

Essential Services Commission of South Australia

Financial report
for the year ended
30 June 2020



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To the Chairperson Essential Services Commission

Opinion

I have audited the financial report of Essential Services Commission for the financial year ended 30 June 2020.

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Essential Services Commission as at 30 June 2020, 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 2020
- a Statement of Financial Position as at 30 June 2020
- a Statement of Changes in Equity for the year ended 30 June 2020
- a Statement of Cash Flows for the year ended 30 June 2020
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chairperson, the Chief Executive Officer and the Chief Financial Officer.

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 Essential Services Commission. 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 the Commissioners of the Essential Services Commission for the financial report

The Chief Executive Officer 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 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 that is free from material misstatement, whether due to fraud or error.

The Commissioners of the Essential Services Commission 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 24(2) of the *Essential Services Commission Act 2002*, I have audited the financial report of Essential Services Commission for the financial year ended 30 June 2020.

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.

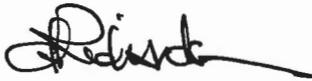
As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- 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
- 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 Essential Services Commission'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 Officer and the Commissioners of the Essential Services Commission 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

24 September 2020

Essential Services Commission

Financial Statements

For the year ended 30 June 2020

Certification of the Financial Statements

We certify that the attached general purpose financial statements for the Essential Services Commission:

- are in accordance with the accounts and records of the Essential Services Commission
- comply with relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*
- comply with relevant Australian Accounting Standards
- present a true and fair view of the financial position of the Essential Services Commission as at 30 June 2020 and the results of its operations and cash flows for the financial year.

We certify that the internal controls employed by the Essential Services Commission over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the financial year.

Signed in accordance with a resolution of the Essential Services Commission.



Mr Brett Rowse
Chairperson
23 September 2020



Mr Adam Wilson
Chief Executive Officer
23 September 2020



Mr Nick Mahon
Chief Financial Officer
23 September 2020

Essential Services Commission
Statement of Comprehensive Income
for the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Income			
Revenue from licence and administration fees	2.1	4 617	4 707
Contributions from South Australian Government	2.2	250	421
Revenue from services	2.3	90	26
Other income	2.4	59	75
Total income		5 016	5 229
Expenses			
Employee benefits expenses	3.3	4 459	4 245
Supplies and services	4.1	1 686	1 415
Depreciation and amortisation	4.2	146	146
Other expenses	4.3	-	8
Total expenses		6 291	5 814
Net result		(1 275)	(585)
Total comprehensive result		(1 275)	(585)

The accompanying notes form part of these financial statements. The net result and total comprehensive result are attributable to the South Australian Government as owner.

Essential Services Commission
Statement of Financial Position
as at 30 June 2020

	Note	2020 \$'000	2019 \$'000
Current assets			
Cash and cash equivalents		7 579	8 483
Receivables	6.1	1 215	1 146
Total current assets		8 794	9 629
Non-current assets			
Property, plant and equipment	5.1	151	211
Intangible assets	5.3	24	110
Total non-current assets		175	321
Total assets		8 969	9 950
Current liabilities			
Payables	7.1	169	177
Employee benefits	3.4	519	364
Provisions	7.2	4	4
Other liabilities	7.3	221	38
Total current liabilities		913	583
Non-current liabilities			
Payables	7.1	73	76
Employee benefits	3.4	789	825
Provisions	7.2	8	5
Total non-current liabilities		870	906
Total liabilities		1 783	1 489
Net assets		7 186	8 461
Equity			
Retained earnings		7 186	8 461
Total equity		7 186	8 461

The accompanying notes form part of these financial statements. The total equity is attributable to the South Australian Government as owner.

Essential Services Commission
Statement of Changes in Equity
for the year ended 30 June 2020

	Retained earnings	Total equity
	\$'000	\$'000
Balance at 30 June 2018	9 046	9 046
Net result for 2018-19	(585)	(585)
Total comprehensive result 2018-19	(585)	(585)
Balance at 30 June 2019	8 461	8 461
Net result for 2019-20	(1 275)	(1 275)
Total comprehensive result 2019-20	(1 275)	(1 275)
Balance at 30 June 2020	7 186	7 186

The accompanying notes form part of these financial statements. All changes to equity are attributable to the South Australian Government as owner.

