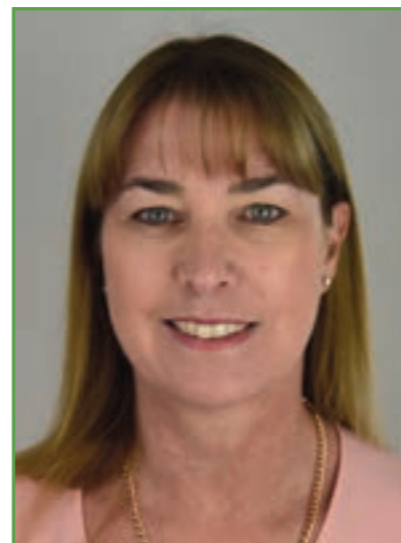
Mr Terry Buss PSM

Chief Executive Officer
City of West Torrens
LGA Nominee
Audit & Risk Committee Member



Ms Annette Martin

Manager Financial Services
City of Charles Sturt
LGFA Elected Member
Audit & Risk Committee Member



Ms Heather Watts

Director Commercial Projects
Department of Treasury and Finance
Appointee of the Treasurer

The Authority is managed by a Board of Trustees, which consists of seven members, plus up to two independent members, who can be appointed by the Board from time to time as required.

Every two years the Board is subject to election, appointment or re-appointment of various members. Two trustees are nominated by the Local Government Association of South Australia (LGA), one trustee is the CEO of the LGA, two members are elected by councils, one trustee is appointed by the Treasurer and the other is the Minister's representative. We currently have no independent trustees.

Effective 1 January 2021, Dr Andrew Johnson (Chief Executive Officer - LGASA Mutual Pty Ltd and Executive Director Corporate Governance - LGA), and Mr Terry Buss (CEO City of West Torrens) were appointed to the Board as the two LGA representatives. Mr Terry Buss replaced Mr John Comrie, who served as Chair for four years. The board and staff thank John for this valued service to the Authority and wish him well with future endeavours.

Annette Martin (Manager Financial Services, City of Charles Sturt) and Michael Sedgman (CEO, Rural City of Murray Bridge) were re-elected for their third and second terms respectively.

Heather Watts, appointee of the Treasurer continues her two-year term until 22 October 2021.

The appointee of the Minister position was still vacant as of 30 June 2021.

The Board elected Michael Sedgman as Chair and re-elected Andrew Johnson as Deputy Chair, at a board meeting held on 16 February 2021.

The Board continues to use a balanced scorecard to complement the CEO's report, which is produced monthly for Board Trustees and highlights the LGFA's continuing achievement of its key performance indicators.

The LGFA trustee handbook has also been updated, combined with the LGFA management handbook to provide clarity and consistency with all management systems and procedures, in support of the strategic and business plans monitored by the Board.



Board meetings attended by board members

Number of meetings held:	6
Mr John Comrie	3*
Mr Michael Sedgman	6
Dr Andrew Johnson	6
Mr Matt Pinnegar	5
Mr Terry Buss	3*
Ms Annette Martin	5
Ms Heather Watts	6

* Eligible

CEO'S REPORT



Local Government Professionals
ESTABLISHED 1998

20TH ANNUAL LEADERSHIP



Davin Lambert
Chief Executive Officer

Economic conditions

In just twelve months, the economic landscape for both Australia and the global economy has changed significantly. As we enter the 2021-22 financial year, it is clear that the COVID pandemic still dominates the landscape. Countries are still experiencing virus outbreaks, however in stark comparison to this time

last year, vaccine programs are having a considerable positive effect, with hospitalisations and fatalities substantially reduced.

Confidence has extended to equity markets across the world. Over the last 12 months, local share markets have gained 24%, the biggest rise for a financial year in 34 years, narrowly beating the previous financial year record of 2006-07, when Australia was entering its mining boom. Equity markets globally also experienced large gains with the United States; up 35% over the year, Japan by 29% and United Kingdom and German markets up by 14% and 25% respectively.

In response to a strong rebound in economies across the globe, longer-term bond yields have bounced back predominately in the last 4 months of the financial year. The US 10-year bond yield rising from 1.30% to 1.80% over the period, and 10-year rates have moved higher by around 0.50%, supporting the expected growth in the economy, combined with inflationary expectations.

In just one year most global economies witnessed a substantial recovery following the lows experienced in 2020, clearly benefitting from accommodative monetary policies around the world, in addition to extensive government income support and fiscal stimulatory spending.

Ahead of the rest, China started to bounce back as early as March 2021. Chinese Gross Domestic Product (GDP) recovered from a staggering contraction of -10% to an even more striking outperformance of a +18% gain in March. Whilst the Australian-China relationship continued to deteriorate with restrictions and tariffs on specific Australian export industries at the end of 2020, China's steel demand continued to grow, with demand at an all-time high and iron ore prices peaking at their highest level since September 2014 late in the year in question.

Confidence has improved notably in the US with the change in President in November. US inflation is at its highest level since 2008, with annual inflation at 5%, with the US Federal Reserve highlighting that rising inflation is 'transitory' and only a few main factors are currently influencing the increase such as used car prices which account for almost half of the inflationary pressure. The US Federal Reserve remained committed to retaining stimulus until progress is made on reducing unemployment and keeping inflation above their 2% 'core inflation' goal (calculated over the medium term).

There has been a slightly slower recovery in the UK and Europe. Their economic recoveries were delayed by COVID restrictions and lockdowns early in 2021. In early August, GDP for the UK fell -20.4% over the second quarter of 2021, the worst result of any G7 nation, and the largest since records began in 1955. First quarter 2021 GDP, shrank by a smaller -6.1%, however employment has continued to improve since the height of the pandemic. The Eurozone dipped into a second technical recession in the first quarter of 2021 after a smaller than expected contraction of -0.6% following -12% the prior quarter. However, Europe is firmly set for a later start to the pandemic rebound due to the speed of the vaccine campaigns, and second quarter 2021 GDP printed at +2%. Manufacturing activity is now at record highs and employment has also improved, with the Eurozone unemployment falling to 7.9% from 8.0% in May (albeit still below pre-pandemic levels).

The Australian economy rebound substantially over the last year. On 4 November 2020, the RBA cut the official cash rate to 0.1%. They also cut the target yield on the 3-year bond rate to 0.1%, the rate on drawings on the Term Funding Facility to 0.1% and the rate paid on Exchange Settlement balances to zero.

Substantial quantitative easing was also announced and the RBA confirmed that the measures also had the objective of lowering the Australian Dollar as a result of lowering the official cash rate. In 2019-20 Australia experienced its first recession in 28 years – impacted by the coronavirus as well as drought, bushfires and storms. Continued stimulus generated as a result of the pandemic has seen net deficit lift from 19% of GDP in 2019 and is now predicted to peak at 41% by 2025. This is still well below other developed nations such as the US and the UK that have debt to GDP ratios in the vicinity of 100%. Low interest rates also have meant the cost of servicing debt remains low.

"The Australian economy has experienced the sharpest recovery since the 1970s due to the speed and size of economic stimulus and support supplied by Federal and State governments and the Reserve Bank."

Fast forward to now, and the Australian economy has experienced the sharpest recovery since the 1970s due to the speed and size of economic stimulus and support supplied by Federal and State Governments and the Reserve Bank. Consumer confidence is at its highest levels since 2018, housing demand has been extraordinary with prices rising by over 12% over the year and the level of employment is now above its pre-pandemic levels, with the unemployment rate falling to 5.1%. Despite this robust data, the RBA continued to communicate that it will not increase the cash rate until inflation is sustainably within the 2-3% target range, it sees meaningful wage growth, and full employment within the economy. The RBA still believes that these economic conditions will not occur until 2024.

CEO'S REPORT

Lending activities

Lending activity over the start of 2020-21, and shortly after the peak periods of the pandemic were significantly higher than previous years. However, borrowing activities did contract towards the end of the financial year with the level of loans outstanding as at 30 June 2021 at \$781 million, almost \$40 million lower than the prior year. This is attributable to the increase in grant funding across the sector and councils' active usage of the flexible cash advance debenture (CAD) facilities to pay down debt. Councils continued to open new CAD facilities over the year, however, CAD usage is similar to last year.

"Long term fixed interest rates have bounced back somewhat this year following the recovery of the Australian and broader global economy, with 10-year rates moving around 0.5% higher compared to this time last year."

It's pleasing to see that councils are adopting modern treasury management practices and are using surplus cash to repay debt, an exercise that the LGFA continues to encourage throughout the sector. The mix of fixed and floating debt for members continues to equalise. Historically councils would be funded by predominately fixed rate debt, and we have seen more councils adopt treasury management policies directing management to diversify debt structures that facilitate a mix of fixed and floating debt.

The LGFA continues to work on ways to encourage contemporary financial management practices throughout the sector. Part of these practices involves councils reducing the number of individual accounts and holistically managing cash for effective treasury management.

