



**FINANCIAL SERVICES**

# ANNUAL REPORT

Local Government  
Finance Authority of  
South Australia



# 2018

# Member Councils

As at 30 June 2018

City of Adelaide	City of Mount Gambier
Adelaide Hills Council	District Council of Mount Remarkable
Adelaide Plains Council	Rural City of Murray Bridge
Alexandrina Council	Naracoorte Lucindale Council
The Barossa Council	Northern Areas Council
Barunga West Council	City of Norwood, Payneham & St Peters
Berri Barmera Council	City of Onkaparinga
City of Burnside	District Council of Orroroo Carrieton
Campbelltown City Council	District Council of Peterborough
District Council of Ceduna	City of Playford
City of Charles Sturt	City of Port Adelaide Enfield
Clare & Gilbert Valleys Council	Port Augusta City Council
District Council of Cleve	City of Port Lincoln
District Council of Coober Pedy	Port Pirie Regional Council
Coorong District Council	City of Prospect
Copper Coast Council	Renmark Paringa Council
District Council of Elliston	District Council of Robe
The Flinders Ranges Council	Municipal Council of Roxby Downs
District Council of Franklin Harbour	City of Salisbury
Town of Gawler	Southern Mallee District Council
Goyder Regional Council	District Council of Streaky Bay
District Council of Grant	Tatiara District Council
City of Holdfast Bay	City of Tea Tree Gully
Kangaroo Island Council	District Council of Tumby Bay
District Council of Karoonda East Murray	The City of Unley
District Council of Kimba	City of Victor Harbor
Kingston District Council	Wakefield Regional Council
Light Regional Council	Corporation of the Town of Walkerville
District Council of Lower Eyre Peninsula	Wattle Range Council
District Council of Loxton Waikerie	City of West Torrens
Corporation of the City of Marion	City of Whyalla
Mid Murray Council	Wudinna District Council
City of Mitcham	District Council of Yankalilla
Mount Barker District Council	Yorke Peninsula Council

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# Board of Trustees



**Mr John Comrie**  
**Chairman**

JAC Comrie Pty Ltd  
LGA Nominee



**Ms Heather Watts**

Director Commercial Operations  
Department of Treasury and Finance  
South Australian Government  
Financing Authority (SAFA)

Appointee of the Treasurer

Heather was appointed on  
23 October 2017

Mr Craig Fowler's term expired on  
22 October 2017



**Cr John Frogley**  
**Deputy Chairman**

Councillor

City of Norwood, Payneham  
& St Peters

LGFA Elected Member



**Ms Susan McCormick**

Deputy Director  
State Recovery Office

Appointee of the  
Minister for Finance

Susan's position ceased upon her  
resignation in December 2017

Awaiting appointment of new  
Appointee



**Mr Matt Pinnegar**

Chief Executive Officer  
Local Government Association

Deputy: Mr Chris Russell  
Strategic Adviser



**Ms Annette Martin**

Manager Financial Services

City of Charles Sturt

LGFA Elected Member



**Dr Andrew Johnson**

AK Johnson & Associates

LGA Nominee



## Chairman's Review



**Mr John Comrie**  
**Chairman**

Now into my second year as Chairman, I am very pleased to report that the LGFA continues to perform well in serving the local government sector and that further progress has been made.

The Board has taken a keen interest in corporate governance with policies reviewed and strengthened.

I am pleased to report that the Auditor General's Department and Galpins (Auditors), who review our Financial Management Compliance Programme, have given the LGFA a very good report card.

The LGFA has again managed to provide our Members with a range of products and services that continue to ensure the very best financial outcomes. During the year we provided 100% of all loans advanced to councils in South Australia and our share of available deposit funds was in excess of 85%. While pleased with these results, we are keen to improve our deposit raising performance as every dollar raised from our members, means one less dollar that we need to borrow externally, including, from the State.

