

Local Government Finance Authority of South Australia

Financial report
for the year ended
30 June 2019



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To the Chairman Local Government Finance Authority of South Australia

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 33(2) of the *Local Government Finance Authority Act 1983*, I have audited the financial report of Local Government Finance Authority of South Australia for the 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 Local Government Finance Authority of South Australia as at 30 June 2019, its financial performance and its cash flows for the 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 Chief Executive, Chair and Financial Controller.

Basis for opinion

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

The Chief Executive is responsible for the preparation of the financial report that gives a true and fair view in accordance with 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.

In preparing the financial report, the Chief Executive Officer is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the entity is to be liquidated or to cease operations, or has no realistic alternative but to do so.

The Board is 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 Local Government Finance Authority of South Australia's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive

- conclude on the appropriateness of the entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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



Andrew Richardson

Auditor-General

26 August 2019

Certification of the financial statements

We certify that the:

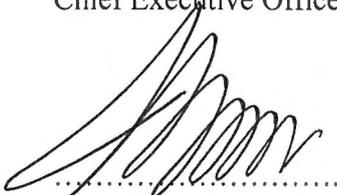
- financial statements of the Local Government Finance Authority of South Australia:
 - are in accordance with the accounts and records of the authority; and
 - comply with relevant Treasurer's instructions; and
 - comply with relevant accounting standards; and
 - present a true and fair view of the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



.....
PA Slater
Chief Executive Officer



.....
GC Hollitt
Financial Controller



.....
JAC Comrie
Chairman

20 August 2019

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
INCOME			
Interest on Investments	3.1	1,113	1,633
Interest on Loans and Advances	3.2	41,713	39,485
Other Income	3.3	144	37
TOTAL INCOME		<u>42,970</u>	<u>41,155</u>
EXPENSES			
Interest on Deposits from Councils and Local Government Bodies	4.1	9,326	9,282
Interest on Borrowings	4.2	22,632	22,129
State Government Guarantee Fee	4.3	1,447	1,309
Administration Expenses	4.4	2,212	2,148
Other Expenses	4.5	60	11
TOTAL EXPENSES		<u>35,677</u>	<u>34,879</u>
PROFIT BEFORE INCOME TAX EQUIVALENTS		7,293	6,276
Income Tax Equivalent Expense	4.6	2,188	1,883
PROFIT AFTER INCOME TAX EQUIVALENTS		<u>5,105</u>	<u>4,393</u>
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to Profit Before Income Tax Equivalents			
Change In Revaluation Reserve	7.1	-	129
TOTAL COMPREHENSIVE RESULT		<u>5,105</u>	<u>4,522</u>

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	2019 \$'000	2018 \$'000
ASSETS			
Cash at Bank		6	1
Accrued Interest Receivable	5.1	4,836	4,084
Investment Securities	5.2	20,000	42,000
Other Assets	5.3	92	275
Net Loans and Advances	5.4	844,747	744,548
Property, Plant & Equipment	5.5	2,072	1,993
Intangibles	5.6	90	80
TOTAL ASSETS		<u>871,843</u>	<u>792,981</u>
LIABILITIES			
Deposits from Councils and Local Government Bodies	6.1	482,722	498,932
Accrued Interest Payable	6.2	2,392	2,407
Borrowings	6.3	275,290	199,228
Derivatives	6.4	38,127	21,769
Provisions	6.5	4,215	3,850
Other Liabilities	6.6	335	300
TOTAL LIABILITIES		<u>803,081</u>	<u>726,486</u>
NET ASSETS		<u>68,762</u>	<u>66,495</u>
EQUITY			
General Reserve	7.1	68,000	65,700
Retained Profits		633	666
Revaluation Reserve	7.1	129	129
TOTAL EQUITY		<u>68,762</u>	<u>66,495</u>
Contingent Assets and Liabilities	9.2		

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	General Reserve \$'000	Retained Profits \$'000	Revaluation Reserve \$'000	Total \$'000
Balance at 30 June 2017	63,600	673	-	64,273
Profit After Income Tax Equivalents for 2017/18	-	4,393	-	4,393
Gain on Revaluation of Building Floorspace	-	-	129	129
Total Comprehensive Result for 2017/18	-	4,393	129	4,522
Transfer to Bonus Payment Provision	-	(2,300)	-	(2,300)
Transfer to General Reserve	2,100	(2,100)	-	-
Balance at 30 June 2018	65,700	666	129	66,495
Adjustment on initial adoption of AASB 9	-	(338)	-	(338)
Adjusted balance at 1 July 2018	65,700	328	129	66,157
Profit After Income Tax Equivalents for 2018/19	-	5,105	-	5,105
Total Comprehensive Result for 2018/19	-	5,105	-	5,105
Transfer to Bonus Payment Provision	-	(2,500)	-	(2,500)
Transfer to General Reserve	2,300	(2,300)	-	-
Balance at 30 June 2019	68,000	633	129	68,762