We continue to encourage councils to have treasury management policies to dictate the mix of fix and floating debt. In addition, we have seen some councils funding infrastructure projects with fixed rate funding at very attractive interest rate levels that also provides certainty in financing costs over the long term.

Long term fixed interest rates have bounced back somewhat this year following the recovery of the Australian and broader global economy, with 10-year rates moving around 0.5% higher compared to this time last year.

Council discounted loan facilities

In late May 2020 the LGFA Board announced a COVID-19 loan support package to councils, which involved offering a discounted convertible cash advance debenture facility whereby the interest rate is 0.75% off our current standard variable interest rate. This initiative was thoroughly appreciated by our clients. In total, 58 councils took advantage of this offer in the period of May-December 2020 with a total of 80% of potential entitlements allocated.

In April 2021, the LGFA announced an additional discounted loan package to councils in response to the Local Government Infrastructure Partnership Program (LGIPP) funded by the State Government. Increased commitments from governments via grants to councils across Australia has been instrumental in supporting the resilience of local economies by delivering jobs which helped communities bounce back from the recent impacts of drought, bushfires, floods and the COVID-19 pandemic.

To help support councils to achieve the financial demands of developing and financing shovel ready projects required as part of this initiative, the LGFA also offered additional 3-year discounted LGIPP loan facilities to match the grant funding provided by the State Government. Similar to the COVID-19 facilities, it is a 0.75% discount off our current standard variable interest rate. Councils have one year to take advantage of these facilities and we expect the majority will be set up in the first half of 2022, when the projects begin.

CEO'S REPORT

Investment activity

Whilst interest rates in general have continued to fall, as part of the COVID-19 support package, the LGFA also increased the at call deposit rate offering to councils by 0.20%.

In November 2020, the RBA Board announced a package of further measures to support job creation and the recovery of the Australian economy from the effects of the pandemic. As part of this, they reduced the cash rate to a historic low of 0.10%, a move intended to free up money for households who would otherwise be spending it on mortgage interest charges. In February 2020, just prior to the true impact of the virus being known, Australia's official cash rate was sitting at 0.75 per cent.

In addition, the local government sector is continuing to adopt contemporary cash management practices by diversifying borrowing products to take advantage of the CAD come and go variable lending facility, instead of holding at call deposits and borrow fixed term.

The LGFA is committed to providing market competitive rates on our deposit products with the goal of obtaining 100% of available deposits from the sector. With the additional 0.20% paid on at call and ensuring term deposit rates continue to be competitive we have seen a significant improvement in the percentage of deposits held by the sector with the LGFA, which is very pleasing to see.

The LGFA will continue its visitation program and attempt to visit councils once every two years, ensuring that we continue to provide an ongoing service to the benefit of councils and other prescribed local government bodies.

"Whilst the average daily deposit level of \$453 million (2019-2020 \$465 million) was lower when compared to the previous year, as at the end of June, council deposit levels were elevated to be \$10 million higher."

Whilst the average daily deposit level of \$453 million (2019-2020 \$465 million) was lower when compared to the previous year, as at the end of June, council deposit levels were elevated to be \$10 million higher, supported by an increase of deposits coming from outside LGFA to be held directly with us.

Information technology

Following on from the Auditor-General's Department ITA team information technology general review of the Quantum Treasury Management System environment last year, a significant amount of upgrades have been put in place during 2020-21 to bring the Authority into line with the Australian Government Information Security Manual (ISM) where applicable.

The LGFA work from home policy has continued to provide staff with secure remote access to their working files. Paperless work processes have been improved by the use of the SAP Business One accounting package and Sage payroll software providing online approvals and the utilisation of Adobe software for other electronic document approvals.

An upgrade to the LGFA website was completed early in the financial year to provide it with a contemporary look and feel and to take advantage of processing efficiencies from combining our website and portal software with the same IT provider. Further in-house development of the portal occurred in relation to the collection of credit assessment data from councils and online loan applications now being available.

Straight through processing of payments and receipts from the Quantum Treasury Management system was successfully implemented in order to achieve further processing efficiencies from the system.

Compliance

The Authority has a board appointed audit and risk committee in place to oversee the extensive auditing program conducted each year by the Auditor-General's Department. The Authority is required to comply with Treasurer's Instructions TI 2 Financial Management and TI 28 Financial Management Compliance Program (FMCP). Performance relative to the FMCP was reviewed by an independent audit firm, Galpins.

A report detailing the results of the FMCP has been produced by Galpins with a copy being delivered to the Authority and the Auditor-General's Department. The FMCP report and associated working papers form part of the Auditor-General's Department interim audit which is then followed by the financial statement audit.

CEO'S REPORT

Our organisation



Davin Lambert
Chief Executive Officer



Natasha Grigg
Manager
Lending & Treasury



Geoff Hollitt
Financial Controller



Anthony Jones
Manager Software & IT

Our staff have again made a critical contribution to the success of the Authority and have continued to drive our services to meet challenging business conditions this year.

Last year Robert Hardy, Senior Manager Lending & Treasury, announced his intention to retire after 34 years with the Authority. Robert's contribution to the success of LGFA was exceptional. Natasha Grigg replaced Robert in August 2020. Natasha was previously with National Australia Bank in Adelaide and Melbourne.

Staff have attended conferences, training seminars and workshops to enhance their knowledge and expertise, especially in the financial services and workplace, health and safety arenas.



*Back L-R: Geoff Hollitt, Anthony Jones, Davin Lambert, Michelle Parcell
Front L-R: Karren Smith, Natasha Grigg, Rebecca Latto (absent Joseph Veras)*

Our office space had a refurbishment in February and the newly open space facilities function well for staff, auditors and visiting local government representatives, especially those from regional South Australia who can seamlessly work from one of our hot desks. Our boardroom has continued to be utilised for meetings and seminars by various local government groups.

AUTHORITY PROFILE



Authority Profile

The Local Government Finance Authority of South Australia, a body corporate, was established in January 1984 under the *Local Government Finance Authority Act 1983*, and is administered by a Board of Trustees.

The Authority is a statutory authority established for the benefit of councils and other prescribed local government bodies within the state. It is not a part of the Crown, nor is it an agency or instrumentality of the Crown.

Members

All local authorities are automatically members of the Authority, but use of the Authority for investments and loans is entirely voluntary.

Guarantee

In accordance with Section 24 of the *Local Government Finance Authority Act 1983*, all the liabilities of the Authority (including monies accepted on deposit from local authorities) are guaranteed by the Treasurer of South Australia.

Income tax equivalents

LGFA makes payments equivalent to company income tax. The equivalent liability is calculated/ applied on an accounting profits basis and the amounts are paid into an account established with the State Treasurer entitled the “Local Government Taxation Equivalents Fund”. The funds are then available for local government development purposes as recommended by the Local Government Association of South Australia and agreed to by the Minister for Local Government.

AUTHORITY PROFILE

Profit distribution

The profit distribution is a mechanism which enables the Authority to share its success with member councils and prescribed local government bodies.

