

Essential Services Commission of South Australia

Financial report
for the year ended
30 June 2019



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To the Chairperson Essential Services Commission of South Australia

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 the Essential Services Commission of South Australia for the financial year ended 30 June 2019.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Essential Services Commission of South Australia as at 30 June 2019, its financial performance and its cash flows for year then ended in accordance with the 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 2019
- a Statement of Financial Position as at 30 June 2019
- a Statement of Changes in Equity for the year ended 30 June 2019
- a Statement of Cash Flows for the year ended 30 June 2019
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chairperson, the Chief Executive Officer and the Manager Finance and Information Technology.

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 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* have been met.

I believe that the audit evidence 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 of South Australia 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 the 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 of South Australia are responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the financial report

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 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 Officer and the Commissioners of the Essential Services Commission of South Australia 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

25 September 2019

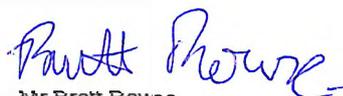
Certification of the Financial Statements

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 accounting standards
- present a true and fair view of the financial position of the Essential Services Commission at the end of the 30 June 2019 financial year 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
25 September 2019



Mr Adam Wilson
Chief Executive Officer
25 September 2019



Mr Nick Mahon
Manager, Finance and Information Technology
25 September 2019

Essential Services Commission
Statement of Comprehensive Income
for the year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
Expenses			
Employee benefits expenses	2.3	4 245	4 022
Supplies and services	3.1	1 415	1 403
Depreciation and amortisation	3.2	146	146
Other expenses	3.3	8	30
Total expenses		5 814	5 601
Income			
Revenue from licence and administration fees	4.1	4 707	5 098
Contributions from SA Government	4.2	421	576
Revenue from services	4.3	26	110
Other income	4.4	75	13
Total income		5 229	5 797
Net result		(585)	196
Total comprehensive result		(585)	196

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 2019

	Note	2019 \$'000	2018 \$'000
Current assets			
Cash and cash equivalents		8 483	8 819
Receivables	6.1	1 146	1 046
Total current assets		9 629	9 865
Non-current assets			
Property, plant and equipment	5.1	211	271
Intangible assets	5.2	110	196
Total non-current assets		321	467
Total assets		9 950	10 332
Current liabilities			
Payables	7.1	177	175
Employee benefits	2.4	364	377
Provisions	7.2	4	4
Other liabilities	7.3	38	-
Total current liabilities		583	556
Non-current liabilities			
Payables	7.1	76	61
Employee benefits	2.4	825	663
Provisions	7.2	5	6
Total non-current liabilities		906	730
Total liabilities		1 489	1 286
Net assets		8 461	9 046
Equity			
Retained earnings		8 461	9 046
Total equity		8 461	9 046
Unrecognised contractual commitments	9.1		
Contingent assets and contingent liabilities	9.2		

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 2019

	Retained earnings	Total equity
	\$'000	\$'000
Balance at 30 June 2017	8 850	8 850
Net result for 2017-18	196	196
Total comprehensive result 2017-18	196	196
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

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 2019

	2019	2018
	Inflows	Inflows
	(Outflows)	(Outflows)
	\$'000	\$'000
Cash flows from operating activities		
Cash outflows		
Employee benefits payments	(4 085)	(3 993)
Payments for supplies and services	(1 442)	(1 488)
Payments for paid parental leave scheme	(13)	-
Cash used in operations	<u>(5 540)</u>	<u>(5 481)</u>
Cash inflows		
Receipts from licence and administration fees	4 669	5 233
Receipts from SA Government	421	576
Receipts from other services	26	110
Receipts for paid parental leave scheme	13	-
Other receipts	75	13
Cash generated from operations	<u>5 204</u>	<u>5 932</u>
Net cash provided by / (used in) operating activities	<u>(336)</u>	<u>451</u>
Cash flows from investing activities		
Purchase of intangible assets	-	(6)
Cash used in investing activities	<u>-</u>	<u>(6)</u>
Net cash provided by / (used in) investing activities	<u>-</u>	<u>(6)</u>
Net increase / (decrease) in cash and cash equivalents	(336)	445
Cash and cash equivalents at the beginning of the period	<u>8 819</u>	<u>8 374</u>
Cash and cash equivalents at the end of the period	<u>8 483</u>	<u>8 819</u>

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 2019

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Essential Services Commission

Notes to and forming part of the financial statements

for the year ended 30 June 2019

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. Statement of compliance

These financial statements have been prepared in compliance with section 23 of the PFAA. The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian Accounting Standards (Reduced Disclosure Requirements) and comply with Treasurer's Instructions and Accounting Policy Statements issued by the Treasurer under the PFAA.

