



Level 9  
State Administration Centre  
200 Victoria Square  
Adelaide SA 5000  
Tel +618 8226 9640  
ABN 53 327 061 410  
audgensa@audit.sa.gov.au  
www.audit.sa.gov.au

## To the Chair Local Government Finance Authority of South Australia

### Opinion

I have audited the financial report of the Local Government Finance Authority of South Australia for the financial year ended 30 June 2023.

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 2023, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2023
- a Statement of Financial Position as at 30 June 2023
- a Statement of Changes in Equity for the year ended 30 June 2023
- a Statement of Cash Flows for the year ended 30 June 2023
- notes, comprising material accounting policy information and other explanatory information
- a Certificate from the Chair, Chief Executive Officer and the Financial Controller.

### Basis for opinion

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

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

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

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

In preparing the financial report, the Chief Executive 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 assessment indicates that it is not appropriate.

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

### **Auditor's responsibilities for the audit of the financial report**

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 33(2) of the *Local Government Finance Authority Act 1983*, I have audited the financial report of the Local Government Finance Authority of South Australia for the financial year ended 30 June 2023.

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 Officer
- conclude on the appropriateness of the Chief Executive Officer'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. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the opinion. My conclusion is based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease 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 Officer 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.



Daniel O'Donohue  
**Assistant Auditor-General (Financial Audit)**

07 September 2023

**LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA**

**STATEMENT OF COMPREHENSIVE INCOME**

**For the year ended 30 June 2023**

	Note	2023 \$'000	2022 \$'000
<b>INCOME</b>			
Interest on investments	3.1	2,646	70
Interest on loans and advances	3.2	40,623	23,805
Other Income	3.3	36	33
<b>TOTAL INCOME</b>		<b><u>43,305</u></b>	<b><u>23,908</u></b>
<b>EXPENSES</b>			
Interest on deposits from councils and local government bodies	4.1	16,466	1,961
Interest on borrowings	4.2	16,297	12,693
State Government guarantee fee	4.3	1,395	1,352
Administration expenses	4.4	2,111	1,958
Loan impairment expense	4.5, 9.3 b)	4,957	37
Other expenses	4.6	212	782
<b>TOTAL EXPENSES</b>		<b><u>41,438</u></b>	<b><u>18,783</u></b>
<b>PROFIT BEFORE INCOME TAX EQUIVALENTS</b>		<b>1,867</b>	<b>5,125</b>
Income tax equivalent expense	4.7	467	1,281
<b>PROFIT AFTER INCOME TAX EQUIVALENTS</b>		<b><u>1,400</u></b>	<b><u>3,844</u></b>
<b>TOTAL COMPREHENSIVE RESULT</b>		<b><u>1,400</u></b>	<b><u>3,844</u></b>

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 2023

	Note	2023 \$'000	2022 \$'000
<b>ASSETS</b>			
Cash at bank		1	1
Accrued interest receivable	5.1	6,732	3,089
Investment securities	5.2	20,000	31,368
Other assets	5.3	524	111
Net loans and advances	5.4	698,795	710,816
Derivatives	5.5	25,082	19,161
Property, plant & equipment	5.6	1,845	1,930
Intangible assets	5.7	72	92
<b>TOTAL ASSETS</b>		<b>753,051</b>	<b>766,568</b>
<b>LIABILITIES</b>			
Deposits from councils and local government bodies	6.1	563,825	505,704
Accrued interest payable	6.2	3,598	1,013
Borrowings	6.3	109,794	182,150
Provisions	6.4	2,265	3,568
Other liabilities	6.5	311	275
<b>TOTAL LIABILITIES</b>		<b>679,793</b>	<b>692,710</b>
<b>NET ASSETS</b>		<b>73,258</b>	<b>73,858</b>
<b>EQUITY</b>			
General reserve	7.1	72,550	73,150
Retained profits		579	579
Revaluation reserve	7.1	129	129
<b>TOTAL EQUITY</b>		<b>73,258</b>	<b>73,858</b>
Contingent assets and liabilities	8.2		