Councils and prescribed bodies continued to use increasing levels of floating rate debt to give them flexibility to actively manage their cash flows, although there was still a healthy demand for principal and interest (credit foncier), fixed term funds to support infrastructure projects.

Our financial performance this year was excellent. An operating profit of \$6.28 million was achieved against a budget of \$5.24 million. This is the second highest profit achieved in our 34 year history and it is pleasing to report that much of this increase was achieved by active interest rate risk management in the balance sheet, not wider margins. This performance means a win-win for local government. An increased tax equivalent payment will be made available for local government research and development purposes and the bonus paid to members will be increased from \$2 million to \$2.3 million. LGFA retained earnings will also increase and this strengthens the capacity of the organisation to continue to serve local government in future.

I would like to sincerely thank all Members for their support and the Government for its guarantee and liquidity via SAFA.



# Chairman's Review

## Economic Conditions

### Economic Conditions

The global economy improved over the last year as the US, most of Asia and the Eurozone experienced declining unemployment and higher economic growth, during a period of benign inflation.

The US Federal Reserve increased the target federal funds rate by 0.75% over the past year and is currently targeting a range of between 1.75 - 2.00%. This change to the federal funds rate caused volatility in short term funding and bond markets around the globe as US fund managers repatriated funds to take advantage of these higher yields. In December, President Trump delivered one of his campaign promises when the US senate approved major changes to US Tax law. The changes saw tax rates for corporates and individuals reduced and the stimulatory effects of cuts saw equity markets rise around the globe. In March, President Trump announced trade tariffs on Chinese aluminium and steel. This started a round of tit for tat tariff announcements between the countries with some commentators calling this the start of a trade war between the economic giants. The Eurozone improved remarkably over the last year highlighted by an improved labour market and strong economic growth and reached a point where the European Central Bank is considering when and how to stop their stimulatory bond buying program. Chinese economic growth remained steady over the past year with a highly indebted public sector and the trade tariffs issues with the US creating some cause for concern. Bond yields in most advanced economies around the globe rose over the past year on the back of an improved economic outlook highlighted by the US 10-year Treasury Bond Yield appreciating around 0.5%.

***“The Reserve Bank of Australia (RBA) left the official cash rate on hold at 1.5% over the past financial year. The cash rate has been on hold since August 2016 with this being its longest period of stability on record.”***

The Australian economy improved over the past year. Australian Gross Domestic Product (GDP) rose from 2.0% to 3.1% per annum. The unemployment rate fell from 5.6% to 5.4%, however low wage growth and underemployment pointed out some of the structural issues within the employment market. Housing prices in Australia's two largest capital cities fell or moderated over the past year with flow on effects from the bank royal commission expected to dampen property markets further. The Australian Dollar (AUD) ranged between \$0.74 and \$0.80 USD over the year in review ending the year at the low point of \$0.74 USD.

The Reserve Bank of Australia (RBA) left the official cash rate on hold at 1.5% over the past financial year. The cash rate has been on hold since August 2016 with this being its longest period of stability on record. The RBA left rates on hold as stronger economic growth and an improving labour market was tempered by low wages growth and benign inflation. RBA concerns about exponential house price growth, in Sydney and Melbourne have dissipated over the past year as prices in the two capital cities having fallen or moderated.

## Lending Activities

### Lending Activities

The level of loans outstanding as at 30 June 2018, has increased by around \$74 million from last year. This is mainly attributable to the increase in the amount drawn-down under the popular Cash Advance Debenture (CAD) product of \$66 million.

Total loans at balance date were \$714 million (last year \$640 million) which comprised fixed rate loans of \$455 million and CAD facilities of \$259 million.

The increase in lending levels is pleasing to note, although the Board believes that many councils could benefit their communities by further prudent increased strategic use of debt having regard to their circumstances and nature of their responsibilities. This was a finding of the South Australian Local Government Financial Sustainability Inquiry in 2005 and is still relevant today.

to councils and the State will make an annual contribution to the LGA over ten years to enable the loan to be repaid).