Essential Services Commission
Statement of Cash Flows
for the year ended 30 June 2020

	2020	2019
	Inflows (Outflows)	Inflows (Outflows)
	\$'000	\$'000
Cash flows from operating activities		
Cash inflows		
Receipts from licence and administration fees	4 713	4 669
Receipts from SA Government	250	421
Receipts from other services	90	26
Receipts for paid parental leave scheme	-	13
Other receipts	59	75
Cash generated from operations	5 112	5 204
Cash outflows		
Employee benefits payments	(4 309)	(4 085)
Payments for supplies and services	(1 707)	(1 442)
Payments for paid parental leave scheme	-	(13)
Cash used in operations	(6 016)	(5 540)
Net cash provided by / (used in) operating activities	(904)	(336)
Cash flows from investing activities		
Purchase of intangible assets	-	-
Cash used in investing activities	-	-
Net cash provided by / (used in) investing activities	-	-
Net increase / (decrease) in cash and cash equivalents	(904)	(336)
Cash and cash equivalents at the beginning of the period	8 483	8 819
Cash and cash equivalents at the end of the period	7 579	8 483

The accompanying notes form part of these financial statements.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2020

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Essential Services Commission

Notes to and forming part of the financial statements

for the year ended 30 June 2020

1. About the Essential Services Commission

1.1. Reporting entity

The financial statements and accompanying notes cover the Essential Services Commission (Commission) as an individual reporting entity. The Commission is a statutory authority of the State of South Australia, established under the *Essential Services Commission Act 2002* (ESC Act).

The Commission uses the banking arrangements of the Department of Treasury and Finance under a Service Level Agreement. A non-interest bearing Special Deposit Account (SDA) entitled 'Essential Services Commission Operating Account', established by the Treasurer of South Australia (Treasurer) under the *Public Finance and Audit Act 1987* (PFAA), is used for the purpose of recording all of the financial transactions of the Commission, including the collection of licence and administration fees.

1.2. Basis of preparation

The financial statements are prepared based on a 12-month reporting period and are 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 on a different basis.

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

Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

Significant accounting policies are set out in the notes.

1.3. Administered items

Section 22 of the ESC Act requires that, except as otherwise directed by the Treasurer, fees or other amounts received by the Commission under that or any other Act will be paid into the Consolidated Account. The Treasurer has directed the use of the SDA for the purpose of recording all the financial transactions of the Commission.

The amounts transferred to the Consolidated Account are administered items held on behalf of the South Australian Government. The Commission is accountable for the collection and banking of those administered items, but does not have the discretion to deploy the resources for the achievement of the Commission's objectives. The receipt of these administered items is not recognised as revenue. Instead, the subsequent transfer of these items to the Consolidated Account is disclosed in notes 2.1 and 11. The accrual basis of accounting has been used in accounting for administered items.

1.4. Objectives and programs

The Commission is a statutory authority established as an independent economic regulator and advisory body under the ESC Act.

The Commission undertakes economic regulation in the water and sewerage, electricity, gas, maritime and rail industries, conducts formal public inquiries and provides advice to the South Australian Government on economic and regulatory matters. The ESC Act and various industry Acts together provide the Commission with those regulatory and advisory powers and functions. The Commission's role under the *Planning, Development and Infrastructure Act 2016* has not commenced, as the enabling regulations are not in place.

Under the ESC Act the Commission has the primary objective of the '...protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services'.

The ESC Act sets out seven further factors which the Commission must have regard to in performing its functions, being:

- promoting competitive and fair market conduct
- preventing misuse of monopoly or market power

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2020

1.4 Objectives and programs (continued)

- facilitating entry into relevant markets
- promoting economic efficiency
- ensuring consumers benefit from competition and efficiency
- facilitating maintenance of the financial viability of regulated industries and the incentive for long-term investment, and
- promoting consistency in regulation with other jurisdictions.