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 2023

	General Reserve \$'000	Retained Profits \$'000	Revaluation Reserve \$'000	Total \$'000
<b>Balance at 30 June 2021</b>	<b>72,000</b>	<b>635</b>	<b>129</b>	<b>72,764</b>
Profit after income tax equivalents for 2021-22	-	3,844	-	3,844
<b>Total comprehensive result for 2021-22</b>	<b>-</b>	<b>3,844</b>	<b>-</b>	<b>3,844</b>
Transfer to Special Distribution payment provision	-	(2,750)	-	(2,750)
Transfer to general reserve	1,150	(1,150)	-	-
<b>Balance at 30 June 2022</b>	<b>73,150</b>	<b>579</b>	<b>129</b>	<b>73,858</b>
Profit after income tax equivalents for 2022-23	-	1,400	-	1,400
<b>Total comprehensive result for 2022-23</b>	<b>-</b>	<b>1,400</b>	<b>-</b>	<b>1,400</b>
Transfer to Special Distribution payment provision	-	(2,000)	-	(2,000)
Transfer from general reserve	(600)	600	-	-
<b>Balance at 30 June 2023</b>	<b>72,550</b>	<b>579</b>	<b>129</b>	<b>73,258</b>

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 2023

	Note	2023 \$'000 Inflows (Outflows)	2022 \$'000 Inflows (Outflows)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		38,797	23,813
Interest paid		(30,418)	(14,490)
State Government guarantee fee		(1,389)	(1,360)
Payments to suppliers and employees		(1,853)	(1,845)
Fees received		27	28
Income tax equivalents paid		(1,497)	(1,411)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	7.2	<b>3,667</b>	<b>4,735</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Loans to councils and local government bodies		1,673	53,385
Investment securities		11,371	(21,364)
Payments for property, plant & equipment		(160)	(157)
Proceeds from sale of property, plant & equipment		109	-
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>		<b>12,993</b>	<b>31,864</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Promissory notes		(8,016)	5
Deposits from councils and local government bodies		58,120	45,392
Short term money market facilities		(56,976)	(83,488)
Fixed term borrowings		(7,363)	(2,293)
Special Distribution payment to councils and local government bodies		(2,750)	(2,500)
Other		325	1,208
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(16,660)</b>	<b>(41,676)</b>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		<b>-</b>	<b>(5,077)</b>
Cash at 1 July		1	5,078
<b>CASH AT 30 JUNE</b>	7.2	<b>1</b>	<b>1</b>

The accompanying notes form part of these financial statements.

# LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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# LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2023

### 1. About the Local Government Finance Authority

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

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

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

#### 1.1. Basis of preparation

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

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

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

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

#### Accounting judgements, estimates and assumptions

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

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

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

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

### Comparative information

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

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

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

### Rounding

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

### 1.2. Objectives and programs

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

The functions of the Authority are as follows:

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

### 1.3. Impact of COVID-19 pandemic on the Authority

In June 2020 the Board of the Authority approved a three year financial assistance package for councils to assist them during the COVID-19 pandemic. The package includes discounts to cash advance debenture loans and higher interest on deposits for councils. This will in turn have the financial effect of reducing the profit of the Authority until the last of the council assistance facilities mature in December 2023.

### 1.4. Significant transactions with government related entities

	2023 \$'000	2022 \$'000
<b>Expense transactions with the South Australian government</b>		
Interest paid on borrowings	5,139	1,265
State government guarantee fee	1,395	1,352
Income tax equivalents expense	467	1,281
<b>Liabilities outstanding to the South Australian government</b>		
Borrowings	109,794	182,150
Interest payable on borrowings	919	388

## 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:

	2023 \$'000	2022 \$'000
Salaries and other short-term employee benefits	344	327
Post-employment benefits	33	32
<b>Total compensation</b>	<b>377</b>	<b>359</b>

#### Transactions with key management personnel and other related parties

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

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

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

#### 2.2. Board and audit and risk committee members

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

Members during the 2022-23 financial year were:

##### LGFA governing board

Mr Michael Sedgman (Chair)	Council representative
Dr Andrew Johnson (Deputy Chair)	LGA representative retired 31 December 2022
Mr Terry Buss PSM (Deputy Chair)	LGA representative
Mr Clinton Jury	LGA Chief Executive Officer
Ms Annette Martin	Council representative
Mr Andrew Wroniak	LGA representative commenced 1 January 2023
Ms Anna Hughes*	Appointee of the Treasurer retired 15 July 2022
Ms Danielle Lawlor*	Appointee of the Treasurer commenced 25 November 2022
Ms Belinda Merrett*	Appointee of the Treasurer commenced 25 November 2022