Interestingly, new CAD facilities established this year totalled just under \$162 million, which we feel highlights council's future plans for capital expenditure and the flexibility and ease of use of the CAD product. It also hopefully suggests that councils are becoming more comfortable with more flexible use of debt.

Long term fixed interest rates have moved in a relatively tight range this year with ten to twenty-year rates still in the mid 4% per annum range.

***Total loans at balance date were \$714 million (last year \$640 million) which comprised fixed rate loans of \$455 million and CAD facilities of \$259 million***

Our new fixed rate lending to Members totalled around \$62 million. This included the loan raised for approximately \$24 million for the Local Government Association of SA in regard to the State Local Government Infrastructure Partnership projects grant. (Under this arrangement, up-front grants were made

# Chairman's Review

## Infrastructure Partnership and Investment Activity

### State Local Government Infrastructure Partnership

The State Local Government Infrastructure Partnership (SLGIP) consists of thirty two successful projects having a total value of \$121.9 million. This is a great example of Local and State government working in partnership to drive economic development. In January 2018, successful councils received a grant from the State Government of up to 20% of the project's total cost.

The LGFA's contribution to the scheme is via subsidised loans to fund the remaining cost (eighty percent) of successful projects. These subsidised loans will be around 0.5 - 0.7% per annum lower than our already market leading rates and will save councils around the state millions of dollars in interest costs over the life of the loans.

The subsidised loans have been available since January 2018, and the lending will be on a ten-year fixed rate basis. We envisage that all loans associated with the partnership will be drawn by December 2018.

### Investment Activity

Deposit funds at call with the LGFA currently attract the official RBA cash rate. The LGFA at call rate remained steady at 1.5% over the past year.

Competition for deposits amongst Australian major banks was relatively subdued over the first half of the financial year, however, competition increased in the latter half of the year when short term funding costs spiked as a result of a number of rate hikes in the US. In the latter half of the year LGFA increased term deposit rates in response to this competitive pressure.

The average daily deposit level of \$501 million (2016-2017 \$431 million) was higher when compared to the previous year and is the first time the Authority has averaged more than half a billion dollars of deposits in any one year. This result was achieved by management directing marketing efforts on Members who are not 100% supporters of the Authority. LGFA is focused on attracting all available deposits in the sector so that we continue to predominately fund our lending activities internally.

Deposits from Members are highly valued by banks and other financial institutions alike, as deposits are considered more stable than other market segments. Considering the LGFA's strategic directions, the LGFA will continue to strive to attract 100% of available deposits in the sector and despite the propensity to run down cash reserves and use Cash Advance Debenture (CAD) facilities for cash flow purposes, we aim to increase the deposit levels in the 2018 - 2019 financial year.

## Information Technology and Compliance

### Information Technology

The Quantum Treasury Management System was upgraded to the latest version (V6.5) during the year by the software supplier (FIS). This system has now been in place at LGFA for nineteen years and continues to fulfil our treasury and accounting requirements.

Changes were also made to the Quantum Treasury Management System to provide interest on maturity for fixed term deposit transactions as well as monthly interest on at call deposits due to commence on 1 July 2018. This has replaced the long-standing method of paying interest calendar quarterly.

An agreement was entered into during the year with Enee Solutions to provide programming support. They have been creating reports to assist with the implementation of system changes being undertaken including reports for Members being uploaded to the webpage. They have also been involved in the creation of a transaction database which is to be utilised in providing more detailed transaction confirmations and statements from 1 July 2018.

Aish Solutions continue to provide support for our computer network including regular maintenance and upgrades of our hardware and software requirements. Internet security is critical in the function they perform and during the year a Data Security Policy was produced to document the effective controls in place to protect against these threats.

A new look webpage was launched during the year which provides Members with an enhanced format and better reporting. Further improvements are planned for the website in the coming year to continually improve Member's online experience with LGFA.