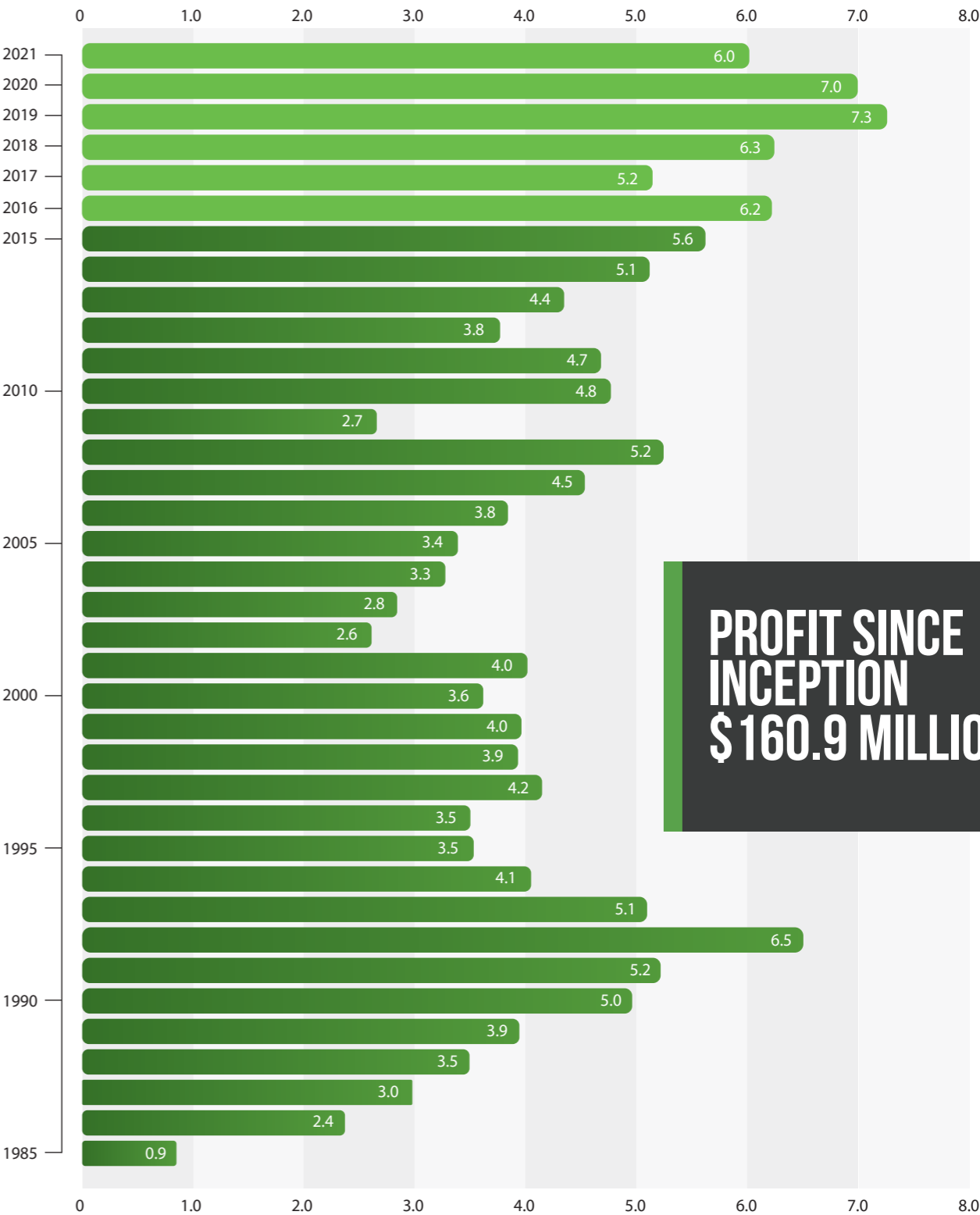
Since its introduction in 1985, an amount of \$46.965 million has been distributed with a further \$2.5 million to be paid in respect of the year ended 30 June 2021. This year’s payment of \$2.5 million when combined with previous special allocations for local government purposes of \$3.225 million will result in overall payments benefiting the local government community of \$52.69 million. This amount is inclusive of a special one-off grant of \$350,000 to the LGA for LGFSG in the 2020-21 financial year to provide necessary equipment for the vital emergency services duties they perform.

In line with past practice, the bonus payment has been calculated to relate to average deposit and loan levels held with the Authority during the course of the financial year. The deposit activity was recognised by an allocation of \$1.6 million with the balance of \$900,000 allocated to loans. The bonus payment was maintained at \$2.5 million this year reflecting our continued strong level of profitability.

LGFA proudly sponsors



PROFIT BEFORE INCOME TAX EQUIVALENTS



This graph illustrates Profit before Income Tax Equivalents for the Local Government Finance Authority of South Australia since 1985. (All profits as \$M)

CASE STUDIES

LGFA is proud to present two representative case studies to show the results of our lending to the local government sector.

We are proud to provide the funding and expertise that deliver better outcomes to South Australian communities.



CASE STUDY

DISTRICT COUNCIL OF GRANT

MOUNT GAMBIER REGIONAL AIRPORT

\$9.2M UPGRADE

The newly redeveloped Mount Gambier Regional Airport was officially opened on Friday 23 April 2021 by the Member for Barker Mr Tony Pasin, Treasurer Lucas representing the South Australian Premier Marshall, District Council of Grant Mayor Richard Sage and CEO Darryl Whicker.

The \$9.2 million upgrade project was jointly funded by the Australian Government through the Building Better Regions Fund in partnership with the South Australian State Government.

Funding partners included:

- Federal Government \$3,510,000
- State Government \$4,036,000
- District Council of Grant \$1,154,000
- City of Mount Gambier \$500,000

The project was delivered on time and on budget which is a testament to the project team that managed the state-of-the-art upgrade. The redevelopment included the following components:

- Runway 18/25 extension
- Construction of heavy aircraft apron
- Airfield ground lighting upgrades
- Terminal redevelopment



The significance of the upgrade of the Mount Gambier Regional Airport to the Limestone Coast will now provide opportunities to play an active role in stimulating economic development in the region through tourism, domestic travel along with the possibility of regional exports of local products.

provides a fully equipped undercover facility for RFDS and South Australian Ambulance Service MedSTAR crews to stabilise patients prior to flight. On average, at least one flight per day benefits from the infrastructure upgrades recently completed to assist with patient care.

The Mount Gambier Regional Airport also plays a very important role in supporting crucial health care to the region. In 2020 the Royal Flying Doctor Service (RFDS) constructed an undercover Patient Transfer Facility for South-East patients. Enhancing patient care and operational response times for critical patients, the converted hangar

*Information provided by Gary Button,
Team Leader - Finance & Customer Service,
District Council of Grant
Photographs: Zoe Wighton*

CASE STUDY

The improved safety and technology upgrades have future proofed the state-of-the-art facility “We can boast operations 24 hours a day, seven days a week even during power failures with a new generator and main switchboard allowing floodlight towers, taxi way and centre lights to operate during blackouts. We have also incorporated a solar system and recalibrated our GPS approach technology”. Ian Fritsch our Airport Manager who led the project in terms of its initial vision and ultimately its delivery is very proud of the outcome stating that “the project has been a team success”.

The valuable contribution of staff along with the efforts of Architect, Ashley Halliday, Kennett Builders and associated contractors who designed and constructed the new terminal are recognised by council.

The first airport was opened in 1930. In 1939, the airport was purchased by the Federal Government for the formation of a Royal Australian Airforce Training Base. In 1947 the airport was handed over to the Department of Civil Aviation and this saw the return of regular public transport flights to the region with a daily service operating between Mount Gambier and Melbourne.

Today the Mount Gambier Regional Airport is a major gateway to the Limestone Coast and Western Victoria and is located 10 minutes from the City of Mount Gambier. The Airport is well serviced by Regional Express Airlines (REX) and QantasLink which provides regular return passenger services between Mount Gambier and both Melbourne and Adelaide.



CASE STUDY

CITY OF PROSPECT

PAYINTHI COMMUNITY & CIVIC FACILITY



Payinthi is a new community and civic facility at 128 Prospect Road, Prospect that brings all council's services under the one roof, and carefully incorporates a refurbished heritage-listed Town Hall.

Payinthi is the culmination of five years' work by council and the community, who worked together to imagine, design and create a landmark building for the benefit of the whole community, and that also connects with and enhances the Prospect Road Village Heart precinct.

The facility features a modern, artistic and sustainable design, inspired by and responding to its setting and its role as a centre of community activity.

The design includes:

- Lots of large windows allowing natural light, transparency and openness, with a louvered façade screen used to minimise heat loading and direct views
- Indoor and outdoor spaces suitable for a range of community activities
- Areas that can be booked by local community members and businesses via a new online system (Space2Co) with after-hours code access
- New technologies embedded throughout, including IT to support wireless high speed internet and multimedia capabilities complementing the Village Heart meshed public Wi-Fi network
- Increased car parking availability, complemented by bike parking and end-of-trip facilities
- A ground floor café and a commercial office tenancy on the upper level of the new building, with an additional food and beverage tenancy in the Town Hall basement



CASE STUDY

The roof of the facility has been covered with 100 solar panels providing for a total of 38kW in power generation, with the total real-time generation and consumption displayed within the main foyer of the building, alongside water consumption. Monthly reporting shows that an average of 5MWh is being produced and fed back into the grid each month, representing approximately 2.5 tonnes of carbon offset per month.

The open-plan layout of the facility allows the organisation to change and adapt to circumstances, from the customer reception area that doubles as a function space, through to the open-plan office areas and breakout spaces that foster collaboration.

The design has created a series of beautiful spaces, which together create a wonderful sense of place for staff and community members alike. This has had clear benefits in bringing the community together to experience the various arts, events and functions, as well as access the services provided by council. Since opening in mid-October 2019, the building was attracting double the monthly patronage of our old facility, and numbers were continuing to increase before COVID-19 restrictions were implemented, although patronage remains strong.

Project success was achieved by:

- Engaging early with key groups and keeping them involved for the whole project
- Seeking independent expert advice to inform key council decisions
- Making bold decisions to create a facility that caters for future community needs
- Integrating heritage and art with contemporary building design
- Focusing on creating a truly 'Prospect' feel

Critically, council used a private-public partnership model for additional investment in the facility and area, choosing to subdivide and sell a portion of the site for private sector development, as well as creating two spaces within the facility for leasing (commercial offices on the top floor, and a retail / food & beverage tenancy on the ground floor).

The design has created a series of beautiful spaces, which together create a wonderful sense of place for community members, visitors and staff alike. This has had clear benefits in bringing the community together to experience the various arts, events and functions, as well as access the services provided by council.