##### LGFA audit and risk committee

Dr Andrew Johnson (Chair)	Committee member retired 31 December 2022
Ms Annette Martin (Chair)	
Mr Terry Buss PSM	
Ms Nicolle Rantanen-Reynolds	Independent committee member commenced 15 August 2022
Mr Andrew Wroniak	Committee member commenced 21 February 2023

## 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:

	2023 No	2022 No
No remuneration	3	2
\$1 - \$19 999	5	6
\$20 000 - \$39 999	1	1
<b>Total</b>	<b>9</b>	<b>9</b>

The total remuneration received or receivable by governing board members was \$64,820 (\$64,400) which includes salary and superannuation. No additional fees were paid to audit and risk committee members.

\*In accordance with the *Premier and Cabinet Circular No. 016*, SA Government employees appointed by the Treasurer 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

	2023 No	2022 No
The number of employees whose remuneration received or receivable falls within the following bands:		
\$160 001 to \$180 000	1	1
\$180 001 to \$200 000	1	-
\$280 001 to \$300 000	-	1
\$300 001 to \$320 000	1	-
<b>Total</b>	<b>3</b>	<b>2</b>

The total remuneration received by those employees for the year was \$673,000 (\$457,000).

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, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits.

## 3. Income

### 3.1. Interest on investments

	2023 \$'000	2022 \$'000
Interest received on investments	2,646	70
<b>Total interest on investments</b>	<b>2,646</b>	<b>70</b>

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

### 3.2. Interest on loans and advances

	2023 \$'000	2022 \$'000
Interest received on fixed rate debenture loans	16,489	16,656
Interest received on cash advance debenture loans	13,397	6,603
Interest received on interest rate swaps	10,737	546
<b>Total interest on loans and advances</b>	<b>40,623</b>	<b>23,805</b>

### 3.3. Other income

	2023 \$'000	2022 \$'000
Guarantee fee income	34	33
Gain on sale of fixed assets	2	-
<b>Total other income</b>	<b>36</b>	<b>33</b>

## 4. Expenses

### 4.1. Interest on deposits from councils and local government bodies

	2023 \$'000	2022 \$'000
Interest paid on deposits from councils and local government bodies	16,466	1,961
<b>Total interest on deposits from councils and local government bodies</b>	<b>16,466</b>	<b>1,961</b>

### 4.2. Interest on borrowings

	2023 \$'000	2022 \$'000
Interest paid on borrowings	5,140	1,265
Interest paid on interest rate swaps	11,157	11,422
Loss on futures contracts	-	6
<b>Total interest on borrowings</b>	<b>16,297</b>	<b>12,693</b>

### 4.3. State government guarantee fee

	2023 \$'000	2022 \$'000
State government guarantee fee	1,395	1,352
<b>Total state government guarantee fee</b>	<b>1,395</b>	<b>1,352</b>

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

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

### 4.4. Administration expenses

	2023 \$'000	2022 \$'000
Audit fees	101	95
Board fees	66	63
Computer expenses	66	20
Consultancy fees	68	76
Depreciation and amortisation	157	169
Insurance	43	28
Legal expenses	40	59
Market information service	72	48
Occupancy expenses	37	39
Salaries & on-costs	1,004	949
Software license fees	169	151
Sponsorships	152	123
Other administration expenses	136	138
<b>Total administration expenses</b>	<b>2,111</b>	<b>1,958</b>

#### Audit fees

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

	2023 \$'000	2022 \$'000
Auditing work performed by the Auditor-General's Department*	61	67
Internal audit services, including a Financial Management Compliance Program by an independent audit firm	40	28
<b>Total audit fees</b>	<b>101</b>	<b>95</b>

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

#### Consultants

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

	No	2023 \$'000	No	2022 \$'000
Below \$10 000	3	22	5	17
\$10 000 or above	1	46	1	60
<b>Total consultants</b>	<b>4</b>	<b>68</b>	<b>6</b>	<b>77</b>

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

### Depreciation and amortisation

	2023 \$'000	2022 \$'000
Building floorspace	25	26
Computer software	70	86
Furniture and fittings	15	11
Motor vehicles	12	16
Office equipment	35	30
<b>Total depreciation and amortisation</b>	<b>157</b>	<b>169</b>

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

### Useful life

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

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

### 4.5. Loan impairment expense

	2023 \$'000	2022 \$'000
Increase in expected credit loss allowance	4,957	37
<b>Total loan impairment expense</b>	<b>4,957</b>	<b>37</b>

### 4.6. Other expenses

	2023 \$'000	2022 \$'000
Fair value hedge accounting loss	212	782
<b>Total other expenses</b>	<b>212</b>	<b>782</b>

### 4.7. Income tax equivalent expense

	2023 \$'000	2022 \$'000
Income tax equivalent expense	467	1,281
<b>Total income tax equivalent expense</b>	<b>467</b>	<b>1,281</b>

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.