The Commission has two broad advisory functions. The first is to provide advice to the Treasurer, on request, in relation to any matter (section 5(f) of the ESC Act). In that capacity the Commission acts as an adviser to the South Australian Government, providing independent advice on economic and regulatory matters.

The second is to conduct formal public inquiries (Part 7 of the ESC Act). Such inquiries can be initiated by the Commission (into any matters within its regulatory scope), by the Treasurer (into any matter) or by an industry Minister (into any matter concerning a regulated industry).

The ESC Act specifies a general set of functions for the Commission. However, the specific roles of the Commission are assigned to it under industry legislation.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2020

1.4 Objectives and programs (continued)

The following table summarises such roles for the year ended 30 June 2020.

Legislation	Regulatory functions
<i>Water Industry Act 2012</i>	Water and sewerage retail service providers: <ul style="list-style-type: none"> • Licensing • Retail price regulation • Consumer protection • Service / reliability standard setting • Performance monitoring and reporting Third Party Access Regime regulator
<i>Electricity Act 1996</i>	Electricity retail operations: <ul style="list-style-type: none"> • Monitoring and, if necessary, determination of the retailer Solar Photovoltaic Feed-in Tariff • Preparation and publication of Ministerial Energy Retail Price Offerings Comparison reports • Retailer Energy Efficiency Scheme administration Electricity generation, transmission, distribution and off-grid retailers: <ul style="list-style-type: none"> • Licensing • Network service / reliability standard setting • Performance monitoring and reporting
<i>Gas Act 1997</i>	Gas retail operations: <ul style="list-style-type: none"> • Preparation and publication of Ministerial Energy Retail Price Offerings Comparison reports • Retailer Energy Efficiency Scheme administration Retail and Distribution LPG gas operations: <ul style="list-style-type: none"> • Licensing Natural gas operations: <ul style="list-style-type: none"> • Licensing • Standard setting • Performance monitoring and reporting
<i>AustralAsia Railway (Third Party Access) Act 1999; Railway (Operations and Access) Act 1997</i>	Access Regulator of: <ul style="list-style-type: none"> • Tarcoola–Darwin railway • Intrastate rail lines
<i>Maritime Services (Access) Act 2000</i>	Ports services pricing and access regulator
<i>Planning, Development and Infrastructure Act 2016</i>	Determine funding arrangements for any infrastructure delivery schemes established by the State Government (not yet commenced, as the enabling regulations are not in place)

1.5 Impact of COVID-19 pandemic on the Commission

The COVID-19 pandemic has not had an impact on the operations of the Commission.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2020

2. Income

2.1. Revenue from licence and administration fees

	Note	Electricity \$'000	Gas \$'000	Water \$'000	2020 \$'000	2019 \$'000
Licence fees		5 305	2 396	9 872	17 573	17 493
Administration fees		857	217	-	1 074	905
Administered items	11	(5 522)	(2 284)	(6 224)	(14 030)	(13 691)
Total fees		640	329	3 648	4 617	4 707

Income is recognised to the extent that it is probable that the flow of economic benefits to the Commission will occur and can be reliably measured. Income has been aggregated according to its nature and has not been offset unless required or permitted by a specific standard, or where offsetting reflects the substance of the transaction or other event.

Licence and administration fees are measured at the fair value of consideration received or receivable. The licence and administration fees are set by the relevant Minister in accordance the relevant Act. Licence and administration fee revenue is recognised when it is received or receivable. Unearned revenue is recognised where cash is received by the Commission for licence or administration fees prior to the date of renewal or issue.

2.2. Contributions from South Australian Government

	2020 \$'000	2019 \$'000
Contributions from South Australian Government	250	421
Total contributions from South Australian Government	250	421

Contributions are recognised as revenues when the Commission obtains control over the funding. Control over contributions is normally obtained upon receipt.

2.3. Revenue from services

	2020 \$'000	2019 \$'000
Contribution to rail regulatory costs by Northern Territory Government	90	26
Total revenue from services	90	26

Contributions are recognised as revenues when the Commission obtains control over the funding. Control over contributions is normally obtained upon receipt.