Payinthe is a great place to work, to visit and to stay, and makes an amazing contribution to the community through a bold yet sensitive approach to planning and design.

Information and photos supplied by Chris Newby, Manager Special Projects, City of Prospect

FINANCIAL REPORT



STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021 \$'000	2020 \$'000
INCOME			
Interest on investments	3.1	267	672
Interest on loans and advances	3.2	26,553	34,501
Other income	3.3	110	225
TOTAL INCOME		26,930	35,398
EXPENSES			
Interest on deposits from councils and local government bodies	4.1	2,200	5,158
Interest on borrowings	4.2	15,328	19,479
State Government guarantee fee	4.3	1,529	1,558
Administration expenses	4.4	1,861	2,136
Other expenses	4.5	-	63
TOTAL EXPENSES		20,918	28,394
PROFIT BEFORE INCOME TAX EQUIVALENTS		6,012	7,004
Income tax equivalent expense	4.6	1,563	2,101
PROFIT AFTER INCOME TAX EQUIVALENTS		4,449	4,903
TOTAL COMPREHENSIVE RESULT		4,449	4,903

The accompanying notes form part of these financial statements. The profit after income tax equivalents and comprehensive result are attributable to the owners.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	Note	2021 \$'000	2020 \$'000
ASSETS			
Cash at bank		5,078	-
Accrued interest receivable	5.1	3,302	3,959
Investment securities	5.2	10,000	45,499
Other assets	5.3	102	232
Net loans and advances	5.4	812,527	880,647
Property, plant & equipment	5.5	1,924	1,982
Intangible assets	5.6	110	134
TOTAL ASSETS		833,043	932,453
LIABILITIES			
Deposits from councils and local government bodies	6.1	460,312	449,200
Accrued interest payable	6.2	778	1,346
Borrowings	6.3	267,927	360,633
Derivatives	6.4	27,487	45,937
Provisions	6.5	3,531	3,868
Other liabilities	6.6	244	304
TOTAL LIABILITIES		760,279	861,288
NET ASSETS		72,764	71,165
EQUITY			
General reserve	7.1	72,000	70,400
Retained profits		635	636
Revaluation reserve	7.1	129	129
TOTAL EQUITY		72,764	71,165

Contingent assets and liabilities 8.2

The accompanying notes form part of these financial statements. The total equity is attributable to the owners.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2021

	General reserve \$'000	Retained profits \$'000	Revaluation reserve \$'000	Total \$'000
Balance at 30 June 2019	68,000	633	129	68,762
Profit after income tax equivalents for 2019/20	-	4,903	-	4,903
Total comprehensive result for 2019/20	-	4,903	-	4,903
Transfer to bonus payment provision	-	(2,500)	-	(2,500)
Transfer to general reserve	2,400	(2,400)	-	-
Balance at 30 June 2020	70,400	636	129	71,165
Profit after income tax equivalents for 2020/21	-	4,449	-	4,449
Total comprehensive result for 2020/21	-	4,449	-	4,449
Grant to Local Government Association of South Australia*	-	(350)	-	(350)
Transfer to bonus payment provision	-	(2,500)	-	(2,500)
Transfer to general reserve	1,600	(1,600)	-	-
Balance at 30 June 2021	72,000	635	129	72,764

* The Grant to Local Government Association of South Australia was an appropriation of profit for local government purposes as enabled by the *Local Government Finance Authority Act, 1983* Section 22(2)(c).

All changes in equity are attributable to the owners.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021 \$'000 Inflows (outflows)	2020 \$'000 Inflows (outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		27,982	37,103
Interest paid		(18,571)	(26,025)
State Government guarantee fee		(1,542)	(1,551)
Payments to suppliers and employees		(1,817)	(2,142)
Fees received		37	32
Income tax equivalents paid		(1,841)	(2,341)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7.2	4,248	5,076
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans to councils and local government bodies		48,252	(29,835)
Investment securities		35,494	(25,494)
Payments for property, plant & equipment		(135)	(231)
Proceeds from sale of property, plant & equipment		56	127
NET CASH PROVIDED BY INVESTING ACTIVITIES		83,667	(55,433)
CASH FLOWS FROM FINANCING ACTIVITIES			
Promissory notes		5	(4,514)
Deposits from councils and local government bodies		11,112	(33,521)
Short term money market facilities		(145,420)	78,875
Fixed term borrowings		55,850	7,840
Bonus payment to councils and local government bodies		(2,500)	(2,500)
Grant to Local Government Association of South Australia		(350)	-
Other		1,607	1,030
NET CASH USED IN FINANCING ACTIVITIES		(79,696)	47,210
NET INCREASE/(DECREASE) IN CASH HELD		8,219	(3,147)
Cash at 1 July		(3,141)	6
CASH AT 30 JUNE	6.3, 7.2	5,078	(3,141)

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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1. About the Local Government Finance Authority

The Local Government Finance Authority of South Australia (the Authority) is a for-profit Public Authority and was established pursuant to the *Local Government Finance Authority Act, 1983*. The Authority strives to be the leading financial institution for local government in South Australia and aims to be the source of all loans and investments for councils by providing superior value offerings.

The Authority is not part of the Crown, nor is it an agency or instrumentality of the Crown as legislated by S4(4) of the *Local Government Finance Authority Act, 1983*.

The Authority does not control any other entity and has no interests in unconsolidated structured entities. The financial statements and accompanying notes include all the controlled activities of the Authority.

1.1 Basis of preparation

The financial statements are general purpose financial statements prepared in compliance with:

- section 23 of the *Public Finance and Audit Act 1987*;
- Treasurer's Instructions and Accounting Policy Statements issued by the Treasurer under the *Public Finance and Audit Act 1987*; and
- relevant Australian Accounting Standards.

The financial statements are prepared based on a 12 month reporting period and presented in Australian currency. The historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured.

Expenses and assets are recognised inclusive of the amount of GST as the Authority is a financial supply only business.

Accounting judgements, estimates and assumptions

In the process of applying the Authority's accounting policies, management has made judgements in the classification of financial instruments which has had a significant effect on the amounts recognised in the financial statements.

Some of the Authority's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value of financial instruments, the Authority uses market-observable data to the extent it is available.

Expected credit losses (ECL) are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. *AASB 9 Financial Instruments* does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased management takes into account qualitative and quantitative reasonable and supportable forward-looking information.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Comparative information

The presentation and classification of items in the financial statements are consistent with prior periods except where specific accounting standards and accounting policy statements have required a change.

Where presentation or classification of items in the financial statements has been amended, comparative amounts have been reclassified unless reclassification is impracticable.

The restated comparative amounts do not replace the original financial statements for the preceding period.

Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

1.2 Objectives and programs

The objective of the Authority is to provide the best possible financial outcomes for our members, generate sufficient profit to satisfy our stakeholder expectations and build adequate reserves to assist with future profits.

The functions of the Authority are as follows:

- to develop and implement borrowing and investment programmes for the benefit of councils and prescribed local government bodies; and
- to engage in such other financial activities as are determined by the Minister, after consultation with the Local Government Association, to be in the interests of local government.

1.3 Impact of COVID-19 pandemic on the Authority

The Reserve Bank response to the COVID-19 pandemic has had the effect of marginally lowering the 90 day BBSW rates used in the floating rate side of our interest rate swaps. The reduction in the 90-day BBSW rate has marginally reduced the profitability for the 2020-21 financial year.

In June 2020 the Board of the Authority approved a three year financial assistance package for councils to assist them during the COVID-19 pandemic. The package includes discounts to cash advance debenture loans and higher interest on deposiuts for councils. This will in turn have the financial effect of reducing the profit of the Authority until the last of the council assistance facilities mature in February 2024.

1.4 Significant transactions with government related entities	2021 \$'000	2020 \$'000
Expense transactions with the South Australian government		
Interest paid on borrowings	2,247	3,807
State Government guarantee fee	1,529	1,558
Income tax equivalents expense	1,563	2,101
Liabilities outstanding to the South Australian government		
Borrowings	267,927	357,492
Interest payable on borrowings	343	495

2. Board, committees and executives

2.1 Key management personnel

Key management personnel who have responsibility for the strategic direction and management of the Authority include members of the board and the Chief Executive Officer.

Total compensation for key management personnel was as follows:	2021 \$'000	2020 \$'000
Salaries and other short-term employee benefits	314	404
Post-employment benefits	30	38
Other long-term employment benefits	-	199
Total compensation	344	641

Transactions with key management personnel and other related parties

Related parties of the Authority include all key management personnel and their close family members and any entity that is controlled or jointly controlled by those persons. Close family members are defined in *AASB 124 Related Party Disclosures* to include children, spouse or partner, children of the spouse or partner and dependants of the key management personnel or the spouse or partner.

There are no transactions to disclose for key management personnel and related parties.

The Authority transacts with councils, prescribed bodies and state government agencies of which board members may be key management personnel. Terms are consistent with the Authority's normal commercial arrangements.