The Commission has applied Australian Accounting Standards for not-for-profit entities, as the Commission is a not-for-profit entity. Australian Accounting Standards and Interpretations that have recently been issued or amended, but are not yet effective, have not been adopted by the Commission for the period ending 30 June 2019.

For the financial year 2019 the Commission adopted AASB 9 – Financial Instruments and is required to comply with new Treasurer's Instructions (Accounting Policy Statements) issued on 22 March 2019. Further information is provided in note 8.2.

1.3. 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.

1.4. 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 this 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 4.1 and 11. The accrual basis of accounting has been used in accounting for administered items.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2019

1.5. Comparative information

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

The Commission has not applied any accounting policy changes retrospectively for the financial year 2019.

1.6. Taxation

The Commission is not subject to Income Tax. The Commission is liable for Payroll Tax, Fringe Benefits Tax (FBT) and Goods and Services Tax (GST).

Income, expenses, assets and liabilities 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.

GST amounts payable and recoverable from the Australian Taxation Office are managed via Department of Treasury and Finance under the Commission's existing Service Level Agreement and are not reported in these statements for the year ended 30 June 2019.

1.7. Objectives

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.

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
- 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).

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2019

1.8. Activities

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. The following table summarises such roles in financial year 2019.

Legislation	Regulatory functions
Water Industry Act 2012	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
Electricity Act 1996	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 Pricing 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
Gas Act 1997	Gas retail operations: <ul style="list-style-type: none"> • Preparation and publication of Ministerial Energy Retail Pricing reports • Retailer Energy Efficiency Scheme administration Licensing of retail and distribution LPG gas operations Licensing of natural gas operations, standard setting, performance monitoring and reporting
AustralAsia Railway (Third Party Access) Act 1999; Railway (Operations and Access) Act 1997	Tarcoola–Darwin railway regulator under the AustralAsia (Third Party Access) Code Intrastate rail lines access regulator
Maritime Services (Access) Act 2000	Ports services pricing and access regulator

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2019

2. Commission, committees and employees

2.1. 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 \$1 410 043 (2018: \$1 383 295).

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.

2.2. Commission and committee members

Members that were entitled to receive remuneration (directly and indirectly) for membership during the 2019 financial year were:

Essential Services Commission

Mr Brett Rowse (Chairperson)
Dr Lynne Williams
Mr Geoff Knight (Appointment concluded 16 November 2018)
Ms June Roache
Mr David Round

Consumer Advisory Committee

Mr Brett Rowse (Chairperson)**
Ms Elaine Attwood
Mr Sandy Canale **
Mr Mark Henley
Mr Andrew McKenna
Ms Jane Mussared (Appointment concluded 30 June 2019)
Ms Heather Smith
Mr Ross Womersley

Power Line Environment Committee

Mr Kevin Hamilton (Chairperson)
Ms Pam Andritsakis
Ms Angela Crimes* (Appointment concluded 2 January 2019)
Ms Jo Davidson*
Mr Amit Dua*
Ms Margaret Lee
Mr Mike Magin
Mr Kim Steinle

Customer Negotiation Committee (SA Water Regulatory Determination 2020)

Mr John Hill (Chairperson) (Appointment commenced 25 September 2018)
Ms Margaret Clarke (Appointment commenced 2 November 2018)
Mr Mark Henley (Appointment commenced 15 November 2018)

* In accordance with the Department of the Premier and Cabinet Circular No. 016, South Australian Government employees did not receive any remuneration for South Australian Government board / committee duties during the financial year.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2019

** No remuneration was received by Mr Brett Rowse in the role of Chair 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:	2019	2018
	Number	Number
\$0 - \$19 999	16	17
\$20 000 - \$39 999	1	-
\$40 000 - \$59 999	3	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 \$329 866 (2018: \$296 529). 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.

2.3. Employee benefits expenses

	2019	2018
	\$'000	\$'000
Salaries and wages	2 920	2 827
Long service leave	186	106
Annual leave	263	254
Employment on-costs - superannuation	339	328
Employment on-costs - other	171	160
Commission and committee fees*	308	273
Other employee related expenses	58	74
Total employee benefit expenses	4 245	4 022

* 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 2.2 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.