All changes in equity are attributable to the owners.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	Note	2019 \$'000 Inflows (Outflows)	2018 \$'000 Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and Bill Discounts Received		42,562	40,776
Interest Paid		(32,331)	(31,543)
State Government Guarantee Fee		(1,437)	(1,294)
Cash Payments to Suppliers and Employees		(2,064)	(1,936)
Fees Received		31	34
Income Tax Equivalents Paid		(2,052)	(1,384)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7.2	<u>4,709</u>	<u>4,653</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans to Councils and Local Government Bodies		(85,147)	(74,507)
Investment Securities		22,000	(14,000)
Payments for Property, Plant & Equipment		(262)	(153)
Proceeds from Sale of Property, Plant & Equipment		42	41
NET CASH USED IN INVESTING ACTIVITIES		<u>(63,367)</u>	<u>(88,619)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Promissory Notes		(8,645)	(652)
Deposits from Councils and Local Government Bodies		(16,210)	36,786
Short Term Money Market Facilities		93,878	25,132
Fixed Term Borrowings		(9,171)	24,074
Bonus Payment to Councils and Local Government Bodies		(2,300)	(2,000)
Other		1,111	573
NET CASH PROVIDED BY FINANCING ACTIVITIES		<u>58,663</u>	<u>83,913</u>
NET INCREASE/(DECREASE) IN CASH HELD		5	(53)
Cash at 1 July		1	54
CASH AT 30 JUNE	7.2	<u>6</u>	<u>1</u>

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1.	About the Local Government Finance Authority	2
1.1	Basis of preparation	2
1.2	Objectives and programs	3
1.3	Significant transactions with government related entities	3
2.	Board, committees and executives	4
2.1	Key management personnel	4
2.2	Board and audit committee members	4
2.3	Board and executive remuneration	5
3.	Income.....	6
3.1	Interest on Investments.....	6
3.2	Interest on Loans and Advances	6
3.3	Other Income.....	6
4.	Expenses	6
4.1	Interest on Deposits from Councils and Local Government Bodies	6
4.2	Interest on Borrowings	6
4.3	State Government Guarantee Fee	7
4.4	Administration Expenses	7
4.5	Other expenses	8
4.6	Income Tax Equivalent Expense.....	9
5.	Assets	9
5.1	Accrued Interest Receivable	9
5.2	Investment Securities	9
5.3	Other Assets.....	9
5.4	Net Loans and Advances	10
5.5	Property, plant and equipment	10
5.6	Intangible assets	12
6.	Liabilities.....	13
6.1	Deposits from Councils and Local Government Bodies	13
6.2	Accrued Interest Payable	13
6.3	Borrowings.....	13
6.4	Derivatives	13
6.5	Provisions.....	14
6.6	Other liabilities.....	15
7.	Other disclosures.....	15
7.1	Equity	15
7.2	Cash flow	15
8.	Changes in accounting policy	16
8.1	Treasurer's Instructions (Accounting Policy Statements)	16
8.2	AASB 9 Financial instruments	17
9.	Outlook.....	19
9.1	Unrecognised contractual commitments	19
9.2	Contingent assets and liabilities	19
9.3	Impact of standards and statements not yet effective	20
10.	Measurement and risk.....	21
10.1	Fair value.....	21
10.2	Financial instruments.....	22
10.3	Risk Management Policies and Procedures	23
10.4	Fair value hedges	27

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS For the year ended 30 June 2019

1. About the Local Government Finance Authority

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

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

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

1.1. Basis of preparation

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

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

For the 2018-19 financial statements the Authority 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.

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

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

Accounting Judgements, Estimates and Assumptions

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

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

Expected Credit Losses (ECL) are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. *AASB 9 Financial Instruments* does not define what constitutes a significant

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

increase in credit risk. In assessing whether the credit risk of an asset has significantly increased management takes into account qualitative and quantitative reasonable and supportable forward looking information.