2.4. Other income

	2020 \$'000	2019 \$'000
Other income	59	75
Total other income	59	75

Includes salary reimbursement of \$48 000 (2019: \$54 000) and overseas travel reimbursement of \$11 000 (2019: \$20 000).

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2020

3. Commission, committees and employees

3.1. Key management personnel

Key management personnel of the Commission include the Commissioners, Chief Executive Officer and members of the Leadership Team who have responsibility for the strategic direction and management of the Commission.

Total compensation for the Commission's key management personnel was \$1 519 113 (2019: \$1 410 043).

Transactions with key management personnel and other related parties

Related parties of the Commission include all key management personnel and their close family members as defined in AASB 124 *Related Party Disclosures*. There were no reportable transactions between the Commission and any key management personnel and their related parties.

3.2. Commission and committee members

Members that were entitled to receive remuneration (directly and indirectly) for membership during the 2020 financial year were:

Essential Services Commission

Mr Brett Rowse (Chairperson)
Dr Lynne Williams AM
Ms June Roache
Mr David Round AM
Mr David Swift (Appointment commenced 1 August 2019)

Consumer Advisory Committee

Mr Brett Rowse (Chairperson)**
Ms Elaine Attwood
Ms Sue Averay (Appointment commenced 12 July 2019)
Mr Sandy Canale **
Mr Mark Henley
Mr Andrew McKenna
Ms Heather Smith
Mr Ross Womersley

Power Line Environment Committee

Mr Kevin Hamilton (Chairperson)
Ms Pam Andritsakis
Ms Jo Davidson*
Mr Amit Dua*(Appointment concluded 4 March 2020)
Ms Margaret Lee
Ms Kerry McConnell* (Appointment commenced 5 March 2020)
Mr Mike Magin
Mr Kim Steinle

Customer Negotiation Committee (SA Water Regulatory Determination 2020)

Mr John Hill (Chairperson) (Appointment concluded 28 February 2020)
Ms Margaret Clarke (Appointment concluded 5 December 2019)
Mr Mark Henley (Appointment concluded 5 December 2019)

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2020

3.2 Commission and committee members (continued)

* In accordance with the Department of the Premier and Cabinet Circular PC016 – Remuneration for Government Appointed Part-Time Boards and Committees, South Australian Government employees did not receive any remuneration for South Australian Government board / committee duties during the financial year.

** No remuneration was received by Mr Brett Rowse in the role of Chairperson of the Consumer Advisory Committee and Mr Sandy Canale has elected to not be remunerated.

Commission and committee remuneration

The number of members* whose remuneration received or receivable falls within the following bands:	2020	2019
	Number	Number
\$0 - \$19 999	16	16
\$20 000 - \$39 999	2	1
\$40 000 - \$59 999	2	3
\$60 000 - \$79 999	2	2
Total number of Commission and committee members	22	22

The total remuneration received or receivable by members was \$298 637 (2019: \$329 866). Remuneration of members includes sitting fees, superannuation contributions, salary sacrifice benefits, fringe benefits and related fringe benefits tax.

* If members sit on multiple committees they are only counted once.

3.3. Employee benefits expenses

	2020	2019
	\$'000	\$'000
Salaries and wages	3 217	2 920
Long service leave	30	186
Annual leave	289	263
Skill and experience retention leave	25	-
Employment on-costs - superannuation	372	339
Employment on-costs - other	182	171
Commission and committee fees*	295	308
Other employee related expenses	49	58
Total employee benefit expenses	4 459	4 245

* Commission and committee fees only include direct payment to members. Superannuation payments including salary sacrifice payments are included under Employment on costs - superannuation. See note 3.2 for details of remuneration for Commission and committee members.

Employment on-costs – superannuation

The superannuation employment on-cost charge represents the Commission's contributions to superannuation plans in respect of current services of current employees.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2020

3.3 Employee benefits expenses (continued)

Executive Remuneration

The number of employees whose remuneration received or receivable falls within the following bands:	2020 Number	2019 Number
\$151 000 - \$154 000	n/a	1
\$154 001 - \$174 000	2	1
\$174 001 - \$194 000	-	1
\$194 001 - \$214 000	1	-
\$214 001 - \$234 000	1	2
\$234 001 - \$254 000	1	-
\$334 001 - \$354 000	-	1
\$394 001 - \$414 000	1	-
Total	6	6

The \$151 000 to \$154 000 band has been included for the purposes of reporting comparative figures based on the executive base level remuneration rate for 2018-19.