Executive Remuneration

The number of employees whose remuneration received or receivable falls within the following bands:	2019	2018
	Number	Number
\$149 000 - \$151 000	n/a	1
\$151 001 - \$171 000	1	3
\$171 001 - \$191 000	1	-
\$191 001 - \$211 000	1	-
\$211 001 - \$231 000	2	2
\$331 001 - \$351 000	1	-
\$351 001 - \$371 000	-	1
Total	6	7

The \$149 000 to \$151 000 band has been included for the purposes of reporting comparative figures based on the executive base level remuneration rate for 2018-19.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2019

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year, of which 5 (2018: 5) are executive and 1 (2018: 2) 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 \$1 308 383 (2018: \$1 422 249).

Targeted voluntary separation packages

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

2.4. Employee benefits liability

	2019	2018
	\$'000	\$'000
Current		
Accrued salaries and wages	59	62
Annual leave	220	226
Long service leave	85	89
Total current employee benefits	364	377
Non-current		
Long service leave	825	663
Total non-current employee benefits	825	663
Total employee benefits	1 189	1 040

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.

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.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2019

3. Expenses

Employee benefits expenses are disclosed in note 2.3.

3.1. Supplies and services

	2019	2018
	\$'000	\$'000
Accommodation	414	431
General administration	586	526
Information technology charges	258	179
Consultants	100	224
Contractors	43	15
Other supplies and services	14	28
Total supplies and services	1 415	1 403

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.

Operating leases payments

Operating lease payments (less any lease incentives) are recognised as an expense in the Statement of Comprehensive Income on straight-line basis over the lease term.

Consultants

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

	2019		2018	
	No	\$'000	No	\$'000
Below \$10 000	6	31	3	18
\$10 000 or above	3	69	6	206
Total paid / payable to the consultants engaged	9	100	9	224

3.2. Depreciation and amortisation

	2019	2018
	\$'000	\$'000
Depreciation		
Building fit-out	60	60
Total depreciation	60	60
Amortisation		
Intangible assets	86	86
Total amortisation	86	86
Total depreciation and amortisation	146	146

All non-current assets having limited useful life 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.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2019

Revision of accounting estimates

Asset residual values, useful lives and amortisation methods for intangible assets 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.

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 – IT	3-5
Office equipment - Other	3-5
Intangibles	3-6

The amortisation period and the amortisation method for intangible assets is reviewed on an annual basis.

3.3. Other expenses

	Note	2019	2018
		\$'000	\$'000
Allowances for doubtful debts	6.1	8	(6)
Derecognition of asset		-	36
Total other expenses		8	30

4. Income

4.1. Revenue from licence and administration fees

	Note	Electricity	Gas	Water	2019	2018
		\$'000	\$'000	\$'000	\$'000	\$'000
Licence fees		5 216	2 397	9 880	17 493	17 595
Administration fees		694	211	-	905	859
Administered items	11	(5 387)	(2 228)	(6 076)	(13 691)	(13 356)
Total fees		523	380	3 804	4 707	5 098

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 with sections under the relevant Acts. 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.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2019

4.2. Contributions from South Australian Government

	2019	2018
	\$'000	\$'000
Recurrent contribution from South Australian Government	421	576
Total contributions from South Australian Government	421	576

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

4.3. Revenue from services

	2019	2018
	\$'000	\$'000
Contribution to rail regulatory costs by Northern Territory Government	26	110
Total revenue from services	26	110

4.4. Other income

	2019	2018
	\$'000	\$'000
Other income	75	13
Total other income	75	13

Includes salary reimbursement of \$54 000 and overseas travel reimbursement of \$20 000 in 2019.

5. Non-financial assets

5.1. Property, plant and equipment

	2019	2018
	\$'000	\$'000
Buildings fit-outs		
Building fit-outs at cost (deemed fair value)	566	566
Accumulated depreciation	(355)	(295)
Total buildings fit-outs	211	271
Total property, plant and equipment	211	271

Property, plant and equipment with a value equal to or in excess of \$10 000 is capitalised, otherwise it is expensed.

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.

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 and are subject to regular revaluation.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2019

Reconciliation of property, plant and equipment

The following table shows the movement of property, plant and equipment for the year ended 30 June 2019.

