

Retail Shop Leases Fund

Financial report
for the year ended
30 June 2020



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To the Small Business Commissioner

Opinion

I have audited the financial report of the Retail Shop Leases Fund 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 Retail Shop Leases Fund 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 Small Business Commissioner and Acting Manager Business Services.

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 Retail Shop Leases Fund. 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 Small Business Commissioner

The Small Business Commissioner 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.

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 72(2) of the *Retail and Commercial Leases Act 1995* I have audited the financial report of the Retail Shop Leases Fund 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 Retail Shop Leases Fund's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Small Business Commissioner
- 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 Small Business Commissioner 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.

A handwritten signature in black ink, appearing to read 'A. Richardson', with a long horizontal flourish extending to the right.

Andrew Richardson

Auditor-General

29 September 2020

Retail Shop Leases Fund

**Financial Statements
for the year ended
30 June 2020**

Retail Shop Leases Fund
Certification of the Financial Statements
for the year ended 30 June 2020

We certify that the attached general purpose financial statements for the Retail Shop Leases Fund:

- comply with relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987* and relevant Australian Accounting Standards;
- are in accordance with the accounts and records of the Retail Shop Leases Fund; and
- present a true and fair view of the financial position of the Retail Shop Leases Fund 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 Retail Shop Leases Fund for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period.



John Chapman
Small Business Commissioner
29th September 2020



Rosanne Davies
A/Manager, Business Services
29 September 2020

Retail Shop Leases Fund
Statement of Comprehensive Income
for the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
<u>Income</u>			
Interest and investment	2.1	202	356
Gain/(loss) on revaluation of investments		(196)	10
Total income		6	366
<u>Expenses</u>			
Administration	3.1	187	187
Other expenses	3.2	9	7
Total expenses		196	194
Net result		(190)	172
Total comprehensive result		(190)	172

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

Retail Shop Leases Fund
Statement of Financial Position
for the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
<u>Current assets</u>			
Cash and cash equivalents	4.1	155	245
Receivables	4.2	102	167
Investments	4.3	1 130	865
Total current assets		1 387	1 277
<u>Non-current assets</u>			
Investments	4.3	9 265	9 461
Total non-current assets		9 265	9 461
Total assets		10 652	10 738
<u>Current liabilities</u>			
Security bonds lodged	5.1	896	991
Payables	5.2	2	1
Total current liabilities		898	992
<u>Non-current liabilities</u>			
Security bonds lodged	5.1	7 336	7 138
Total non-current liabilities		7 336	7 138
Total liabilities		8 234	8 130
Net assets		2 418	2 608
<u>Equity</u>			
Retained earnings		2 418	2 608
Total equity		2 418	2 608

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

Retail Shop Leases Fund
Statement of Changes in Equity
for the year ended 30 June 2020

	Retained earnings	Total equity
	\$'000	\$'000
Balance at 1 July 2018	2 436	2 436
<u>Net result for 2018-19</u>	<u>172</u>	<u>172</u>
Total comprehensive result for 2018-19	172	172
Balance at 30 June 2019	<u>2 608</u>	<u>2 608</u>
<u>Net result for 2019-20</u>	<u>(190)</u>	<u>(190)</u>
Total comprehensive result for 2019-20	<u>(190)</u>	<u>(190)</u>
Balance at 30 June 2020	<u>2 418</u>	<u>2 418</u>

Retail Shop Leases Fund
Statement of Cash Flows
for the year ended 30 June 2020

		2020 (Outflows) Inflows \$'000	2019 (Outflows) Inflows \$'000
<u>Cash flows from operating activities</u>	Note		
<i>Cash inflows</i>			
Interest received		2	6
Bonds lodged		1 083	1 188
Cash generated from operations		1 085	1 194
<i>Cash outflows</i>			
Administration		(187)	(187)
Bond refunds		(979)	(961)
Other expenses		(9)	(7)
Cash used in operations		(1 175)	(1 155)
Net cash provided by (used in) operating activities		(90)	39
<u>Cash flows from investing activities</u>			
<i>Cash outflows</i>			
Purchase of investments		-	(133)
Cash used in investing activities		-	(133)
Net cash used in investing activities		-	(133)
Net (decrease) in cash and cash equivalents		(90)	(94)
Cash and cash equivalents at the beginning of the period		245	339
Cash and cash equivalents at the end of the period	4.1	155	245

The accompanying notes form part of these financial statements.

Retail Shop Leases Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

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Retail Shop Leases Fund

Notes to and forming part of the financial statements

for the year ended 30 June 2020

1. About the Retail Shop Leases Fund

The Retail Shop Leases Fund (the Fund) is established under the *Retail and Commercial Leases Act 1995* (the Act). The financial statements are required by section 72(1) of the Act and include income, expenses, assets and liabilities which the Small Business Commissioner manages on behalf of the SA Government.