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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 \*

	2023 \$'000	2022 \$'000
Interest receivable on:		
Loans to councils and local government bodies	6,395	3,029
Investment securities	337	60
<b>Total accrued interest receivable</b>	<b>6,732</b>	<b>3,089</b>

\* 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

	2023 \$'000	2022 \$'000
Bank term deposits	20,000	31,370
Expected credit loss allowance	-	(2)
<b>Total investment securities</b>	<b>20,000</b>	<b>31,368</b>

#### 5.3. Other assets

	2023 \$'000	2022 \$'000
Sundry debtors and prepayments	93	111
Provision for income tax equivalents	431	-
<b>Total sundry debtors and prepayments</b>	<b>524</b>	<b>111</b>

#### 5.4 Net loans and advances

	2023 \$'000	2022 \$'000
Advances	322,312	286,501
Term loans	403,677	441,161
<b>Loans and advances</b>	<b>725,989</b>	<b>727,662</b>
Hedge accounting revaluation	(21,750)	(16,361)
Expected credit loss allowance	(5,444)	(485)
<b>Net loans and advances</b>	<b>698,795</b>	<b>710,816</b>

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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

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

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

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

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

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

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

**(iv) Mortgages over freehold properties and specific security deed**

The Authority holds mortgages over freehold properties and a specific security deed over certain water supply assets of the District Council of Coober Pedy (DCCP). This security is in addition to the debentures over council general revenue held for loans to DCCP (refer Note 5.4(i)).

### 5.5 Derivatives

	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Swap principal receivable	1,796	2,120
Interest receivable on interest rate swaps	1,431	362
Interest payable on interest rate swaps	(2,076)	(2,316)
Fair value adjustment	23,931	18,995
<b>Interest rate swaps</b>	<b>25,082</b>	<b>19,161</b>

### 5.6 Property, plant and equipment

	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Building floorspace</b>		
Building floorspace at fair value	1,813	1,813
Accumulated depreciation at the end of the period	(148)	(123)
<b>Total building floorspace</b>	<b>1,665</b>	<b>1,690</b>
<b>Furniture and fittings</b>		
Furniture and fittings at cost (deemed fair value)	425	401
Accumulated depreciation at the end of the period	(366)	(350)
<b>Total furniture and fittings</b>	<b>59</b>	<b>51</b>
<b>Motor vehicles</b>		
Motor vehicles at cost (deemed fair value)	62	161
Accumulated depreciation at the end of the period	(4)	(46)
<b>Total motor vehicles</b>	<b>58</b>	<b>115</b>

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

### Office equipment

Office equipment at cost (deemed fair value)	217	195
Accumulated depreciation at the end of the period	(154)	(121)
<b>Total office equipment</b>	<b>63</b>	<b>74</b>
<b>Total property, plant and equipment</b>	<b>1,845</b>	<b>1,930</b>

### Initial Recognition

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

### Revaluation

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

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

### Building floorspace

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

### Impairment

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

### Reconciliation 2022-23

	Building floorspace \$'000	Furniture and fittings \$'000	Motor vehicles \$'000	Office equipment \$'000	Total \$'000
Carrying amount at 1 July 2022	1,690	51	115	74	1,930
Acquisitions	-	23	62	24	109
Disposals	-	-	(107)	-	(107)
Depreciation	(25)	(15)	(12)	(35)	(87)
<b>Carrying amount at 30 June 2023</b>	<b>1,665</b>	<b>59</b>	<b>58</b>	<b>63</b>	<b>1,845</b>

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

### Reconciliation 2021-22

	Building floorspace \$'000	Furniture and fittings \$'000	Motor vehicles \$'000	Office equipment \$'000	Total \$'000
Carrying amount at 1 July 2021	1,716	51	130	27	1,924
Acquisitions	-	11	-	78	89
Disposals	-	-	-	-	-
Depreciation	(26)	(11)	(15)	(31)	(83)
Carrying amount at 30 June 2022	1,690	51	115	74	1,930