Comparative Information

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

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

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

Rounding

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

1.2. Objectives and programs

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

The functions of the Authority are as follows:

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

1.3. Significant transactions with government related entities

	2019 \$'000	2018 \$'000
Expense transactions with the South Australian government		
Interest paid on borrowings	4,704	2,996
State government guarantee fee	1,447	1,309
Income Tax Equivalents Expense	2,188	1,883
Liabilities outstanding to the South Australian government		
Borrowings	275,290	199,228
Interest payable on borrowings	708	596

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

2. Board, committees and executives

2.1. Key management personnel

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

Total compensation for key management personnel was as follows:

	2019 \$'000	2018 \$'000
Salaries and other short-term employee benefits	463	446
Post-employment benefits	44	47
Total compensation	507	493

Transactions with key management personnel and other related parties

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

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

The Authority transacts with Councils, Prescribed Bodies and State Government Agencies of which Board members may be key management personnel. Terms are consistent with the Authority's normal commercial arrangements.

2.2. Board and audit committee members

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

Members during the 2019 financial year were:

LGFA Governing Board

Mr John Comrie (Chair)	LGA representative
Cr John Frogley (Deputy Chair)	Council representative to 31 December 2018
Dr Andrew Johnson (Deputy Chair)	LGA representative
Ms Annette Martin	Council representative
Mr Matt Pinnegar	LGA Chief Executive Officer
Mr Michael Sedgman	Council representative from 1 January 2019
Ms Heather Watts	Appointee of the Treasurer

LGFA Audit Committee

Cr John Frogley (Chair)	Retired 31 December 2018
Dr Andrew Johnson (Chair)	Chair from 1 January 2019
Ms Annette Martin	
Mr Michael Sedgman	Commenced 1 January 2019

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

2.3. Board and executive remuneration

Board member remuneration

The number of members whose remuneration received or receivable falls within the following bands:

	2019 No	2018 No
No Remuneration	1	3
\$1 - \$19,999	5	4
\$20,000 - \$39,999	1	1
Total	7	8

The total remuneration received or receivable by governing Board members was \$64,600 (\$61,400) which includes salary and superannuation. No additional fees were paid to Audit Committee members.

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

Executive remuneration

	2019 No	2018 No
The number of employees whose remuneration received or receivable falls within the following bands:		
\$149 000 to \$151 000 *	N/A	1
\$151 001 to \$171 000	1	-
\$171 001 to \$191 000	1	-
\$191 001 to \$211 000	1	1
\$431 001 to \$451 000	1	1
Total	4	3

* This 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. Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, living away from home allowance, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits. Total remuneration received by employees in this table for the year are \$982,800 (\$785,500).

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

3. Income

3.1. Interest on Investments

	2019	2018
	\$'000	\$'000
Interest received on investments	1,113	1,597
Gain on futures contracts	-	36
Total interest on investments	1,113	1,633

3.2. Interest on Loans and Advances

	2019	2018
	\$'000	\$'000
Interest received on fixed rate debenture loans	23,217	24,175
Interest received on cash advance debenture loans	10,337	7,519
Interest received on interest rate swaps	8,159	7,791
Total interest on loans and advances	41,713	39,485

3.3. Other Income

	2019	2018
	\$'000	\$'000
Guarantee fee income	31	32
Fair value hedge accounting gain	113	-
Gain on sale of fixed assets	-	5
Total other income	144	37

4. Expenses

4.1. Interest on Deposits from Councils and Local Government Bodies

	2019	2018
	\$'000	\$'000
Interest paid on deposits from councils and local government bodies	9,326	9,282
Total interest on deposits from councils and local government bodies	9,326	9,282

4.2. Interest on Borrowings

	2019	2018
	\$'000	\$'000
Interest paid on borrowings	4,704	2,998
Interest paid on interest rate swaps	17,656	19,017
Loss on futures contracts	272	114
Total interest on borrowings	22,632	22,129

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

4.3. State Government Guarantee Fee

	2019 \$'000	2018 \$'000
State government guarantee fee	1,447	1,309
Total state government guarantee fee	1,447	1,309

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

4.4. Administration Expenses

	2019 \$'000	2018 \$'000
Audit fees	75	75
Board fees	65	61
Computer expenses	71	77
Consultancy fees	82	60
Depreciation and amortisation	118	150
Insurance	24	24
Occupancy expenses	33	33
Salaries & on-costs	1,232	1,174
Software license fees	117	113
Sponsorships	112	107
Other administration expenses	283	274
Total administration expenses	2,212	2,148

Audit Fees

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

	2019 \$'000	2018 \$'000
Auditing work performed by the Auditor-General's Department*	55	55
Financial Management Compliance Program by an independent audit firm	20	20
Total audit fees	75	75

* 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.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

Consultants

The number of consultancies and the dollar amount paid/payable (included in supplies and services expense) to consultants that fell within the following bands:

	No	2019 \$'000	No	2018 \$'000
Below \$10 000	3	12	3	8
\$10 000 or above	2	70	2	52
Total consultants	5	82	5	60

Depreciation and amortisation

	2019 \$'000	2018 \$'000
Building Floorspace	26	26
Computer Software	53	41
Furniture and fittings	2	47
Motor Vehicles	19	18
Office Equipment	18	18
Total depreciation and amortisation	118	150

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

Useful life

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

Class of asset	Useful life (years)
Building Floorspace	70
Computer Software	2.5 - 3
Furniture and fittings	5
Motor Vehicles	5.5 - 10
Office Equipment	3

4.5. Other expenses

	2019 \$'000	2018 \$'000
Fair value hedge accounting loss	-	11
Increase in expected credit loss allowance	60	-
Total other expenses	60	11

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

4.6. Income Tax Equivalent Expense

	2019	2018
	\$'000	\$'000
Income tax equivalent expense	2,188	1,883
Total income tax equivalent expense	2,188	1,883

The Authority is required to make payments equivalent to Company Income Tax under the Taxation Equivalent Payment System. The equivalent Company Income Tax liability is calculated/applied on an accounting profits basis.

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

5. Assets

5.1. Accrued Interest Receivable *

	2019	2018
	\$'000	\$'000
Interest receivable on:		
Loans to councils and local government bodies	4,448	3,625
Investment securities	388	459
Total accrued interest receivable	4,836	4,084

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

5.2. Investment Securities

	2019	2018
	\$'000	\$'000
Bank term deposits	20,000	42,000
Total investment securities	20,000	42,000

5.3. Other Assets

	2019	2018
	\$'000	\$'000
Sundry debtors and prepayments	92	275
Total sundry debtors and prepayments	92	275

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

5.4. Net Loans and Advances

	2019 \$'000	2018 \$'000
Advances	337,741	237,937
Term loans	461,724	476,382
Loans and advances	799,465	714,319
Hedge accounting revaluation	45,680	30,229
Expected credit loss allowance	(398)	-
Net loans and advances	844,747	744,548

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

(i) Debentures over Council General Revenue

Loan agreements with Councils are secured by debentures which provide a charge over Council general revenue.

(ii) Schedule 2 of the Local Government Act 1999

Loans to Prescribed Local Government Bodies which are Council subsidiaries rely upon the constitutional obligations of Councils in the guarantee of the liabilities incurred or assumed by subsidiaries as per Schedule 2 of the *Local Government Act 1999*.

(iii) First Registered Mortgage and Specific Security Deed

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

5.5. Property, plant and equipment

	2019 \$'000	2018 \$'000
Building Floorspace		
Building floorspace at fair value	1,813	1,813
Accumulated depreciation at the end of the period	(45)	(19)
Total buildings floorspace	1,768	1,794
Furniture and Fittings		
Furniture and fittings at cost (deemed fair value)	340	340
Accumulated depreciation at the end of the period	(337)	(335)
Total furniture and fittings	3	5
Motor Vehicles		
Motor vehicles at cost (deemed fair value)	288	231
Accumulated depreciation at the end of the period	(40)	(49)
Total motor vehicles	248	182

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

Office Equipment		
Office equipment at cost (deemed fair value)	95	89
Accumulated depreciation at the end of the period	(42)	(77)
Total office equipment	53	12
Total property, plant and equipment	2,072	1,993

Building Floorspace

The Authority obtains a valuation appraisal from a professionally qualified valuer of its owned and occupied building floorspace every five years in accordance with APS 116.D.

The latest market valuation appraisal was provided by WBP Property Group as at 5 October 2017. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the building floorspace and the net amount is restated to the revalued amount.

Impairment

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

Reconciliation 2018-19

	Building Floorspace \$'000	Furniture and Fittings \$'000	Motor Vehicles \$'000	Office Equipment \$'000	Total \$'000
Carrying amount at 1 July 2018	1,794	5	182	12	1,993
Acquisitions	-	-	135	59	194
Disposals	-	-	(50)	-	(50)
Depreciation	(26)	(2)	(19)	(18)	(65)
Carrying amount at 30 June 2019	1,768	3	248	53	2,072

Reconciliation 2017-18

	Building Floorspace \$'000	Furniture and Fittings \$'000	Motor Vehicles \$'000	Office Equipment \$'000	Total \$'000
Carrying amount at 1 July 2017	1,691	51	169	26	1,937
Acquisitions	-	1	67	4	72
Disposals	-	-	(36)	-	(36)
Revaluation increment/(Decrement)	129	-	-	-	129
Depreciation	(26)	(47)	(18)	(18)	(109)
Carrying amount at 30 June 2018	1,794	5	182	12	1,993