2.2 Board and audit and risk committee members

Appointments to the board are made pursuant to Section 7 of the *Local Government Finance Authority Act, 1983*.

Members during the 2021 financial year were:

LGFA governing board	
Mr John Comrie (Chair)	LGA representative to 31 December 2020
Mr Michael Sedgman (Chair)	Council representative
Dr Andrew Johnson (Deputy Chair)	LGA representative
Mr Terry Buss PSM	LGA representative from 1 January 2021
Ms Annette Martin	Council representative
Mr Matt Pinnegar	LGA Chief Executive Officer
Ms Heather Watts *	Appointee of the Treasurer

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

LGFA audit and risk committee

Dr Andrew Johnson (Chair)

Mr Terry Buss PSM

Committee member from 16 February 2021

Ms Annette Martin

Mr Michael Sedgman

Committee member to 16 February 2021

2.3 Board and executive remuneration

Board member remuneration

	2021	2020
The number of members whose remuneration received or receivable falls within the following bands:	No	No
No remuneration	1	1
\$1 - \$19 999	6	4
\$20 000 - \$39 999	-	1
Total	7	6

The total remuneration received or receivable by governing board members was \$64,100 (\$64,100) which includes salary and superannuation. No additional fees were paid to audit and risk committee members.

*In accordance with the *Premier and Cabinet Circular No. 016*, SA Government employees did not receive any remuneration for board/committee duties during the financial year. The amount payable in respect of the Chief Executive Officer of the Local Government Association of South Australia is paid to the Local Government Association of South Australia.

Executive Remuneration	2021	2020
The number of employees whose remuneration received or receivable falls within the following bands:	No	No
\$154 001 to \$174 000	1	1
\$194 001 to \$214 000	-	1
\$214 001 to \$234 000	1	-
\$234 001 to \$254 000	-	1
\$274 001 to \$294 000	1	-
\$434 001 to \$454 000	-	1
Total	3	4

The total remuneration received by those employees for the year was \$675,000 (\$1,043,500).

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year. Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, living away from home allowance, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits.

3. Income

3.1 Interest on investments	2021	2020
	\$'000	\$'000
Interest received on investments	256	654
Gain on futures contracts	11	18
Total interest on investments	267	672

3.2 Interest on loans and advances	2021	2020
	\$'000	\$'000
Interest received on fixed rate debenture loans	18,576	21,396
Interest received on cash advance debenture loans	7,758	9,436
Interest received on interest rate swaps	219	3,669
Total interest on loans and advances	26,553	34,501

3.3 Other income	2021	2020
	\$'000	\$'000
Guarantee fee income	33	33
Fair value hedge accounting gain	57	192
Decrease in expected credit loss allowance	11	-
Gain on sale of fixed assets	9	-
Total other income	110	225

4. Expenses

4.1 Interest on deposits from councils and local government bodies	2021	2020
	\$'000	\$'000
Interest paid on deposits from councils and local government bodies	2,200	5,158
Total interest on deposits from councils and local government bodies	2,200	5,158

4.2 Interest on borrowings	2021	2020
	\$'000	\$'000
Interest paid on borrowings	2,249	3,807
Interest paid on interest rate swaps	13,079	15,658
Loss on futures contracts	-	14
Total interest on borrowings	15,328	19,479

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

4.3 State government guarantee fee	2021	2020
	\$'000	\$'000
State government guarantee fee	1,529	1,558
Total State government guarantee fee	1,529	1,558

A fee is paid to the State government for the guarantee of the liabilities of the Authority.

4.4 Administration expenses	2021	2020
	\$'000	\$'000
Audit fees	70	94
Board fees	64	63
Computer expenses	28	37
Consultancy fees	70	12
Depreciation and amortisation	165	154
Insurance	22	27
Legal Expenses	39	18
Market information service	38	42
Occupancy expenses	41	37
Salaries & on-costs	932	1,162
Software license fees	138	124
Sponsorships	100	122
Staff recruitment fees	3	60
Other administration expenses	151	184
Total administration expenses	1,861	2,136

Audit fees

The amounts received, or due and receivable in respect of this financial year by the auditors in connection with:

	2021	2020
	\$'000	\$'000
Auditing work performed by the Auditor-General's Department*	50	73
Financial Management Compliance Program by an independent audit firm	20	21
Total audit fees	70	94

* Audit fees paid/payable to the Auditor-General's Department relating to work performed under the *Public Finance and Audit Act 1987*. No other services were provided by the Auditor-General's Department.

Consultants

The number of consultancies and the dollar amount paid/payable to consultants that fell within the following bands:

	No	2021	No	2020
		\$'000		\$'000
Below \$10 000	3	12	3	12
\$10 000 or above	1	58	-	-
Total consultants	4	70	3	12

Depreciation and amortisation	2021	2020
	\$'000	\$'000
Building floorspace	26	26
Computer software	87	75
Furniture and fittings	4	2
Motor vehicles	22	27
Office equipment	26	24
Total depreciation and amortisation	165	154

All fixed assets, having a limited useful life, are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential.

Useful life

Depreciation/amortisation is calculated on a straight-line basis over the estimated useful life of the following classes of assets as follows:

Class of asset	Useful life (years)
Building floorspace	70
Computer software	2.5 - 3
Furniture and fittings	5
Motor vehicles	10
Office equipment	3

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

4.5 Other expenses	2021	2020
	\$'000	\$'000
Increase in expected credit loss allowance	-	63
Total other expenses	-	63

4.6 Income tax equivalent expense	2021	2020
	\$'000	\$'000
Income tax equivalent expense	1,563	2,101
Total income tax equivalent expense	1,563	2,101

The Authority is required to make payments equivalent to company income tax under the taxation equivalent payment system. The equivalent company income tax liability is calculated/applied on an accounting profits basis.

Payments are made to the Department of Treasury and Finance and held in the Local Government Taxation Equivalents Fund. In accordance with Section 31A of the *Local Government Finance Authority Act, 1983* the funds are to be applied for local government development purposes as recommended by the Local Government Association.

5. Assets

5.1 Accrued interest receivable *	2021	2020
Interest receivable on:	\$'000	\$'000
Loans to councils and local government bodies	3,208	3,669
Investment securities	94	290
Total accrued interest receivable	3,302	3,959

* The accrued interest receivable on derivatives which are required to be recorded at fair value and the hedge accounting revaluation have been transferred to the respective line items.

5.2 Investment securities	2021	2020
	\$'000	\$'000
Bank term deposits	10,000	45,500
Expected credit loss allowance	-	(1)
Total investment securities	10,000	45,499

5.3 Other assets	2021	2020
	\$'000	\$'000
Sundry debtors and prepayments	102	232
Total sundry debtors and prepayments	102	232

5.4 Net loans and advances	2021	2020
	\$'000	\$'000
Advances	359,136	377,835
Term loans	421,912	451,465
Loans and advances	781,048	829,300
Hedge accounting revaluation	31,930	51,807
Expected credit loss allowance	(451)	(460)
Net loans and advances	812,527	880,647

The following security is held over loan agreements entered into by the Authority:

(i) **Debentures over council general revenue**

Loan agreements with councils are secured by debentures which provide a charge over council general revenue.

(ii) **Schedule 2 of the Local Government Act 1999**

Loans to prescribed local government bodies which are council subsidiaries rely upon the constitutional obligations of councils in the guarantee of the liabilities incurred or assumed by subsidiaries as per Schedule 2 of the *Local Government Act 1999*.

(iii) **First registered mortgage and specific security deed**

Loan agreements with the Local Government Association of South Australia (LGA) are secured by first registered mortgage over their building at 148 Frome Street, Adelaide, SA, 5000. In addition to this a specific security deed was entered into between the Authority and LGA in relation to the State-Local Government Infrastructure Partnership (SLGIP). The specific security deed grants the Authority a first ranking security interest over certain cash flows arising from the SLGIP agreement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

5.5 Property, plant and equipment

	2021	2020
	\$'000	\$'000
Building floorspace		
Building floorspace at fair value	1,813	1,813
Accumulated depreciation at the end of the period	(97)	(71)
Total building floorspace	1,716	1,742
Furniture and fittings		
Furniture and fittings at cost (deemed fair value)	391	341
Accumulated depreciation at the end of the period	(340)	(339)
Total furniture and fittings	51	2
Motor vehicles		
Motor vehicles at cost (deemed fair value)	161	229
Accumulated depreciation at the end of the period	(31)	(30)
Total motor vehicles	130	199
Office equipment		
Office equipment at cost (deemed fair value)	117	105
Accumulated depreciation at the end of the period	(90)	(66)
Total office equipment	27	39
Total property, plant and equipment	1,924	1,982

Initial Recognition

Non-current tangible assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition.