### 5.7 Intangible assets

	2023 \$'000	2022 \$'000
<b>Computer software</b>		
Internally developed computer software	214	184
Accumulated amortisation	(176)	(139)
Purchased computer software	519	489
Accumulated amortisation	(485)	(442)
<b>Total computer software</b>	<b>72</b>	<b>92</b>

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 2022-23

	Internally developed computer software \$'000	Purchased computer software \$'000	Total \$'000
Carrying amount at 1 July 2022	45	47	92
Acquisitions	30	20	50
Amortisation	(36)	(34)	(70)
Carrying amount at 30 June 2023	39	33	72

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

### Reconciliation 2021-22

	Internally developed computer software \$'000	Purchased computer software \$'000	Total \$'000
Carrying amount at 1 July 2021	59	51	110
Acquisitions	28	40	68
Amortisation	(42)	(44)	(86)
Carrying amount at 30 June 2022	45	47	92

## 6. Liabilities

### 6.1. Deposits from councils and local government bodies

	2023 \$'000	2022 \$'000
At call	363,957	323,897
Fixed term	199,868	181,807
<b>Total deposits from councils and local government bodies</b>	<b>563,825</b>	<b>505,704</b>

#### 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

	2023 \$'000	2022 \$'000
Interest payable on:		
Deposits from councils and local government bodies	2,679	625
Borrowings*	919	388
<b>Total accrued interest payable</b>	<b>3,598</b>	<b>1,013</b>

\* 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

	2023 \$'000	2022 \$'000
Short term money market facility	15,855	72,832
Fixed term borrowings	93,939	101,302
Promissory notes	-	8,016
<b>Total borrowings</b>	<b>109,794</b>	<b>182,150</b>

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

### 6.4. Provisions

	2023 \$'000	2022 \$'000
Employee benefits	255	208
Fringe benefits tax	10	11
Special distribution payment to councils and local government bodies	2,000	2,750
Provision for income tax equivalents	-	599
<b>Total provisions</b>	<b>2,265</b>	<b>3,568</b>

#### 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.

#### Special distribution payment

A provision is made for the annual special distribution 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 2023.

#### Movement in provisions during the year

	2023 \$'000	2022 \$'000
<b>Special distribution payment to councils and local government bodies</b>		
Opening balance 1 July	2,750	2,500
Increase in provision	2,000	2,750
Amounts paid	(2,750)	(2,500)
<b>Closing balance 30 June</b>	<b>2,000</b>	<b>2,750</b>
<b>Provision for income tax equivalents</b>		
Opening balance 1 July	599	730
Increase in provision	467	1,281
Amounts paid	(1,497)	(1,412)
<b>Closing balance 30 June (Refer Note 5.3)</b>	<b>(431)</b>	<b>599</b>

### 6.5. Other liabilities

	2023 \$'000	2022 \$'000
Employee on-costs	28	23
Sundry creditors	283	252
<b>Total other liabilities</b>	<b>311</b>	<b>275</b>

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

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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

### Superannuation commitments

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

## 7. Other disclosures

### 7.1. Equity

#### General reserve

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

#### Revaluation reserve

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

### 7.2. Cash flow

Cash flows presented on a net basis

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

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

#### Cash flow reconciliation

	2023 \$'000	2022 \$'000
<b>Reconciliation of cash at bank at the end of the reporting period</b>		
Cash at bank disclosed in the statement of financial position	1	1
Balance as per the statement of cash flows	1	1
<b>Reconciliation of profit after income tax to net cash provided by operating activities</b>		
Profit after income tax equivalents	1,400	3,844
Decrease/(increase) in interest receivable	(4,472)	(61)
Decrease/(increase) in sundry debtors	11	(3)
Increase/(decrease) in interest payable	2,344	163
Increase/(decrease) in other liabilities	42	18

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

Increase/(decrease) in provisions	(984)	(213)
Expected credit loss allowance	4,957	36
Depreciation and amortisation	158	169
Revaluation loss/(gain)	213	782
Loss/(gain) on disposal of fixed assets	(2)	-
<b>Net cash provided by operating activities</b>	<b>3,667</b>	<b>4,735</b>

### 8. Outlook

#### 8.1. Unrecognised contractual commitments

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

##### Loan commitments

	2023 \$'000	2022 \$'000
Unused cash advance facilities	794,184	828,579
Term loans approved not advanced	-	700
<b>Total loan commitments</b>	<b>794,184</b>	<b>829,279</b>

#### 8.2. Contingent assets and liabilities

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

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

##### Contingent assets

###### (a) Guarantee of the Treasurer of SA on liabilities

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

As at 30 June 2023 the total liabilities guaranteed was \$679.793 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 2023 the total loans secured by debenture was \$691.656 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 2023 the total loans secured by Schedule 2 of the *Local Government Act 1999* was \$21.277 million.