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

5.6. Intangible assets

	2019	2018
	\$'000	\$'000
Computer software		
Internally developed computer software	111	69
Accumulated amortisation	(66)	(47)
Purchased computer software	357	339
Accumulated amortisation	(312)	(281)
Total computer software	90	80

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

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

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

Reconciliation 2018-19

	Internally developed computer software \$'000	Other computer software \$'000	Total \$'000
Carrying amount at 1 July 2018	22	58	80
Acquisitions	41	22	63
Amortisation	(18)	(35)	(53)
Carrying amount at 30 June 2019	45	45	90

Reconciliation 2017-18

	Internally developed computer software \$'000	Other computer software \$'000	Total \$'000
Carrying amount at 1 July 2017	-	37	37
Acquisitions	25	59	84
Amortisation	(3)	(38)	(41)
Carrying amount at 30 June 2018	22	58	80

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

6. Liabilities

6.1. Deposits from Councils and Local Government Bodies

	2019 \$'000	2018 \$'000
At call	235,367	256,282
Fixed term	247,355	242,650
Total deposits from councils and local government bodies	482,722	498,932

Concentrations of Deposits

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

6.2. Accrued Interest Payable

	2019 \$'000	2018 \$'000
Interest payable on:		
Deposits from councils and local government bodies	1,684	1,811
Borrowings*	708	596
Total accrued interest payable	2,392	2,407

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

6.3. Borrowings

	2019 \$'000	2018 \$'000
Short term money market facility	222,865	128,987
Fixed term borrowings	39,904	49,074
Promissory notes	12,521	21,167
Total borrowings	275,290	199,228

6.4. Derivatives

	2019 \$'000	2018 \$'000
Swap principal receivable	(5,946)	(6,837)
Interest receivable on interest rate swaps	(756)	(953)
Interest payable on interest rate swaps	3,217	3,507
Fair value adjustment	41,612	25,984
Sub-total interest rate swaps	38,127	21,701
Futures contracts	-	68
Total derivatives	38,127	21,769

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

6.5. Provisions

	2019	2018
	\$'000	\$'000
Employee benefits	444	420
Fringe benefits tax	24	20
Bonus payment to councils and local government bodies	2,500	2,300
Provision for income tax equivalents	1,247	1,110
Total provisions	4,215	3,850

Employee Benefits

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

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

Bonus Payment

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

Income Tax Equivalents

A provision is made for Income Tax Equivalents payable as at 30 June 2019.

Movement in provisions during the year

	2019	2018
	\$'000	\$'000
Bonus Payment to Councils and Local Government Bodies		
Opening Balance 1 July	2,300	2,000
Increase in provision	2,500	2,300
Amounts paid	(2,300)	(2,000)
Closing balance 30 June	2,500	2,300
Provision for Income Tax Equivalents		
Opening balance 1 July	1,110	611
Increase in provision	2,188	1,883
Amounts paid	(2,051)	(1,384)
Closing balance 30 June	1,247	1,110

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

6.6. Other liabilities

	2019 \$'000	2018 \$'000
Employee on-costs	48	46
Sundry creditors	287	254
Total other liabilities	335	300

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

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

Superannuation Commitments

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

7. Other disclosures

7.1. Equity

General Reserve

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

Revaluation Reserve

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

7.2. Cash flow

Cash flows presented on a net basis

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

- (i) Client Deposits and Withdrawals;
- (ii) Sales and Purchases of Money Market Securities;
- (iii) Drawdown and Repayment of Loans and Investments; and
- (iv) Fees Paid and Received

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

Cash flow reconciliation

	2019 \$'000	2018 \$'000
Reconciliation of cash at bank at the end of the reporting period		
Cash at bank disclosed in the Statement of Financial Position	6	1
Balance as per the Statement of Cash Flows	6	1
Reconciliation of net cash provided by/(used in) operating activities to profit after income tax		
Profit after income tax equivalents	5,105	4,393
Decrease/(Increase) in interest receivable	(264)	(342)
Decrease/(Increase) in sundry debtors	(37)	41
Increase/(Decrease) in interest payable	(374)	(131)
Increase/(Decrease) in other liabilities	38	16
Increase/(Decrease) in provisions	165	520
Expected credit loss allowance	60	-
Depreciation and amortisation	118	150
Revaluation loss/(gain)	(113)	11
Loss/(Gain) on disposal of fixed assets	11	(5)
Net cash provided by operating activities	4,709	4,653

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
- 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 SA Government.
- increasing the bands from \$10,000 to \$20,000 for employee and board member reporting.