Revaluation

Revaluation of non-current assets or a group of assets is only performed when the fair value at the time of acquisition is greater than \$1.5 million and estimated useful life is greater than three years. If at any time management considers that the carrying amount of an asset materially differs from its fair value, then the asset will be revalued regardless of when the last valuation took place.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the asset.

Building floorspace

The Authority obtains a valuation appraisal from a professionally qualified valuer of its owned and occupied building floorspace every six years in accordance with APS 116.E. The latest market valuation appraisal was provided by WBP Property Group as at 5 October 2017.

Impairment

Property, plant and equipment have not been assessed for impairment as they are non-cash generating assets, that are specialised in nature and held for continual use of their service capacity.

Reconciliation 2020-21	Building floorspace	Furniture & fittings	Motor vehicles	Office equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July 2020	1,742	2	199	39	1,982
Acquisitions	-	53	-	14	67
Disposals	-	-	(47)	-	(47)
Depreciation	(26)	(4)	(22)	(26)	(78)
Carrying amount at 30 June 2021	1,716	51	130	27	1,924

Reconciliation 2019-20	Building floorspace	Furniture & fittings	Motor vehicles	Office equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July 2019	1,768	3	248	53	2,072
Acquisitions	-	1	107	10	118
Disposals	-	-	(129)	-	(129)
Depreciation	(26)	(2)	(27)	(24)	(79)
Carrying amount at 30 June 2020	1,742	2	199	39	1,982

5.6 Intangible assets

	2021	2020
	\$'000	\$'000
Computer software		
Internally developed computer software	156	116
Accumulated amortisation	(97)	(56)
Purchased computer software	449	426
Accumulated amortisation	(398)	(352)
Total computer software	110	134

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Intangible assets are initially measured at cost and are tested for indications of impairment at each reporting date. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

The acquisition of or internal development of software is capitalised only when the expenditure meets the recognition criteria for capital expenditure.

The internally developed computer software relates to the development of applications including the customer transaction reporting system and web portal.

Reconciliation 2020-21	Internally developed computer software	Purchased computer software	Total
	\$'000	\$'000	\$'000
Carrying amount at 1 July 2020	60	74	134
Acquisitions	41	22	63
Amortisation	(42)	(45)	(87)
Carrying amount at 30 June 2021	59	51	110

Reconciliation 2019-20	Internally developed computer software	Purchased computer software	Total
	\$'000	\$'000	\$'000
Carrying amount at 1 July 2019	45	45	90
Acquisitions	49	70	119
Amortisation	(34)	(41)	(75)
Carrying amount at 30 June 2020	60	74	134

6. Liabilities

6.1 Deposits from councils and local government bodies	2021	2020
	\$'000	\$'000
At call	250,984	209,491
Fixed term	209,328	239,709
Total deposits from councils and local government bodies	460,312	449,200

Concentrations of deposits

The Authority is an industry specific financial institution which operates under the *Local Government Finance Authority Act, 1983*. The Authority is restricted by legislation to accepting deposits from councils and local government bodies operating in South Australia.

6.2 Accrued interest payable	2021	2020
Interest payable on:	\$'000	\$'000
Deposits from councils and local government bodies	435	851
Borrowings*	343	495
Total accrued interest payable	778	1,346

* The accrued interest payable on interest rate swaps which are required to be recorded at fair value has been transferred to the Derivatives line item.

6.3 Borrowings	2021	2020
	\$'000	\$'000
Bank overdraft	-	3,141
Short term money market facility	156,320	301,740
Fixed term borrowings	103,595	47,745
Promissory notes	8,012	8,007
Total borrowings	267,927	360,633

6.4 Derivatives	2021	2020
	\$'000	\$'000
Swap principal receivable	(3,327)	(4,782)
Interest receivable on interest rate swaps	(16)	(57)
Interest payable on interest rate swaps	2,388	2,862
Fair value adjustment	28,442	47,901
Sub-total interest rate swaps	27,487	45,924
Futures contracts	-	13
Total derivatives	27,487	45,937

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

6.5 Provisions	2021	2020
	\$'000	\$'000
Employee benefits	287	338
Fringe benefits tax	14	23
Bonus payment to councils and local government bodies	2,500	2,500
Provision for income tax equivalents	730	1,007
Total provisions	3,531	3,868

Employee benefits

A provision is made in respect of the Authority's liability for annual leave and long service leave as at balance date. Long service leave is accrued for all employees from the date of commencement of service. The amount included in the accounts is the undiscounted amount expected to be paid.

No provision is made in the accounts for sick leave entitlements.

Bonus payment

A provision is made for the annual bonus to clients which is based on their average account balances for loans and deposits during the financial year. This payment is made pursuant to Section 22(2)(b) of the *Local Government Finance Authority Act, 1983*.

Income tax equivalents

A provision is made for income tax equivalents payable as at 30 June 2021.

Movement in provisions during the year	2021	2020
	\$'000	\$'000
Bonus payment to councils and local government bodies		
Opening balance 1 July	2,500	2,500
Increase in provision	2,500	2,500
Amounts paid	(2,500)	(2,500)
Closing balance 30 June	2,500	2,500
Provision for income tax equivalents		
Opening balance 1 July	1,007	1,247
Increase in provision	1,563	2,101
Amounts paid	(1,840)	(2,341)
Closing balance 30 June	730	1,007

6.6 Other liabilities	2021	2020
	\$'000	\$'000
Employee on-costs	31	37
Sundry creditors	213	267
Total other liabilities	244	304

Employee on-costs includes employer superannuation contributions which are settled when the respective employee benefits that they relate to is discharged.

Sundry creditors are raised for all amounts owing but unpaid. Sundry creditors are normally settled within 30 days from the date the invoice is first received. All sundry creditors are non-interest bearing. The carrying amount of sundry creditors represents fair value due to their short-term nature.

Superannuation commitments

The Authority contributes to superannuation funds as chosen by individual employees. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at the reporting date relates to any contributions due but not yet paid.

7. Other disclosures

7.1 Equity

General reserve

The general reserve has been accumulated from profits earned in previous years. The purpose of the reserve is to provide the Authority with a strong financial position and to safeguard against any future adverse conditions that may be encountered. Further profits are earned through the reinvestment of the reserve funds.

Revaluation reserve

The asset revaluation surplus is used to record increments and decrements in the fair value of building floorspace to the extent that they offset one another. Relevant amounts are transferred to retained earnings when an asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

7.2 Cash flow

Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the statement of cash flows:

- (i) Client deposits and withdrawals;
- (ii) Sales and purchases of money market securities;
- (iii) Drawdown and repayment of loans and investments; and
- (iv) Fees paid and received

Cash flow reconciliation	2021 \$'000	2020 \$'000
Reconciliation of cash at bank at the end of the reporting period		
Cash at bank disclosed in the statement of financial position	5,078	-
Bank overdraft disclosed in Note 6.3	-	(3,141)
Balance as per the statement of cash flows	5,078	(3,141)

Reconciliation of profit after income tax to net cash provided by operating activities

Profit after income tax equivalents	4,449	4,903
Decrease/(increase) in interest receivable	1,173	1,929
Decrease/(increase) in sundry debtors	(22)	(5)
Increase/(decrease) in interest payable	(1,055)	(1,388)
Increase/(decrease) in other liabilities	(48)	(43)
Increase/(decrease) in provisions	(337)	(346)
Expected credit loss allowance	(11)	63
Depreciation and amortisation	165	153
Revaluation loss/(gain)	(57)	(192)
Loss/(gain) on disposal of fixed assets	(9)	2
Net cash provided by operating activities	4,248	5,076

8. Outlook

8.1 Unrecognised contractual commitments

Commitments include operating, capital and outsourcing arrangements arising from contractual or statutory sources and are disclosed at their nominal value.

Loan commitments	2021 \$'000	2020 \$'000
Unused cash advance facilities	729,880	586,707
Term loans approved not advanced	-	730
Total loan commitments	729,880	587,437

8.2 Contingent assets and liabilities

Contingent assets and contingent liabilities are not recognised in the statement of financial position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

The Authority incurs contingent assets and liabilities as part of its normal operations in providing borrowing and investment services to local government in South Australia as are contemplated by its enabling legislation.

Contingent assets

(a) Guarantee of the Treasurer of SA on liabilities

Under Section 24 of the *Local Government Finance Authority Act, 1983*, all financial obligations incurred or assumed by the Authority are guaranteed by the Treasurer on behalf of the State of South Australia.

As at 30 June 2021 the total liabilities guaranteed was \$760.279 million.

(b) Security for loan agreements

(i) Debentures over council general revenue

Loan agreements with councils are secured by debentures which provide a charge over council general revenue.

As at 30 June 2021 the total loans secured by debenture was \$746.587 million.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

(ii) Schedule 2 of the Local Government Act 1999

Loans to prescribed local government bodies which are council regional subsidiaries rely upon the constitutional obligations of councils in the guarantee of the liabilities incurred or assumed by subsidiaries as per Schedule 2 of the *Local Government Act 1999*.