	Building fit-outs	Total
	\$'000	\$'000
Carrying amount at the beginning of the period	271	271
Depreciation	(60)	(60)
Carrying amount at the end of the period	211	211

5.2. Intangible assets

	2019	2018
	\$'000	\$'000
Internally developed software		
Internally developed computer software at cost (deemed fair value)	240	240
Accumulated amortisation	(180)	(140)
Total internally generated software	60	100
Externally developed software		
Externally developed computer software at cost (deemed fair value)	184	184
Accumulated amortisation	(134)	(88)
Total externally developed software	50	96
Total intangible assets	110	196

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.

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 \$10 000.

The internally developed computer software relates to the Commission's Retailer Energy Efficiency Scheme reporting system with a remaining useful life of 1.5 years and carrying amount of \$60 000 (2018: \$100 000).

Impairment

There were no indications of impairment of intangible assets at 30 June 2019.

Reconciliation of intangible assets

The following table shows the movement of intangible assets for the year ended 30 June 2019.

	Internally developed software	Externally developed software	Work in progress	Total
	\$'000	\$'000	\$'000	\$'000
Carrying amount at the beginning of the period	100	96	-	196
Amortisation	(40)	(46)	-	(86)
Carrying amount at the end of the period	60	50	-	110

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6. Financial assets

6.1. Receivables

	2019	2018
	\$'000	\$'000
Current		
Receivables	923	834
Less allowance for doubtful debts	(41)	(33)
Total receivables	<u>882</u>	<u>801</u>
Accrued revenue	189	201
Prepayments	75	44
Total current receivables	<u>1 146</u>	<u>1 046</u>
Total receivables	<u>1 146</u>	<u>1 046</u>

Receivables arise in the normal course of selling goods and services to other South Australian Government agencies and to the public. 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.

7. Liabilities

7.1. Payables

	2019	2018
	\$'000	\$'000
Current		
Creditors and accrued expenses	127	124
Employment on-costs	50	51
Total current payables	<u>177</u>	<u>175</u>
Non-current		
Employment on-costs	76	61
Total non-current payables	<u>76</u>	<u>61</u>
Total payables	<u>253</u>	<u>236</u>

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 South Australia 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 as leave remains at 41% and the average factor for the calculation of the employer superannuation on-costs has decreased from the 2018 rate of 9.9% to 9.8%. These rates are used in the

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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 2019. The rate is used in the payroll tax calculation for long service leave and annual leave.

7.2. Provisions

	2019 \$'000	2018 \$'000
Current		
Workers' compensation	4	4
Total current provisions	<u>4</u>	<u>4</u>
Non-current		
Workers' compensation	5	6
Total non-current provisions	<u>5</u>	<u>6</u>
Total provisions	<u>9</u>	<u>10</u>
Carrying amount at the beginning of the period	10	4
Additional provisions recognised	(1)	6
Carrying amount at the end of the period	<u>9</u>	<u>10</u>

A provision has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2019 provided by a consulting actuary engaged through the Office of the Commissioner for the Public Sector. 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

	2019 \$'000	2018 \$'000
Current		
Unearned revenue	38	-
Total current other liabilities	<u>38</u>	<u>-</u>
Total other liabilities	<u>38</u>	<u>-</u>

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

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8. Changes in accounting policy

8.1. Treasurer's Instructions (Accounting Policy Statements)

On 22 March 2019 the Treasurer's Instructions (Accounting Policy Statements) 2019 were issued by the Treasurer under the Public Finance and Audit Act 1987. The Accounting Policy Statements replaced the following Accounting Policy Frameworks:

- Purpose and Scope
- General Purpose Financial Statements Framework
- Asset Accounting Framework
- Financial Asset and Liability Framework
- Income Framework, and
- Definitions.

The new Accounting Policy Statements have largely been prepared on a no-policy change basis. Changes that impact on these financial statements are:

- Removal of the additional requirement to report transactions with the South Australian Government.
- Removal of the additional requirement to report a Statement of Equity for administered items.
- Increasing the bands from \$10 000 to \$20 000 for Commission, committees and employees reporting.

These changes, however, do not impact on the amounts reported in the financial statements.

The Accounting Policy Statements also set out requirements in relation to Accounting Standards and Statements not yet effective. This is further discussed in note 9.3.

8.2. AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces the provisions of AASB 139 that relate to recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of AASB 9 from 1 July 2018 resulted in changes in accounting policies and no adjustments to the amounts recognised in financial statements.