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

8.2. AASB 9 Financial instruments

AASB 9 Financial Instruments replaces the provisions of *AASB 139 Financial Instruments: Recognition and Measurement* that relate to recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets. *AASB 9 Financial Instruments* provides the option to continue to apply the hedge accounting requirements of *AASB 139 Financial Instruments: Recognition and Measurement*. The Authority has chosen to continue with the *AASB 139* hedge accounting requirements.

The adoption of *AASB 9* from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in financial statements.

As part of the adoption of *AASB 9*, the Authority 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 101 Presentation of Financial Statements* requires the impairment of financial assets to be presented in a separate line item in the statement of comprehensive income.
- *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.

The total impact on the department's retained earnings as at 1 July 2018 is as follows:

	2018
	\$000
Closing retained earnings 30 June 2018 – AASB 139	666
Adjustment to retained earnings from adoption of AASB 9	
Expected credit loss allowance opening balance	(338)
Opening retained earnings 1 July 2018 – AASB 9	328

On 1 July 2018, the Authority 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.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

Reclassification of financial instruments on adoption of AASB 9

On the date of initial application, the Authority's financial instruments were as follows, with any reclassifications noted. There has been no re-measurement of the carrying amounts.

	Measurement category		AASB 139 at 30 June 2018 \$'000	AASB 9 at 1 July 2018 \$'000
	AASB 139	AASB 9		
Financial Assets				
Cash and liquid assets	Loans and receivables	Amortised cost	1	1
Accrued interest receivable	Loans and receivables	Amortised cost	4,084	4,084
Investment securities	Loans and receivables	Amortised cost	42,000	42,000
Other assets	Loans and receivables	Amortised cost	275	275
Net loans and advances	Loans and receivables	Amortised cost	744,548	744,548
Financial liabilities				
Deposits from councils and local government bodies	Amortised cost	Amortised cost	498,932	498,932
Accrued interest payable	Amortised cost	Amortised cost	2,407	2,407
Borrowings	Amortised cost	Amortised cost	199,228	199,228
Derivatives – Interest rate swaps	Fair Value through P&L	Fair Value through P&L	21,769	21,769
Provisions	Amortised cost	Amortised cost	3,850	3,850
Other liabilities	Amortised cost	Amortised cost	300	300

Impairment of financial assets

AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' model. The following financial assets of the Authority are subject to AASB 9's new expected credit loss model:

- Investment securities
- Loans and receivables

To satisfy the requirements of AASB 9: *Financial Instruments* the Authority has implemented a model for calculating an expected credit loss allowance using a forward looking approach (Refer Note 10.3(b) Credit Risk).

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

9. Outlook

9.1. Unrecognised contractual commitments

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

Loan commitments

	2019 \$'000	2018 \$'000
Unused cash advance facilities	465,928	522,872
Term loans approved not advanced	5,000	1,320
Total loan commitments	470,928	524,192

9.2. Contingent assets and liabilities

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

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

Contingent Assets

(a) Guarantee of the Treasurer of SA on Liabilities

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

As at 30 June 2019 the total liabilities guaranteed was \$803.480 million.

(b) Security for Loan Agreements

(i) Debentures over Council General Revenue

Loan agreements with Councils are secured by debentures which provide a charge over Council general revenue.

As at 30 June 2019 the total loans secured by debenture was \$745.863 million.

(ii) Schedule 2 of the Local Government Act 1999

Loans to Prescribed Local Government Bodies which are Council regional subsidiaries rely upon the constitutional obligations of Councils in the guarantee of the liabilities incurred or assumed by subsidiaries as per Schedule 2 of the *Local Government Act 1999*.

As at 30 June 2019 the total loans secured by Schedule 2 of the *Local Government Act 1999* was \$31.584 million.

(iii) First Registered Mortgage and Specific Security Deed

Loan agreements with the Local Government Association of South Australia (LGA) are secured by First Registered Mortgage over their building at 148 Frome Street, Adelaide, SA, 5000. In addition to this a Specific Security Deed

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

was entered into between the Authority and LGA in relation to the State Local Government Infrastructure Partnership (SGLIP). The Specific Security Deed grants the Authority a first ranking security interest over certain cash flows arising from the SGLIP agreement. As at 30 June 2019 the total loans secured by First Registered Mortgage and Specific Security Deed was \$22.018 million.

Contingent Liabilities

(a) Financial Guarantee

The Authority has issued a financial guarantee on behalf of the Workers Compensation Scheme of the Local Government Association of South Australia in favour of the Return to Work Corporation of South Australia. The guarantee is fully secured against depositor funds held, the value of which will not be less than the value of any liability that might be incurred. As at 30 June 2019 the amount guaranteed was \$25.178 million.