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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

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

As at 30 June 2023 the total loans secured by first registered mortgage and specific security deed was \$13.057 million.

### (iv) Mortgages over freehold properties and specific security deed

The Authority holds mortgages over freehold properties and a specific security deed over certain water supply assets of the District Council of Coober Pedy (DCCP). This security is in addition to the debentures over council general revenue held for loans to DCCP (refer Note 8.2(b)(i)).

As at 30 June 2023 the value of the properties secured by mortgages and the specific security deed assets were not available.

## 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 2023 the amount guaranteed was \$27.141 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 2023 the amount guaranteed was \$1.350 million.

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

## 8.3. Impact of standards not yet effective

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

## 8.4. COVID-19 pandemic outlook for the Authority

In June 2020 the Board of the Authority approved a three year financial assistance package for councils to assist them during the COVID-19 pandemic. The package includes discounts to cash advance debenture loans and

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

higher interest on deposits for councils. This will in turn have the financial effect of reducing the profit of the Authority until the last of the council assistance facilities mature in December 2023.

### 9. Measurement and risk

#### 9.1. Fair value

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

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

#### **Fair value of financial assets and financial liabilities**

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

##### **Cash at bank**

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

##### **Investment securities**

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

##### **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.

##### **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*.

##### **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.

##### **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

		2023		2022	
		Book value \$'000	Fair value \$'000	Book value \$'000	Fair value \$'000
<b>Financial assets</b>	<b>Category</b>				
Cash at bank	Amortised cost	1	1	1	1
Investment securities	Amortised cost	20,337	20,342	31,429	31,415
Other assets	Amortised cost	524	524	111	111
Net loans and advances	Amortised cost	705,190	722,655	713,845	732,853
Derivatives	FVTPL	25,082	25,082	19,161	19,161
<b>Financial liabilities</b>	<b>Category</b>				
Deposits from councils and local government bodies	Amortised cost	566,504	566,405	506,329	505,878
Borrowings	Amortised cost	110,713	109,486	182,538	181,197
Other liabilities	Amortised cost	311	311	275	275

### Fair value hierarchy

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

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

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

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

All financial assets and liabilities are classified as level 2.

During 2023 and 2022 there were no transfers of assets between fair value hierarchy levels and no changes in valuation techniques.

## 9.2. Financial instruments

### Classification of financial instruments

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

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

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

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

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

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

The Authority has determined the following classifications for financial instruments:

### **Classification of financial assets**

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

**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.

### **Classification of financial liabilities**

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

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

### **9.3. Risk management policies and procedures**

The Treasurer issued a revised consent dated 1 June 2023, for the Authority to enter into a range of financial instruments as part of its normal operations of providing borrowing and investment services to local government in South Australia and for managing the associated risks.

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

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

#### **a) Market risk**

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

#### **Interest rate risk**

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

#### **(i) Fair value sensitivity analysis for fixed rate instruments**

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

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

### (ii) Sensitivity analysis for variable rate instruments

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

	Principal balance 30/06/23 \$'000	+0.5% \$'000	-0.5% \$'000	Principal balance 30/06/22 \$'000	+0.5% \$'000	-0.5% \$'000
<b>Variable rate financial assets</b>						
Investment securities	20,000	100	(100)	10,000	50	(50)
Loans and advances	328,812	1,644	(1,644)	288,002	1,440	(1,440)
<b>Variable rate financial liabilities</b>						
Council deposits	506,295	(2,531)	2,531	466,465	(2,332)	2,332
Short term money market facility	15,856	(79)	79	72,832	(364)	364
Promissory notes	-	-	-	8,016	(40)	40
<b>Variable rate derivatives</b>						
Interest rate swaps (notional principal)	360,249	1,801	(1,801)	390,077	1,950	(1,950)
<b>Profit/(loss) interest rate sensitivity</b>		<b>935</b>	<b>(935)</b>		<b>704</b>	<b>(704)</b>

### 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.

#### Credit Limits

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 criterion. Regular reporting of investment and derivative credit exposures are provided to the board and management.