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year, of which 4 (2019: 5) are executive and 2 (2019: 1) are non-executive staff. Remuneration of employees reflects all costs of employment including salaries and wages, payment in lieu of leave, superannuation contributions, fringe benefits tax and salary sacrifice benefits paid or payable in respect of these benefits.

The total remuneration received by these employees for the year was \$1 391 892 (2019: \$1 308 383).

Targeted voluntary separation packages

No employees received a targeted voluntary separation package during the reporting period.

3.4. Employee benefits liability

	2020 \$'000	2019 \$'000
Current		
Accrued salaries and wages	135	59
Annual leave	286	220
Long service leave	73	85
Skills and experience retention leave	25	-
Total current employee benefits	519	364
Non-current		
Long service leave	789	825
Total non-current employee benefits	789	825
Total employee benefits	1 308	1 189

Employee benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at their nominal amounts.

Salaries and wages, annual leave, skills and experience retention leave and sick leave

The liability for salary and wages is measured as the amount unpaid at the reporting date at remuneration rates current at the reporting date.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2020

3.4 Employee benefits liability (continued)

The annual leave liability and the skills and experience retention leave liability are expected to be payable within twelve months and are measured at the undiscounted amount expected to be paid.

No provision has been made for sick leave, as all sick leave is non-vesting and it is assumed that the average sick leave to be taken in future years will be less than the annual entitlement.

Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Details about the measurement of long service leave liability is provided at note 10.1.

4. Expenses

Employee benefits expenses are disclosed in note 3.3.

4.1. Supplies and services

	2020	2019
	\$'000	\$'000
Accommodation	432	414
General administration	540	586
Information technology charges	258	258
Consultants	351	100
Contractors	91	43
Other supplies and services	14	14
Total supplies and services	1 686	1 415

Total Supplies and services includes GST where the amount of GST incurred by the Commission as a purchaser is not recoverable from the Australian Taxation Office.

Accommodation

The Commission's accommodation is provided by the Department of Planning, Transport and Infrastructure under Memorandum of Administrative Arrangement (MoAA) issued in accordance with Government-wide accommodation policies. MoAA do not meet the definition of lease set out in AASB 16.

In prior years, expenses associated with MoAA were classified as operating lease payments. Expenses associated with MoAA have been re-classified as accommodation expenses for both the current year and the comparative.

Consultants

The number and dollar amount of consultancies paid or payable (included in Consultants expense shown above) fell within the following bands:

	2020		2019	
	No	\$'000	No	\$'000
Below \$10 000	3	15	6	31
\$10 000 or above	5	336	3	69
Total paid / payable to the consultants engaged	8	351	9	100

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2020

4.2. Depreciation and amortisation

	2020	2019
	\$'000	\$'000
Depreciation		
Building fit-out	60	60
Total depreciation	<u>60</u>	<u>60</u>
Amortisation		
Intangible assets	86	86
Total amortisation	<u>86</u>	<u>86</u>
Total depreciation and amortisation	<u><u>146</u></u>	<u><u>146</u></u>

All non-current assets that have limited useful lives are systematically depreciated / amortised over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is used in relation to intangible assets such as software, while depreciation is applied to tangible assets such as plant and equipment.

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)
Leasehold improvements	3-10
Furniture and fittings	3-10
Office equipment – Information Technology	3-5
Office equipment - Other	3-5
Intangibles	3-6

Review of accounting estimates

Assets' residual values, useful lives and amortisation methods are reviewed and adjusted, if appropriate, on an annual basis. No adjustments were made during the reporting period. Changes in the expected life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate.