(b) Performance Bond/Guarantees

(i) Northern Adelaide Waste Management Authority

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

As at 30 June 2019 the amount guaranteed was \$1.350 million.

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

9.3. Impact of standards and statements not yet effective

The Authority 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 not yet effective and in note 8.1. There are no Accounting Policy Statements that are not yet effective.

AASB 15 – Revenue from Contracts with Customers

The Authority is not required to adopt *AASB 15 – Revenue from Contracts with Customers* from 1 July 2019 as section 5(c) of the standard excludes financial instruments and other contractual rights or obligations within the scope of *AASB 9 Financial Instruments*.

AASB 16 – Leases

The Authority has no lease contracts and therefore is not required to adopt *AASB 16 – Leases* from 1 July 2019.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

10. Measurement and risk

10.1. Fair value

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

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

Fair value of Financial Assets and Financial Liabilities

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

Cash at Bank

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

Investment Securities

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

Other Assets

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

Net Loans and Advances

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

Deposits from Councils and Prescribed Local Government Bodies

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

Borrowings

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

Derivatives

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

Other Liabilities

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

		2019		2018	
		Book Value \$'000	Fair Value \$'000	Book Value \$'000	Fair Value \$'000
Financial Assets	Category				
Cash at Bank	Amortised cost	6	6	1	1
Investment securities	Amortised cost	20,387	20,413	42,459	42,520
Other assets	Amortised cost	92	92	275	275
Net loans and advances	Amortised cost	849,195	876,853	748,173	770,637
Financial Liability	Category				
Deposits from councils and prescribed bodies	Amortised cost	484,405	484,888	500,742	501,036
Borrowings	Amortised cost	275,998	278,045	199,824	200,223
Derivatives	FVTPL	38,127	38,127	21,769	21,769
Other liabilities	Amortised cost	335	335	300	300

Fair Value Hierarchy

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

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

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

Level 3 – fair values that are derived from data not observable in a market. The Authority does not have any financial assets or liabilities which are required to be valued using this method.

All financial asset and liabilities are classified as level 2.

10.2. Financial instruments

Classification of Financial Instruments

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

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

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

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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

The Authority has determined the following classifications for financial instruments held at 1 July 2018:

Classification of Financial Assets

Financial assets at amortised cost – Cash at Bank, Investment Securities, Loans and Advances and Other Assets are measured at amortised cost.

Classification of Financial Liabilities

Financial Liabilities at amortised cost – Deposits from Councils and Local Government Bodies, Borrowings, Provisions and Other Liabilities are measured at amortised cost.

Fair value through profit and loss - Derivative financial instruments are measured at fair value with changes in the fair value taken to the Statement of Comprehensive Income.

10.3. Risk Management Policies and Procedures

The Treasurer issued a revised consent dated 20 March 2019, for the Authority to enter into a range of financial instruments as part of its normal operations of providing borrowing and investment services to Local Government in South Australia and for managing the associated risks.

All financial instrument transactions and internal control activities are conducted within a Board approved Risk Policy document. A Treasury Management System is in place which provides comprehensive accounting and reporting of financial instrument transactions which in turn allows for compliance with the Risk Policy to be monitored closely.

The risk management process is subject to regular and close senior management scrutiny, including regular Board and other management reporting. An Asset and Liability Committee (ALCO) has been appointed to direct and monitor risk management operations in accordance with the Risk Policy and is accountable to the Board.

a) Market Risk

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

Interest Rate Risk

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

(i) Fair Value Sensitivity Analysis for Fixed Rate Instruments

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

(ii) Sensitivity Analysis for Variable Rate Instruments

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

	Principal Balance 30/06/19 \$'000	+0.5% \$'000	-0.5% \$'000	Principal Balance 30/06/18 \$'000	+0.5% \$'000	-0.5% \$'000
Variable Rate Financial Assets						
Investment Securities	20,000	100	(100)	38,000	190	(190)
Loans and Advances	340,741	1,704	(1,704)	237,937	1,190	(1,190)
Variable Rate Financial Liabilities						
Council Deposits	401,797	(2,009)	2,009	424,891	(2,124)	2,124
Short Term Money Market Facility	222,865	(1,114)	1,114	128,987	(645)	645
Promissory Notes	12,521	(63)	63	21,167	(106)	106
Variable Rate Derivatives						
Interest Rate Swaps (Notional Principal)	417,287	2,086	(2,086)	431,218	2,156	(2,156)
Futures (Notional Principal/Bond Formula)	-	-	-	11,000	312	(312)
Profit/(Loss) Interest Rate Sensitivity		704	(704)		973	(973)

b) Credit Risk

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

Included in the Authority's Risk Policy document is a Credit Risk Limits policy which stipulates counterparty credit limits as follows:

(i) Investments and Derivatives

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

(ii) Loans and Advances

Credit limits are applied to individual councils based on debt servicing levels not exceeding Board approved percentages. Debt servicing levels are analysed on receipt of each loan application and the Board approved

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

percentages are reviewed annually. Credit risk is considered minimal as the majority of loan agreements are secured by debentures providing a charge over the Council's general revenue.