As at 30 June 2021 the total loans secured by Schedule 2 of the *Local Government Act 1999* was \$16.772 million.

(iii) First registered mortgage and specific security deed

Loan agreements with the Local Government Association of South Australia (LGA) are secured by first registered mortgage over their building at 148 Frome Street, Adelaide, SA, 5000. In addition to this a specific security deed was entered into between the Authority and LGA in relation to the State Local Government Infrastructure Partnership (SLGIP). The specific security deed grants the Authority a first ranking security interest over certain cash flows arising from the SLGIP agreement.

As at 30 June 2021 the total loans secured by first registered mortgage and specific security deed was \$17.689 million

Contingent liabilities

(a) Financial guarantee

The Authority has issued a financial guarantee on behalf of the Workers Compensation Scheme of the Local Government Association of South Australia in favour of the Return to Work Corporation of South Australia. The guarantee is fully secured against depositor funds held, the value of which will not be less than the value of any liability that might be incurred.

As at 30 June 2021 the amount guaranteed was \$25.679 million.

(b) Performance bond/guarantees

(i) Northern Adelaide Waste Management Authority

The Authority has issued a performance bond/guarantee on behalf of the prescribed local government body, Northern Adelaide Waste Management Authority, a regional subsidiary of the City of Playford, Corporation of the Town of Gawler and City of Salisbury in favour of the Environment Protection Authority.

As at 30 June 2021 the amount guaranteed was \$1.350 million.

Note: Pursuant to Schedule 2 of the *Local Government Act 1999*, liabilities incurred or assumed by a regional subsidiary are guaranteed by the constituent councils.

8.3 Impact of standards not yet effective

The Authority has assessed the impact of new and changed Australian Accounting Standards Board Standards and Interpretations not yet effective and has determined that there will be no financial impact arising from them.

8.4 COVID-19 pandemic outlook for the Authority

The Reserve Bank response to the COVID-19 pandemic has had the effect of marginally lowering the 90 day BBSW rates used in the floating rate side of our interest rate swaps. As this reduction has been fully repriced in our interest rate swap portfolio there will be a reduction in income and therefore profitability until the 90 day BBSW rate returns to a normal position.

In June 2020 the Board of the Authority approved a three year financial assistance package for councils to assist them during the COVID-19 pandemic. The package includes discounts to cash advance debenture loans and higher interest on deposits for councils. This will in turn have the financial effect of reducing the profit of the Authority until the last of the council assistance facilities mature in February 2024.

9. Measurement and risk

9.1 Fair value

AASB 13 Fair Value Measurement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date.

The book value of financial assets and financial liabilities shown in the table below includes principal, accrued interest and, where applicable, a fair value adjustment. The distribution of accrued interest to asset and liability categories which are recorded at amortised cost in the accounts will cause the amounts shown as book values to differ from those shown on the statement of financial position.

Fair value of financial assets and financial liabilities

The following methods and assumptions are used to determine the fair values of financial assets and liabilities:

Cash at bank

The book value is a reasonable estimate of the fair value due to the short-term nature.

Investment securities

The fair value of fixed term deposits held with banks is estimated based on a discounted cash flow analysis utilising a zero coupon curve which is representative of the market rates used for unwinding such instruments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Other assets

The book value is a reasonable estimate of the fair value due to the short-term nature.

Net loans and advances

The fair value is estimated based on a discounted cash flow analysis utilising a zero coupon curve which is representative of the market rates used for unwinding such instruments.

Deposits from councils and prescribed local government bodies

The fair value is estimated using discounted cash flow analysis based on current market rates for deposits having substantially the same terms and conditions.

Borrowings

The fair value is estimated using discounted cash flow analysis based on current market rates for borrowings having substantially the same terms and conditions.

Derivatives

The fair value of interest rate swaps is estimated based on a discounted cash flow analysis utilising a credit adjusted zero coupon curve in accordance with *AASB13 Fair Value Measurement*.

Other liabilities

The book value is a reasonable estimate of the fair value due to the short-term nature.

		2021		2020	
		Book value \$'000	Fair value \$'000	Book value \$'000	Fair value \$'000
Financial assets	Category				
Cash at bank	Amortised cost	5,078	5,078	-	-
Investment securities	Amortised cost	10,094	10,095	45,789	45,917
Other assets	Amortised cost	102	102	232	232
Net loans and advances	Amortised cost	815,735	842,265	884,316	916,750
Financial liabilities	Category				
Deposits from councils and local government bodies	Amortised cost	460,747	460,936	450,051	450,784
Borrowings	Amortised cost	268,270	270,145	357,986	360,849
Derivatives	FVTPL	27,487	27,487	45,937	45,937
Other liabilities	Amortised cost	244	244	304	304

Fair value hierarchy

The recognised fair values of financial assets and liabilities are classified according to the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1 - fair values that reflect unadjusted quoted prices in an active market for identical assets/liabilities.

Level 2 - fair values that are based on inputs that are directly or indirectly observable for the asset/liability (other than unadjusted quoted price).

Level 3 - fair values that are derived from data not observable in a market.

All financial assets and liabilities are classified as level 2.

During 2021 and 2020 there were no transfers of assets between fair value hierarchy levels and no changes in valuation techniques.

9.2 Financial instruments

Classification of financial instruments

Management determines the classification of financial instruments at initial recognition and at each reporting date in accordance with *AASB 9 Financial Instruments*.

AASB 9 requires measurement of financial assets at either amortised cost or fair value through profit and loss (FVTPL) depending on the Authority's business model for managing the financial assets and the contractual cash flow characteristics.

A financial asset is measured at amortised cost only if both of the following conditions are met:

The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Authority has determined the following classifications for financial instruments:

Classification of financial assets

Financial assets at amortised cost – Cash at bank, investment securities, loans and advances and other assets are measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Classification of financial liabilities

Financial liabilities at amortised cost – Deposits from councils and local government bodies, borrowings and other liabilities are measured at amortised cost.

Fair value through profit and loss - Derivative financial instruments are measured at fair value with changes in the fair value taken to the statement of comprehensive income.

9.3 Risk management policies and procedures

The Treasurer issued a revised consent dated 9 June 2021, for the Authority to enter into a range of financial instruments as part of its normal operations of providing borrowing and investment services to local government in South Australia and for managing the associated risks.

All financial instrument transactions and internal control activities are conducted within a board approved risk policy document. A treasury management system is in place which provides comprehensive accounting and reporting of financial instrument transactions which in turn allows for compliance with the risk policy to be monitored closely.

The risk management process is subject to regular and close senior management scrutiny, including regular board and other management reporting. An asset and liability committee (ALCO) has been appointed to direct and monitor risk management operations in accordance with the risk policy and is accountable to the board.

(a) Market risk

Market risk for the Authority is primarily through interest rate risk. There is no exposure to foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Authority's exposure to interest rate risk arises where mismatches occur between the maturities of financial assets and financial liabilities. In order to mitigate this risk, the Authority has entered into interest rate swap contracts and interest rate futures contracts to hedge actual financial transactions.

(i) Fair value sensitivity analysis for fixed rate instruments

The Authority had a number of fair value hedges in place at the reporting date. As the hedging instrument and hedged items have matching fixed rate positions which directly offset each other there would be no material effect on profit or loss if interest rates change.

(ii) Sensitivity analysis for variable rate instruments

It is estimated that a change of 50 basis points applied to the risk exposures in existence at the reporting date would have increased/(decreased) profit for the reporting period by the amounts shown in the following table. For the purpose of this analysis variable rate instruments include all variable rate interest bearing financial instruments which are due to be repriced within 90 days of the reporting date.

	Principal balance 30/06/21	+0.5%	-0.5%	Principal balance 30/06/20	+0.5%	-0.5%
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Variable rate financial assets						
Investment securities	10,000	50	(50)	33,500	168	(168)
Loans and advances	367,939	1,840	(1,840)	377,835	1,889	(1,889)
Variable rate financial liabilities						
Council deposits	409,647	(2,048)	2,048	390,171	(1,951)	1,951
Short term money market facility	156,320	(782)	782	304,881	(1,524)	1,524
Promissory notes	8,012	(40)	40	8,007	(40)	40
Variable rate derivatives						
Interest rate swaps (notional principal)	364,786	1,824	(1,824)	401,996	2,010	(2,010)
Futures (notional principal/bond formula)	-	-	-	3,000	181	(181)
Profit/(loss) interest rate sensitivity		844	(844)		733	(733)

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Authority's exposure to credit risk arises from the potential default by counterparties with whom financial assets are held.

Included in the Authority's risk policy document is a credit risk limits policy which stipulates counterparty credit limits as follows:

(i) Investments and derivatives

Individual counterparties are assessed based on Standard & Poor's credit ratings and a limit applied based on that rating. Specific approvals are given for counterparties that are outside of this criteria. Regular reporting of investment and derivative credit exposures are provided to the board and management.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

(ii) Loans and advances

Credit limits are applied to individual councils based on debt servicing levels not exceeding board approved percentages. Debt servicing levels are analysed on receipt of each loan application and the board approved percentages are reviewed annually. Credit risk is considered minimal as the majority of loan agreements are secured by debentures providing a charge over the council's general revenue.