4.3. Other expenses

	2020	2019
	\$'000	\$'000
Doubtful debts expense	-	8
Total other expenses	<u><u>-</u></u>	<u><u>8</u></u>

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2020

5. Non-financial assets

5.1. Property, plant and equipment by asset class

	2020	2019
	\$'000	\$'000
Building fit-outs		
Building fit-outs at cost (deemed fair value)	566	566
Accumulated depreciation	(415)	(355)
Total building fit-outs	<u>151</u>	<u>211</u>
Total property, plant and equipment	<u>151</u>	<u>211</u>

Property plant and equipment is recorded at fair value. Detail about the Commission's approach to fair value is set out in note 10.2.

5.2. Property, plant and equipment owned by the Commission

Property, plant and equipment owned by the Commission with a value equal to or in excess of \$15 000 is capitalised, otherwise it is expensed. Property, plant and equipment owned by the Commission is recorded at fair value. Detail about the Commission's approach to fair value is set out in note 10.2.

Reconciliation of property, plant and equipment

The following table shows the movement in value of property, plant and equipment for the year ended 30 June 2020.

	Building fit-outs	Total
	\$'000	\$'000
Carrying amount at the beginning of the period	211	211
Depreciation	(60)	(60)
Carrying amount at the end of the period	<u>151</u>	<u>151</u>

5.3. Intangible assets

	2020	2019
	\$'000	\$'000
Internally developed software		
Internally developed computer software at cost (deemed fair value)	240	240
Accumulated amortisation	(220)	(180)
Total internally generated software	<u>20</u>	<u>60</u>
Externally developed software		
Externally developed computer software at cost (deemed fair value)	184	184
Accumulated amortisation	(180)	(134)
Total externally developed software	<u>4</u>	<u>50</u>
Total intangible assets	<u>24</u>	<u>110</u>

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 any accumulated amortisation and any accumulated impairment losses.

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5.3 Intangible assets (continued)

The acquisition or internal development of software is capitalised only when the expenditure meets the definition and recognition criteria and when the amount of expenditure is greater than or equal to \$15 000.

The internally developed computer software relates to the Commission's Retailer Energy Efficiency Scheme reporting system, which has a remaining useful life of 0.5 years and carrying amount of \$20 000 (2019: \$60 000).

Impairment

There were no indications of impairment of intangible assets at 30 June 2020.

Reconciliation of intangible assets

The following table shows the movement of intangible assets for the year ended 30 June 2020.

	Internally developed software	Externally developed software	Total
	\$'000	\$'000	\$'000
Carrying amount at the beginning of the period	60	50	110
Amortisation	(40)	(46)	(86)
Carrying amount at the end of the period	20	4	24

6. Financial assets

6.1. Receivables

	2020	2019
	\$'000	\$'000
Current		
Receivables	839	923
Less impairment loss on receivables	(1)	(41)
Total receivables	838	882
Accrued revenue	319	189
Prepayments	58	75
Total current receivables	1 215	1 146
Total receivables	1 215	1 146

Receivables arise in the normal course of the issue or renewal of energy and water licences to licensees and administration fees to energy retailers. Receivables are normally settled within 30 days after the issue of an invoice. Receivables, prepayments and accrued revenues are non-interest bearing. Collectability of receivables is reviewed on an ongoing basis. Receivables are held with the objective of collecting the contractual cash flows and they are measured at amortised cost.

The net amount of GST payable to the Australian Taxation Office is included as part of receivables.

Allowance for impairment loss on receivables

	2020	2019
	\$'000	\$'000
Carrying amount at the beginning of the period	41	33
Amounts written off	(40)	-
Increase / (decrease) in allowance recognised in profit or loss	-	8
Carrying amount at the end of the period	1	41

Refer to note 10.3 for the methodology for determining impairment.

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7. Liabilities

7.1. Payables

	2020 \$'000	2019 \$'000
Current		
Creditors and accrued expenses	94	127
Employment on-costs	75	50
Total current payables	169	177
Non-current		
Employment on-costs	73	76
Total non-current payables	73	76
Total payables	242	253

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

Employment on-costs

Employment on-costs include payroll tax and superannuation contributions. The Commission makes contributions to the State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur.