The Fund does not control any other entity and has no interest in unconsolidated structured entities.

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 with reduced disclosure requirements.

For the 2019-20 financial statements the Fund adopted AASB 15 – Revenue from Contracts with Customers, AASB 16 – Leases and AASB 1058 – *Income of Not-for-Profit Entities*. Further information is provided in note 6.

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.

Income, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables, which are stated with the amount of GST included.

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.

1.2. Objectives and activities

The Fund consists of amounts received by the Small Business Commissioner (the Commissioner) by way of security bonds, and other amounts paid into the Fund under the *Retail and Commercial Leases Act 1995* (the Act). Income derived from the investment of the Fund may be applied towards the costs of administering the Act, enforcing the Act and education of lessors and lessees about their statutory and contractual rights and obligations as approved by the responsible Minister.

The Fund's main source of income is interest derived and distributions from the investment of Fund assets in accordance with subsection 100(4) of the Act. Fund assets mainly represent the investment of security bonds received in accordance with subsection 19(5)(b) of the Act.

1.3. Impact of COVID-19 pandemic on the Fund

The COVID-19 pandemic has impacted on the operations of the Fund and the impacts on funds under management are included under the relevant disclosure notes.

The key impacts in 2019-20 were:

- An increase in refunds and decrease in lodgements due to lack of new business leases commencing due to COVID-19
- From March to April 2020 there was a 56% reduction in bond lodgement funds for new leases

Retail Shop Leases Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

1.3. Impact of COVID-19 pandemic on the Fund (continued)

- The uncertainty in both Australian and global investment markets created volatility for investment returns for the Retail Shop Leases Fund. The spread of COVID-19 and its effects on the global economy were profound. After a particularly challenging March period, markets staged a strong recovery in the June quarter. A number of significant government stimulus measures and cuts to interest rates helped to restore confidence. For the financial year, global shares and fixed interest were the best performers, finishing in positive territory, whilst Australian shares, listed real estate and most other asset classes finished down. Ordinarily defensive style investments like property and infrastructure faced difficult operating conditions due to COVID-19 related shutdowns and social distancing, which consequently meant returns were lower this financial year. In Australia, the RBA cut official interest rates to a record low of 0.25% to support the economy through COVID-19. This has reduced the returns available for cash investments.

Of the total fund of \$10.65m as at 30th June 2020, \$10.495m was under management of the Public Trustee and is invested as follows:

		Proportion	Investment Income
Cash	\$1,129,862.08	10.77%	1.28%
Net Liabilities / Receivables	\$100,052.92	0.95%	
Balanced SIS	\$2,430,210.90	23.16%	0.23%
Capital Stable SIS	\$6,835,047.43	65.13%	-1.26%
Total Funds Held	\$10,495,173.33	100.00%	

Retail Shop Leases Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

2. Income

2.1. Interest and investment

	2020 \$'000	2019 \$'000
Interest and investment	202	356
Total interest and investment	202	356

Interest and investment income includes interest earned, distributions and the change in market fair value of the Fund's bank accounts and investments held with the Public Trustee.

3. Expenses

3.1. Administration

	2020 \$'000	2019 \$'000
Administration	187	187
Total administration	187	187

Reimbursements to the Small Business Commissioner, for part of the cost of administering Part 10 of the *Retail and Commercial Leases Act 1995*.

3.2. Other expenses

	2020 \$'000	2019 \$'000
Bank charges	2	-
Audit fee*	7	7
Total other expenses	9	7

*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.

Retail Shop Leases Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

4. Financial assets

4.1. Cash and cash equivalents

	2020	2019
	\$'000	\$'000
Cash at bank	155	245
Total cash and cash equivalents	155	245

The Commissioner has a deposit account with the Treasurer.

4.2. Receivables

	2020	2019
	\$'000	\$'000
<u>Current</u>		
Accrued interest	102	167
Total receivables	102	167

Accrued revenues are non-interest bearing.

4.3. Investments

	2020	2019
	\$'000	\$'000
<u>Current</u>		
Investments	1 130	865
Total current investments	1 130	865
<u>Non-current</u>		
Investments	9 265	9 461
Total non-current investments	9 265	9 461
Total investments	10 395	10 326

Investments represent funds deposited with the Public Trustee. These investments have been designated as fair value through the statement of comprehensive income as they are held with the intention to dispose of the asset if required to ensure sufficient cash flow to meet bond repayments. Investments are made by way of unit holdings in a selection of common funds managed by the Public Trustee. The proportion of unit holdings is dependent upon the investment strategy adopted.

As at 30 June 2020 the Fund held investments in common funds in the following proportions:

Capital Stable	10.77%
Net Liabilities / Receivables	0.95%
Balanced	23.16%
Cash Common Fund	65.13%

Investments are measured at fair value in accordance with unit prices at balance date as advised by the applicable fund manager.