The Authority has not incurred any bad debts on loans since its inception in 1984. To satisfy the requirements of *AASB 9: Financial Instruments* the Authority has implemented a model for calculating an expected credit loss (ECL) allowance using a forward-looking approach. There are no loans in default or greater than 30 days past due. Additional consideration has been given to changing economic conditions and other issues that may affect the credit risk on financial assets. Consequently, the Authority concludes that all the counterparties have low risks of default and do not have any past-due amounts. As a result, the ECL allowance calculation under the methodology is limited to the following twelve months rather than assigning a lifetime allowance.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward looking information as described above. For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Authority in accordance with the contract and all the cash flows that the Authority expects to receive, discounted at the original interest rate.

The Authority recognises an impairment gain or loss in profit or loss for investment securities and loans with a corresponding adjustment to their carrying amount through a loss allowance account. The following table shows the movement in expected credit losses that has been recognised for the respective financial assets.

	12-month ECL	
	Investment securities	Loans and advances
	\$'000	\$'000
Balance at 1 July 2019	-	398
Movement for the year	1	62
Balance at 30 June 2020	1	460
Movement for the year	(1)	(9)
Balance at 30 June 2021	-	451

There has not been any significant change in the gross amounts of the above financial assets that has affected the estimation of the loss allowance.

The carrying amount of the Authority's financial assets at FVTPL as disclosed in Note 9.1 best represents its respective maximum exposure to credit risk. The Authority holds no collateral over any of these balances.

A concentration of credit risk occurs in relation to loans and advances as under the *Local Government Finance Authority Act, 1983*, loans and advances made are restricted to councils and local government bodies.

Non-derivative financial assets are shown below at face value or amortised cost and derivative financial assets are shown at their fair value plus the credit conversion factors in line with the APRA Guidelines. The Authority uses Standard and Poor's credit ratings to assess the credit quality of the counterparties it invests with. Loans to councils and local government bodies are shown as No Rating (NR) in the following analysis as they are not required to be rated in this manner.

	Short term rating		Long term rating			
2021	A1+	A2	AA-	A	NR	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Investment securities	5,000	5,000	-	-	-	10,000
Loans and advances	-	-	-	-	781,048	781,048
Derivatives	-	-	3,800	400	-	4,200
Total	5,000	5,000	3,800	400	781,048	795,248

	Short term rating		Long term rating			
2020	A1+	A2	AA-	A	NR	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Investment securities	40,500	5,000	-	-	-	45,500
Loans and advances	-	-	-	-	829,300	829,300
Derivatives	-	-	4,000	800	-	4,800
Total	40,500	5,000	4,000	800	829,300	879,600

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Authority's exposure to liquidity risk arises where a mismatch of cash flows between short term financial liabilities and long term financial assets exists.

The Authority has a State Government guarantee covering all liabilities which enables it to borrow funds as required from the financial markets at favourable rates. In order to cover seasonal shortfalls in funding the Authority has access to short term borrowing arrangements with the South Australian Government Financing Authority (SAFA).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

A liquidity policy is included in the Authority's risk policy document which provides for regular management reporting in order to closely monitor the liquidity position. The risk policy requires that sufficient funds are available at all times to meet any reasonable calls on its liabilities.

The following are the remaining contractual maturities of financial liabilities, including estimated interest payments:

2021	Carrying amount \$'000	Contracted cash flows \$'000	0 - 3 months \$'000	3 - 12 months \$'000	1 - 5 years \$'000	> 5 years \$'000
Non-derivative financial liabilities						
Deposits from councils and local government bodies	460,747	(460,747)	(410,082)	(50,665)	-	-
Borrowings	268,270	(268,270)	(165,813)	(1,155)	(95,892)	(5,410)
Derivative financial liabilities						
Interest rate swaps - outflow	116,663	(120,540)	(6,801)	(23,318)	(68,536)	(21,885)
Interest rate swaps - inflow	(89,176)	70,661	6,756	13,444	43,230	7,231
2020	Carrying amount \$'000	Contracted cash flows \$'000	0 - 3 months \$'000	3 - 12 months \$'000	1 - 5 years \$'000	> 5 years \$'000
Non-derivative financial liabilities						
Deposits from councils and local government bodies	450,051	(450,051)	(391,022)	(59,029)	-	-
Borrowings	361,128	(361,128)	(314,488)	(14,046)	(24,599)	(7,995)
Derivative financial liabilities						
Interest rate swaps - outflow	157,121	(161,019)	(7,717)	(34,128)	(84,893)	(34,281)
Interest rate swaps - inflow	(111,184)	101,998	6,610	23,565	54,898	16,925
Futures contracts	13	(13)	(13)	-	-	-

10.4 Fair value hedges

AASB 9 *Financial Instruments* provides an option to continue to apply the hedge accounting requirements of AASB 139 *Financial Instruments: Recognition and Measurement*. The Authority has chosen to continue with the AASB 139 hedge accounting requirements.

The Authority uses interest rate swaps to hedge the interest rate risk associated with long term fixed rate debenture loans to councils and prescribed bodies. Hedge accounting is used where it has been determined that the hedge is highly effective and has been documented in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*.

Sources of hedge ineffectiveness in the fair value hedge relationships include:

- the effect of the counterparty and the Authority's own credit risk on the fair value of the interest rate swap contracts which is not reflected in the fair value of the hedged item attributable to the change in interest rates; and
- differences in variable rate reset frequencies between the interest rate swap contracts and the hedged items.

No other sources of ineffectiveness emerged from these hedging relationships.

The following tables detail information required to be disclosed by AASB 7 *Financial Instruments: Disclosures* regarding the fair value hedge relationships outstanding at the end of the reporting period.

Fair value hedges

Hedging instruments	Average contracted fixed interest rate		Notional principal amount		Carrying amount of the hedging instrument: assets/(liabilities)		Change in fair value used for recognising hedge ineffectiveness	
	2021 %	2020 %	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Interest rate swaps	3.245	3.536	361,459	397,214	(27,487)	(45,924)	19,459	(6,289)
Hedged items	Carrying amount of the hedged item: assets / (liabilities)		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item: debit/ (credit)		Line item in the statement of financial position in which the hedged item is included		Change in fair value used for recognising hedge ineffectiveness	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000			2021 \$'000	2020 \$'000
Fixed rate loans	401,477	456,674	31,930	51,807	Net loans and advances		(19,402)	6,481

The following table details the hedge ineffectiveness arising from the fair value hedge relationships and the line item in profit or loss in which the hedge ineffectiveness is included.

	Amount of hedge ineffectiveness recognised in profit or loss (P/L)	Line item in P/L in which hedge ineffectiveness is included
Hedged items	2021 \$'000	2020 \$'000
Fixed rate loans	57	192
		Other income/expenses

CERTIFICATION OF THE FINANCIAL STATEMENTS

We certify that the:

- financial statements of the Local Government Finance Authority of South Australia:
 - are in accordance with the accounts and records of the authority; and
 - comply with relevant Treasurer's instructions; and
 - comply with relevant accounting standards; and
 - present a true and fair view of the financial position of the authority at the end of the financial year and the result of its operations and cash flows for the financial year.
- internal controls employed by the Local Government Finance Authority of South Australia for the financial year over its financial reporting and its preparation of financial statements have been effective.



DJ Lambert
Chief Executive Officer



GC Hollitt
Financial Controller



Michael Sedgman
Chair

9 September 2021

INDEPENDENT AUDITOR'S REPORT

To the Chair
Local Government Finance Authority of South Australia

Opinion

I have audited the financial report of the Local Government Finance Authority of South Australia for the financial year ended 30 June 2021

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Local Government Finance Authority of South Australia as at 30 June 2021, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2021
- a Statement of Financial Position as at 30 June 2021
- a Statement of Changes in Equity for the year ended 30 June 2021
- a Statement of Cash Flows for the year ended 30 June 2021
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chair, Chief Executive Officer and the Financial Controller.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of my report. I am independent of the Local Government Finance Authority of South Australia. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* have been met.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Executive Officer and Board for the financial report

The Chief Executive is responsible for the preparation of the financial report that gives a true and fair view in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and the Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Chief Executive is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

The Board are responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the financial report

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 33(2) of the *Local Government Finance Authority Act 1983*, I have audited the financial report of the Local Government Finance Authority of South Australia for the financial year ended 30 June 2021.

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

INDEPENDENT AUDITOR'S REPORT

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Local Government Finance Authority of South Australia's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive Officer
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Chief Executive and the Board about, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.

Andrew Richardson

Auditor-General

13 September 2021





**Local Government
Finance Authority**

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