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

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

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

	12-month ECL	
	Investment Securities	Loans and Advances
	\$'000	\$'000
Balance as at 1 July 2018 before adjustment	-	-
Adjustment upon application of AASB 9	1	337
Balance as at 1 July 2018 after adjustment	1	337
Movement for the year	(1)	61
Balance as at 30 June 2019	-	398

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

The carrying amount of the Authority's financial assets at FVTPL as disclosed in Note 10.1 best represents its respective maximum exposure to credit risk. The Authority holds no collateral over any of these balances.

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

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

2019	Short Term Rating	Long Term Rating			
	A1+	AA-	A	NR	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and Liquid Assets	6	-	-	-	6
Investment Securities	20,000	-	-	-	20,000
Loans and Advances	-	-	-	799,465	799,465
Derivatives	-	3,700	1,200	-	4,900
Total	20,006	3,700	1,200	799,465	824,371

2018	Short Term Rating			Long Term Rating			
	A1+	A1	A2	AA-	A	NR	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and Liquid Assets	1	-	-	-	-	-	1
Investment Securities	28,000	5,000	9,000	-	-	-	42,000
Loans and Advances	-	-	-	-	-	714,318	714,318
Derivatives	-	-	-	3,500	1,600	-	5,100
Total	28,001	5,000	9,000	3,500	1,600	714,318	761,419

c) Liquidity Risk

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

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

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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

2019	Carrying Amount \$'000	Contracted Cash Flows \$'000	0 - 3 Months \$'000	3 - 12 Months \$'000	1 - 5 Years \$'000	> 5 Years \$'000
Non-Derivative Financial Liabilities						
Deposits from Councils and Local Government Bodies	484,406	(484,406)	(403,481)	(80,925)	-	-
Borrowings	275,998	(275,998)	(237,166)	(1,088)	(27,240)	(10,504)
Derivative Financial Liabilities						
Interest Rate Swaps - Outflow	197,303	(206,894)	(8,106)	(44,752)	(107,814)	(46,222)
Interest Rate Swaps - Inflow	(159,176)	166,626	9,357	34,374	86,882	36,013

2018	Carrying Amount \$'000	Contracted Cash Flows \$'000	0 - 3 Months \$'000	3 - 12 Months \$'000	1 - 5 Years \$'000	> 5 Years \$'000
Non-Derivative Financial Liabilities						
Deposits from Councils and Local Government Bodies	500,743	(500,743)	(426,703)	(64,022)	(10,018)	-
Borrowings	199,824	(199,824)	(151,789)	(26,056)	(9,040)	(12,939)
Derivative Financial Liabilities						
Interest Rate Swaps - Outflow	229,706	(251,327)	(8,051)	(43,606)	(140,418)	(59,252)
Interest Rate Swaps - Inflow	(208,005)	217,049	10,538	32,603	122,607	51,301

10.4. Fair value hedges

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

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

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

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

No other sources of ineffectiveness emerged from these hedging relationships.

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

Fair Value Hedges

Hedging instruments	Average contracted fixed interest rate		Notional principal amount		Carrying amount of the hedging instrument: assets / (liabilities)		Change in fair value used for recognising hedge ineffectiveness	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Interest rate swaps	4.046%	4.302%	411,341	424,381	(38,127)	(21,700)	(15,627)	5,778

Hedged items	Carrying amount of the hedged item: assets / (liabilities)		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item: debit/ (credit)		Line item in the statement of financial position in which the hedged item is included	Change in fair value used for recognising hedge ineffectiveness	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000		2019 \$'000	2018 \$'000
Fixed rate loans	(421,702)	(434,365)	42,463	26,722	Net Loans and Advances	15,740	(5,788)

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

Hedged items	Amount of hedge ineffectiveness recognised in profit or loss (P/L)		Line item in P/L in which hedge ineffectiveness is included
	2019 \$'000	2018 \$'000	
Fixed rate loans	113	(11)	Other income/expenses