#### (ii) Loans and advances

LGFA reviews borrowing council's financial information in line with the statutory requirement of councils to report on a yearly basis. LGFA has a credit risk rating process that has been developed with an approach utilising current banking and rating based methodologies to ensure we act in accordance with proper principles of financial management. This process currently focuses on the financial performance and the debt profile of borrowing councils.

Based on a number of financial metrics the LGFA has a credit risk scorecard to apply the financial information to the LGFA credit methodology to determine an internal credit risk rating for each borrowing council. These ratings are reviewed by the board annually.

The Authority has not incurred any bad debts on loans since its inception in 1984. Credit risk is considered minimal as the majority of loan agreements are secured by debentures providing a charge over the council's general revenue.

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

### Measurement and recognition of expected credit losses (ECL)

Expected credit losses are a probability-weighted estimate of credit losses (ie the present value of all cash shortfalls) over the expected life of the financial instrument.

The measurement of expected credit losses is a function of the probability of default, loss given default (ie. 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 below.

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.

LGFA incorporates forward-looking information in assessing whether the credit risk of loans in our loan portfolio has increased significantly since initial recognition and for the measurement of the Expected Credit Loss allowance. Forward looking information reviewed by LGFA includes current and potential global events, economic forecasts and factors impacting on the financial sustainability of councils.

LGFA considers three forward looking economic scenarios as follows:

1. Stable (base case) – median scenario assigned a 50% probability of occurring
2. Downside – less likely scenario assigned a 40% probability of occurring
3. Upside – least likely scenario assigned a 10% probability of occurring

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. Where a financial asset has become credit impaired then interest will be recognised by applying the effective interest rate to the amortised cost of the asset.

The Authority's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising expected credit losses (ECL)
Stage 1 Performing	The counterparty has a low risk of default and does not have any past-due amounts.	12 month ECL
Stage 2 Under-performing	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL – not credit impaired
Stage 3 Non-performing (impaired)	Amount is >90 days past due or there is evidence indicating the asset is credit impaired.	Lifetime ECL – credit impaired
Stage 4 Write-off	There is evidence indicating that the borrower is in severe financial difficulty and the Authority has no realistic prospect of recovery.	Amount is written off.

## LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

### Credit Impairment

At each reporting date, LGFA assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the following observable data:

- significant financial difficulty of the borrower;
- a breach of contract or being more than 90 days past due;
- the restructuring of a loan or advance on terms that would not be considered otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

The following table shows the movement in expected credit losses that has been recognised for the respective financial assets.

	Stage 1 – 12 month ECL		Stage 3 – Lifetime ECL
	Investment securities \$'000	Loans and advances \$'000	Loans and advances \$'000
Balance at 1 July 2021	-	451	-
Movement for the year	2	34	-
Balance at 30 June 2022	2	485	-
Movement for the year	(2)	(20)	4,979
Balance at 30 June 2023	-	465	4,979

There has not been any significant change in the gross amounts for stage 1 financial assets that has affected the estimation of the stage 1 loss allowance.

A stage 3 loss allowance has been created as at 30 June 2023 for loans to the District Council of Coober Pedy which have been classified as credit impaired. Due to the continued financial difficulties at the council and the waiver of loan interest in May 2023 (\$223K) it has been necessary to revalue the carrying amount of these loans.

The stage 3 ECL has been calculated using a probability weighted ECL calculation for the recovery of the future cashflows of the loans under base case, downside and upside forward looking scenarios. The calculation has taken into account the present value of the estimated fair value of the collateral disclosed at Note 5.4(iv) and 8.2(b)(iv). The estimated fair value of the collateral used in the calculation has been determined based on management judgement, recent sales data and discussions with independent external advisors.

The following table presents an analysis of the credit quality of investment and loan assets held at amortised cost:

2023	At Amortised Cost - 12 month ECL		At Amortised Cost – Lifetime ECL
	Investment securities \$'000	Loans and advances \$'000	Loans and advances \$'000
Stage 1 Performing	20,000	718,179	-
Stage 3 Impaired	-	-	7,810
Gross Carrying Amount	20,000	718,179	7,810
Loss Allowance	-	465	4,979
Net Carrying Amount	20,000	717,714	2,831

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2022	At Amortised Cost - 12 month ECL	
	Investment securities \$'000	Loans and advances \$'000
Stage 1 Performing	31,370	727,662
Gross Carrying Amount	31,370	727,662
Loss Allowance	2	485
Net Carrying Amount	31,368	727,177

### Credit Exposure Analysis

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.