As a result of an actuarial assessment performed by Department of Treasury and Finance, the percentage of the proportion of long service leave taken has increased from 41% in 2019 to 42% in 2020 and the average factor for the calculation of the employer superannuation on-costs has remained at 9.8% in 2020. These rates are used in the employment on-cost calculation. The net financial effect of the change on employment on-costs and employee benefit expense is immaterial.

Under the *Payroll Tax Act 2009*, the payroll tax rate remained at 4.95% in 2020. The rate is used in the payroll tax calculation for long service leave and annual leave.

7.2. Provisions

	2020 \$'000	2019 \$'000
Current		
Workers' compensation	4	4
Total current provisions	4	4
Non-current		
Workers' compensation	8	5
Total non-current provisions	8	5
Total provisions	12	9
Carrying amount at the beginning of the period	9	10
Additional provisions recognised	3	(1)
Carrying amount at the end of the period	12	9

A provision has been reported to reflect potential unsettled workers compensation claims. The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2020

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7.2 Provisions (continued)

provided by a consulting actuary engaged through the Office of the Commissioner for the Public Sector Employment. The provision is for the estimated cost of ongoing payments to employees as required under current legislation.

The Commission is responsible for the payment of workers compensation claims.

7.3. Other liabilities

	2020	2019
	\$'000	\$'000
Current		
Unearned revenue	221	38
Total current other liabilities	<u>221</u>	<u>38</u>
Total other liabilities	<u>221</u>	<u>38</u>

Unearned revenue is recognised where cash is received by the Commission for licence and administration fees prior to the date of renewal.

8. Changes in accounting policy

8.1. Presentation of financial statements

Treasurer's Instructions (Accounting Policy Statements) issued on 1 June 2020 removed the previous requirement for financial statements to be prepared using the net cost of services format. The net cost of services is the total cost of services less any revenue retained by public authorities involved in the provision of services but does not include items classified as revenues from and payments to the South Australian Government.

Presentation of the Statement of Comprehensive Income on an 'income and expense' basis allows information to be presented in such a way that eliminates potential confusion as to the source of funding for the Commission. As well as changes to the format of the Statement of Comprehensive Income, there are presentational changes to remove the net cost of services format from the Statement of Cash Flows. These statements now show income before expenses, and cash receipts before cash payments. Related disclosures also reflect this changed format.

9. Outlook

9.1. Unrecognised contractual commitments

Commitments arise from contractual or statutory sources and are disclosed at their nominal value.

Expenditure commitments

Commitments for accommodation and consultant contracts in existence at the reporting date but not recognised as liabilities are payable as follows:

	2020	2019
	\$'000	\$'000
Within one year	458	420
Later than one year but not later than five years	635	1 074
Total expenditure commitments	<u>1 093</u>	<u>1 494</u>

9.2. Contingent assets and contingent 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.

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The Commission is not aware of any contingent assets or contingent liabilities as at 30 June 2020.

9.3. COVID-19 pandemic outlook for the Commission

The Commission does not expect any material impact on its operations in 2020-21.

9.4. Events after the reporting period

Adjustments are made to amounts recognised in the financial statements, where an event occurs after 30 June 2020 and before the date the financial statements are authorised for issue, where those events provide information about conditions that existed at 30 June 2020.

Note disclosure is made about events between 30 June 2020 and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June 2020 and which may have a material impact on the results of subsequent years.

There were no events occurring after the end of the reporting period that had a material financial implication on these financial statements.

10. Measurement and risk

10.1. Long service leave liability - measurement

AASB 119 *Employee Benefits* describes the calculation methodology for long service leave liability.

The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave and is based on actuarial assumptions on expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data across the South Australian Government.

AASB 119 *Employee Benefits* requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds decreased from 1.25% in 2019 to 0.75% in 2020.

This decrease in the bond yield, which is used as the rate to discount future long service leave cash flows, results in an increase in the reported long service leave liability.

The actuarial assessment performed by Department of Treasury and Finance has decreased the salary inflation rate from 4% to 2.5% for long service leave liability.

The net financial effect of the changes to actuarial assumptions in the current financial year is a decrease in the long service leave liability of \$68 946 and employee benefits expense of \$104 294. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of demographical and financial assumptions, including the long-term discount rate.