Investments are classified as either current or non-current. Those to be rolled over within 12 months are classified as current investments.

Retail Shop Leases Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

5. Liabilities

5.1. Security bonds lodged

	2020	2019
	\$'000	\$'000
<u>Current</u>		
Bonds lodged	896	991
Total current security bonds lodged	896	991
<u>Non-current</u>		
Bonds lodged	7 336	7 138
Total non-current security bonds lodged	7 336	7 138
Total security bonds lodged	8 232	8 129

Security bonds are received to ensure a lessee on cessation of a retail shop lease complies with all statutory compliance under the Act. Bonds lodged are recognised as a liability on receipt.

5.2. Payables

	2020	2019
	\$'000	\$'000
<u>Current</u>		
Unclaimed bonds	2	1
Total current payables	2	1

Unclaimed security bonds consist of bonds that have been refunded to the bond holder and remain unrepresented for greater than three months. Security bonds which are unclaimed for longer than 6 years are transferred to the Department of Treasury and Finance Unclaimed Monies account.

Retail Shop Leases Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

6. Changes in accounting policy

6.1. AASB 16 Leases, AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of Not-for-Profit Entities

On transition, there was no impact on retained earnings.

6.2. 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 Fund. 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.

7. Outlook

7.1. Unrecognised contractual commitments

The Fund has no commitments contracted for at the reporting date but not recognised as liabilities.

7.2. Contingent assets and liabilities

The Fund is not aware of any contingent assets or liabilities at reporting date.

7.3. Impact of standards and statements not yet effective

The Fund has assessed the impact of new and changed Australian Accounting Standard Board Standards and Interpretations not yet effective.

AASB 1059 Service Concession Arrangements: Grantors

AASB 1059 prescribes the accounting for certain arrangements in which an operator provides public services on behalf of a public sector grantor involving a service concession arrangement. This standard applies to reporting periods beginning on or after 1 January 2020. The Fund has assessed its arrangements where operators provide services and has concluded that none of these will be within the scope of AASB 1059.

7.4. COVID-19 pandemic outlook for the Fund

The COVID-19 pandemic will continue to impact Retail Shop Leases Fund in 2020-21.

The key expected impacts on the Fund are:

- A decrease of new business leases commencing due to the COVID-19 pandemic is expected
- Due to legislative changes to the *Retail and Commercial Leasing Act 1995* which came into effect on 1 July 2020, increasing the maximum bond amount from 4 weeks to up to 3 months, a substantial increase in lodgement funds is expected.
- Uncertainty in the retail and commercial leases market may impact inflows and outflows in the Retail Shop Leases Fund depending on the level of take up of new leases, non-renewal of existing leases and termination of leases.
- Continued volatility in investment markets with uncertainty over future investment returns.

7.5. Events after the reporting period

The Fund is not aware of any events occurring after the balance date that would affect these financial statements.

Retail Shop Leases Fund

Notes to and forming part of the financial statements

for the year ended 30 June 2020

8. Measurement and risk

8.1. Financial instruments

Financial risk management

Risk management is managed by the Commissioner and the Fund's risk management policies are 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*.

All cash balances and cash common funds held with the Public Trustee are available at call. Investments held with the Public Trustee are classified as 'fair value through the profit and loss' financial assets. Net gains or losses resulting from movements in fair value of investments are recognised through the profit and loss.

Investments represent funds held with the Public Trustee. The Public Trustee has invested in collective investment vehicles for the purpose of gaining exposure to Australian and international equities. The managers of such vehicles have invested in a variety of financial instruments which expose the fund to investment risks including market, credit, interest and currency risks. At reporting date funds totalling \$10.5 million were invested with the Public Trustee. Pooled investment funds are not rated for credit risk. The Public Trustee considers the credit risk for individual fund managers prior to investing funds and reviews these assessments quarterly.

Impairment of financial assets

The fund considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counter parties and therefore the expected credit risk is nil.

Measurement of financial assets

Per AASB 9, changes to fair value of investments which were previously disclosed under Other Comprehensive Income are now disclosed under Interest and investments in the Statement of Comprehensive Income.

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.

Classification of financial instruments

The Fund measures all financial instruments at amortised cost. All current financial instruments have a contract maturity of within one year and all non-current financial instruments have a contract maturity of more than one year but less than five years.

Receivables and payables

The receivable and payable amounts disclosed for financial instruments exclude amounts relating to statutory receivables and payables (e.g. Commonwealth, State and Local Government taxes, fees and charges; Auditor-General's Department audit fees). In government, certain rights to receive or pay cash may not be contractual and therefore, in these situations, the requirements will not apply. Where rights or obligations have their source in legislation such as levies, tax and equivalents, they would be excluded from the disclosure. The standard defines contract as enforceable by law. All amounts recorded are carried at amortised cost.