2023	Short term rating A1+ \$'000	Long term rating			Total \$'000
		AA- \$'000	A+ \$'000	NR \$'000	
Investment securities	20,000	-	-	-	20,000
Loans and advances	-	-	-	725,989	725,989
Derivatives	-	30,500	1,300	-	31,800
<b>Total</b>	<b>20,000</b>	<b>30,500</b>	<b>1,300</b>	<b>725,989</b>	<b>777,789</b>

2022	Short term rating A1+ \$'000	Long term rating			Total \$'000
		AA- \$'000	A \$'000	NR \$'000	
Investment securities	27,900	3,500	-	-	31,400
Loans and advances	-	-	-	727,662	727,662
Derivatives	-	24,900	200	-	25,100
<b>Total</b>	<b>27,900</b>	<b>28,400</b>	<b>200</b>	<b>727,662</b>	<b>784,162</b>

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

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

### 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.

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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.

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

2023	Carrying amount \$'000	Contracted cash flows \$'000	0 - 3 months \$'000	3 - 12 months \$'000	1 - 5 years \$'000	> 5 years \$'000
<b>Non-derivative financial liabilities</b>						
Deposits from councils and local government bodies	566,504	(566,504)	(508,974)	(55,030)	(2,500)	-
Borrowings	110,713	(110,713)	(17,983)	(71,226)	(21,504)	-
<b>Derivative financial liabilities</b>						
Interest rate swaps - outflow	75,242	(87,381)	(3,298)	(16,797)	(49,897)	(17,389)
Interest rate swaps - inflow	(100,324)	114,995	6,023	18,095	63,255	27,622

2022	Carrying amount \$'000	Contracted cash flows \$'000	0 - 3 months \$'000	3 - 12 months \$'000	1 - 5 years \$'000	> 5 years \$'000
<b>Non-derivative financial liabilities</b>						
Deposits from councils and local government bodies	506,329	(506,329)	(467,080)	(32,871)	(6,368)	-
Borrowings	182,538	(182,538)	(87,409)	(1,190)	(91,194)	(2,745)
<b>Derivative financial liabilities</b>						
Interest rate swaps - outflow	112,288	(106,843)	(3,517)	(20,551)	(62,839)	(19,936)
Interest rate swaps - inflow	(93,127)	81,555	3,769	14,602	51,428	11,756

### 9.4. 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 fixed term/rate debenture loans and fixed term/rate cash advance 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*.

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

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

No other sources of ineffectiveness emerged from these hedging relationships.

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

### Fair Value Hedges

Hedging instruments	Average contracted fixed interest rate		Notional principal amount		Carrying amount of the hedging instrument: assets / (liabilities)		Change in fair value used for recognising hedge ineffectiveness	
	2023 %	2022 %	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Interest rate swaps	2.926	3.005	358,454	387,957	25,082	19,161	4,936	47,437

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	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000		2023 \$'000	2022 \$'000
Fixed rate loans	343,727	378,934	(21,751)	(16,361)	Net loans and advances	(5,149)	(48,219)

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
	2023 \$'000	2022 \$'000	
Fixed rate loans	(213)	(782)	Other income/expenses

## Certification of the financial statements

We certify that the:

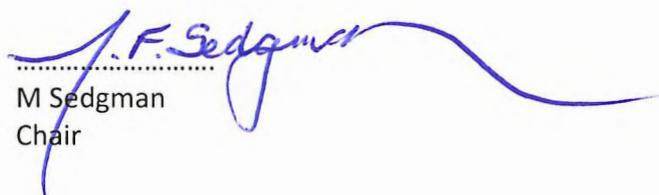
- financial statements of the Local Government Finance Authority of South Australia:
  - are in accordance with the accounts and records of the authority; and
  - comply with relevant Treasurer's instructions; and
  - comply with relevant accounting standards; and
  - present a true and fair view of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



DJ Lambert  
Chief Executive Officer



GC Holtt  
Financial Controller



M Sedgman  
Chair

1 September 2023