As part of the adoption of AASB 9, the Commission adopted consequential amendments to other accounting standards and the Treasurer's Instructions (Accounting Policy Statements) arising from the issue of AASB 9 as follows:

- AASB 7 Financial Instruments: Disclosures requires amended disclosures due to changes arising from AASB 9. These disclosures have been provided for the current year because the comparatives have not been restated.

In accordance with transitional provisions and the Treasurer's Instructions (Accounting Policy Statements), AASB 9 Financial Instruments was adopted without restating comparative information for classification and measurement requirements. All adjustments relating to classification and measurement are recognised in retained earnings at 1 July 2018.

The adoption of AASB 9 has not had a significant effect on the recognition, measurement or classification of financial liabilities. There has been no impact on the Commission's retained earnings as at 1 July 2018.

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On 1 July 2018, the Commission has assessed and reclassified its financial assets into the appropriate AASB 9 categories depending on the business model and contractual cash flow characteristics applying to the asset. AASB 9 eliminates the AASB 139 categories of held to maturity, loans and receivables and available for sale.

On the date of initial application, the Commission's financial instruments were as follows, with any reclassifications noted.

	Measurement category		AASB 139	Carrying	AASB 9 at 1
	AASB 139	AASB 9	at 30 June 2018 \$'000	amount re- measurement \$'000	July 2018 \$'000
<u>Current financial assets</u>					
Cash and cash equivalents	Held to maturity	Amortised cost	8 819	-	8 819
<u>Current financial liabilities</u>					
Payables	Amortised cost	Amortised cost	89	-	89

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 the payment of consultant contracts in existence at the reporting date but not recognised as liabilities are payable as follows:

	2019 \$'000	2018 \$'000
Within one year	-	15
Total expenditure commitments	-	15

Operating lease commitments

The Commission's operating leases are for office accommodation and motor vehicles. The accommodation lease is non-cancellable with the option to renew.

Commitments for the payments of the contracts in existence at the reporting date but not recognised are payable as follows:

	2019 \$'000	2018 \$'000
Within one year	420	405
Later than one year but not later than five years	1 074	1 494
Total operating lease commitments	1 494	1 899

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.

The Commission is not aware of any contingent assets or contingent liabilities as at 30 June 2019.

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9.3. Impacts of standards and statements not yet effective

The Commission has assessed the impact of new and changed Australian Accounting Standards Board Standards and Interpretations (not yet effective).

Treasurer's Instructions (Accounting Policy Statements) 2019 issued by the Treasurer on 22 March 2019 are effective for 2018-19 reporting period and are addressed below in relation to Standards that are not yet effective and in note 8.1. There are no Accounting Policy Statements that are not yet effective.

The material impacts on the Commission are outlined below.

AASB 16 – Leases

The Commission will adopt AASB 16 – Leases from 1 July 2019.

Objective

AASB 16 sets out a comprehensive model for lease accounting that addresses recognition, measurement, presentation and disclosure of leases. The outcome will be that lease information disclosed will give users of financial statements a basis to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. AASB 16 Leases replaces AASB 117 Leases and Interpretation 4 Determining whether an Arrangement contains a Lease, Interpretation 115 Operating Leases – Incentives and Interpretation, and Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Impact on 2019-20 financial statements

The Commission has assessed the estimated impact on the Statement of Financial Position of adopting AASB 16 with the transition requirements mandated by the Treasurer's Instructions (Accounting Policy Statements).

AASB 16 requires lessees to recognise assets and liabilities for all leases not subject to a recognition exemption or scoped out of the application of AASB 16. Applying AASB 16 will result in leases previously classified as operating leases having right-of-use assets and related lease liabilities being recognised in the Statement of Financial Position for the first time. Lease incentive liabilities previously recognised will be written off against the right-of-use assets or retained earnings depending on the nature of the incentive.

AASB 16 is expected to have a material impact on the Statement of Financial Position. The Commission has estimated the impact of this change and the results as at 1 July 2019.

The estimated impact is based on applying AASB 16's transition approach to those leases identified as leases by the Commission prior to 1 July 2019. The incremental borrowing rates applied to estimate the lease liability are the Department of Treasury and Finance's incremental borrowing rates at 1 July 2019. The estimated impact is set out below.

	as at 1 July 2019 \$'000
<u>Assets</u>	
Right-of-use assets	3 926
<u>Liabilities</u>	
Lease liabilities	(3 926)
Net impact on equity	-

AASB 16 will also impact on the Statement of Comprehensive Income. The operating lease expense previously included in supplies and services will mostly be replaced with:

- A depreciation expense that represents the use of the right-of-use asset; and
- Borrowing costs that represent the cost associated with financing the right-of-use asset.