The unconditional portion of the long service leave provision is classified as current as the Commission does not have an unconditional right to defer settlement of the liability for at least 12-months after reporting date. The unconditional portion of long service leave relates to an unconditional legal entitlement to payment arising after 10 years of service.

10.2. 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.

Initial recognition

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

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10.2 Fair value (continued)

Where assets are acquired at no value, or minimal value, they are recorded at fair value in the Statement of Financial Position.

All non-current tangible and intangible assets with a value equal to or in excess of \$15 000 are capitalised.

Revaluation

All non-current assets are valued at fair value and revaluation of non-current assets or a group of assets is only performed when its fair value at the time of acquisition is greater than \$1 500 000 and estimated useful life is greater than three years.

Plant and equipment

All items of plant and equipment had a fair value less than \$1 500 000 at time of acquisition. Plant and equipment has not been revalued in accordance with Accounting Policy Statement 116D. The carrying value of these items are deemed to approximate fair value.

10.3. Financial instruments

Financial risk management

Risk management is overseen by the Commission and the Commission's Leadership Team. The Risk Management Framework set by the Commission is in accordance with the *Risk Management Policy Statement* issued by the Premier and Treasurer and the principles established in the Australian Standard *Risk Management Principles and Guidelines*.

The Commission's exposure to financial risk (liquidity, credit and market) is low due to the nature of the financial instruments held.

There have been no changes in risk exposure since the last reporting period.

Impairment of financial assets

Loss allowances for receivables are measured at an amount equal to lifetime expected credit loss using the simplified approach in AASB 9. The Commission uses an allowance matrix to measure the expected credit loss of receivables from non-government debtors which comprise a large number of small balances.

To measure the expected credit losses, receivables are grouped based on shared risks characteristics and the days past due.

Loss rates are calculated based on the probability of a receivable progressing through stages to write off based on the common risk characteristics of the transaction and debtor.

Loss allowance on the Commission's receivables at 30 June 2020 was \$1,000.

Categorisation of financial instruments

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised with respect to each class of financial asset, financial liability and equity instrument are disclosed in the respective financial asset / financial liability note.

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10.3 Financial instruments (continued)

Classification of financial instruments

The Commission measures all financial instruments at amortised cost.

		2020 Carrying amount / FV	2019 Carrying amount / FV
Financial assets	Note	\$'000	\$'000
Cash and cash equivalents		7 579	8 483
Total financial assets		7 579	8 483
Financial liabilities at amortised cost			
Payables	7.1	52	90
Total financial liabilities		52	90

The contractual maturities of all financial instruments are expected to be within 1 year.

Receivables and payables

The amount of payables disclosed excludes amounts relating to statutory payables (Commonwealth, State and Local Government taxes, fees and charges; Auditor-General's Department audit fees). The Commission's receivables balance consists entirely of statutory receivables.

11. Administered items

Australian Energy Market Commission

An amount approved by the Treasurer is transferred to the Consolidated Account from the electricity and gas licence and administration fees received by the Commission for the Australian Energy Market Commission. In 2020 \$2 148 528 (2019: \$2 096 125) was transferred.

Consumer Advocacy and Research Fund

An amount approved by the Treasurer is transferred to the Consolidated Account from the water licence fees received by the Commission for the Consumer Advocacy and Research Fund. In 2020 \$288 481 (2019: \$284 404) was transferred.

Technical Regulator

An amount approved by the Treasurer is transferred to the Consolidated Account from the electricity, gas and water licence fees received by the Commission for the Technical Regulator. In 2020 \$10 661 756 (2019: \$10 401 713) was transferred.

Department for Environment and Water

An amount approved by the Treasurer is transferred to the Consolidated Account from the water licence fees received by the Commission for the Department for Environment and Water. In 2020 \$556 536 (2019: \$542 963) was transferred.

Department of Treasury and Finance

An amount approved by the Treasurer is transferred to the Consolidated Account from the water licence fees received by the Commission for the Department of Treasury and Finance. In 2020 \$374 544 (2019: \$365 407) was transferred.