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The estimated impact on 2019-20 Statement of Comprehensive Income is set out below.

	2020
	\$'000
Depreciation and amortisation	462
Supplies and services (lease expense)	(371)
Borrowing costs	67
Net impact on net cost of providing services	158

The amounts disclosed are current estimates only. The Commission is continuing to refine its calculations of lease assets and liabilities for 2019-20 financial reporting purposes and expects that these figures will change. This includes accounting for non-lease components and clarifying lease terms and treatment of contractual rent increases.

Related accounting policies

The Treasurer's Instructions (Accounting Policy Statements) 2019 sets out key requirements that the Commission must adopt for the transition from AASB 117 Leases to AASB 16 Leases. These requirements include that the Commission will:

- Apply AASB 16 retrospectively. The cumulative effect of initially applying the Standard will be recognised at 1 July 2019. Comparatives will not be restated.
- Only apply AASB 16 to contracts that were previously identified as containing a lease applying AASB 117 and related interpretations.
- Not transition operating leases for which the lease term ends before 30 June 2020.

The Treasurer's Instructions (Accounting Policy Statements) 2019 also sets out requirements for ongoing application. These requirements include that the Commission will:

- Not apply AASB 16 to leases of intangible assets.
- Adopt \$15 000 as the threshold to determine whether an underlying asset is a low value asset and apply the low value asset recognition exemption to all low value assets.
- Apply the short-term leases recognition exemption for all classes of underlying asset.
- Separate non-lease components from lease components.
- Adopt the revaluation model, where permitted.
- Where required, apply the relevant lessee's incremental borrowing rate published by the Department of Treasury and Finance.
- On initial recognition not record at fair-value leases that have significantly below-market terms and conditions principally to enable the Commission to further its objectives, unless they have already been recorded at fair-value prior to 1 July 2019.

9.4. Events after the reporting period

Adjustments are made to amounts recognised in the financial statements, where an event occurs after 30 June 2019 and before the date the financial statements are authorised for issue, where those events provide information about conditions that existed at 30 June 2019.

Note disclosure is made about events between 30 June 2019 and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June 2019 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.

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10. Measurement and risk

10.1. Long service leave liability

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 2.5% to 1.25% in 2019. 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 net financial effect of the changes to actuarial assumptions in the current financial year is an increase in the long service leave liability of \$82 966 and employee benefits expense of \$124 235. 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 actuarial assessment performed by Department of Treasury and Finance left the salary inflation rate at 4% for long service leave liability. As a result there is no net financial effect resulting from changes in the salary inflation rate.

Current long service leave reflects the portion of leave expected to be settled within the next 12 months, based on the average of long service leave taken over the past 3 years.

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. Non-current assets are subsequently measured at fair value after allowing for accumulated depreciation.

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

All non-current tangible and intangible assets with a value equal to or in excess of \$10 000 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 \$1.5 million and estimated useful life is greater than three years.

Plant and equipment

All items of plant and equipment had a fair value at the time of acquisition less than \$1.5 million. Plant and equipment has not been revalued in accordance with APS 116D. The carrying value of these items are deemed to approximate fair value.

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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.

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 from 1 July 2018 under AASB 9 Financial Instruments

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (FVOCI) – debt instrument, FVOCI – equity instrument or fair value through profit or loss.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest only on the principal amount outstanding.

The Commission measures all financial instruments at amortised cost.

Category of financial asset and financial liability	Note	Contractual maturities	
		Carrying amount / FV 2019	Carrying amount / FV 2018
		\$'000	\$'000
Financial assets at amortised cost			
Cash and cash equivalents		8 483	8 819
Total financial assets		8 483	8 819
Financial liabilities at amortised cost			
Payables	7.1	90	89
Total financial liabilities		90	89

Payables

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).

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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 fees received by the Commission for the Australian Energy Market Commission. In 2019 \$2 096 125 (2018: \$2 045 000) 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 2019 \$284 404 (2018: \$277 268) 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 2019 \$10 401 713 (2018: \$10 148 013) 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 2019 \$542 963 (2018: \$529 720) 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 2019 \$365 407 (2018: \$356 495) was transferred.