### Compliance

The Authority has a Board appointed Audit Committee in place to complement the extensive auditing programme conducted each year by the Auditor General's Department. The Authority is required to comply with Treasurer's Instructions TI 2 Financial Management and TI 28 Financial Management Compliance Program (FMCP). Performance relative to the FMCP was reviewed by an independent audit firm, Galpins.

A report detailing the FMCP results has been delivered to the Authority and the Auditor General's Department. The FMCP report and associated working papers form part of the Auditor General's Department interim audit which is then followed by the financial statement audit.

Following the extensive internal control risk assessment workshops conducted by Galpins in the previous year, the ControlTrack software has now been successfully implemented and loaded with the internal controls and associated risk assessment of the Authority. This is the same software that councils utilise to monitor effectiveness of internal controls. A subset of these internal controls has been selected to form part of a Fraud Control Plan which has been included in the Board approved Corruption, Misconduct and Maladministration Policy.

During the year Galpins conducted a workshop for the review of the LGFA Strategic Risk Assessment document with audit committee members and management in attendance. The review considered a broad range of external factors affecting the finance industry, compliance requirements and ICT risks.

# Chairman's Review

## The Board

### The Board

The Authority is managed by a Board of Trustees, which consists of seven members, plus up to two independent members, who can be appointed by the Board from time to time as required.

Every two years the Board is subject to election, appointment or re-appointment of various members. Two trustees are nominated by the Local Government Association of South Australia (LGA), one trustee is the CEO of the LGA, two members are elected by councils, one trustee is appointed by the Treasurer and the other is the Minister's representative. We currently have no independent trustees.

Craig Fowler completed his term as an appointee of the Treasurer on 22 October 2017 and was replaced by Heather Watts who commenced her two-year term on 23 October 2017.

Susan McCormick resigned from her position of appointee of the Minister in December 2017. Due to the change of the state government, this position was still vacant as of 30 June 2018.

We would like to thank Craig and Susan for their dedicated and valued service to the Authority and wish them well with future endeavours.

The Board continues to use a Balanced Scorecard to complement the CEO's Report, which is produced monthly for Board trustees and highlights the LGFA's continuing achievement of its' Key Performance Indicators.

The LGFA Trustee Handbook has also been updated, along with the LGFA Management Handbook to provide clarity and consistency with all management systems and procedures, in support of the strategic and business plans monitored by the Board.

### Farewell to Chris Russell



Chris Russell and Paul Slater

Chris Russell attended his first LGFA Board meeting on 21 September 1988, as deputy for Jim Hullick. Thirty years later, during which time he has continued to act as deputy for LGA CEO's in their role as a trustee, we say goodbye to Chris who has retired from the Local Government Association of SA. We thank Chris for his knowledge, wisdom and input over the years and we wish him good luck on his next chapter. His efforts and judgements have continuously contributed positively to the LGFA's standing.

## The Board

### Board Meetings Attended by Board Members

Number of meetings held:		6	
Mr John Comrie	6	Ms Susan McCormick	3 (Eligible 3)
Councillor John Frogley	5	Mr Craig Fowler	2 (Eligible 2)
Mr Matt Pinnegar	5	Ms Heather Watts	4 (Eligible 4)
Ms Annette Martin	5	Mr Chris Russell (Deputy for Mr Matt Pinnegar)	1
Dr Andrew Johnson	6		

## The Staff



Paul Slater

Robert Hardy

Davin Lambert

Geoff Hollitt

Megan Button

Oly Dimadis

Karren Smith

### The Staff

Our staff have again made a critical contribution to the success of the Authority and have continued to drive our services to meet challenging business conditions this year. Since last year we farewelled Mary Loveday, retiring after eleven years of service. We thank her for her dedicated service and loyalty and wish her well. We welcomed Megan Button as Mary's replacement in November 2017.

Staff have attended conferences, training seminars and workshops to enhance their knowledge and expertise, especially in the financial services and workplace, health and safety arenas.

Our office functions well for staff, auditors and visiting local government representatives, especially those from regional South Australia who can seamlessly work from one of our hot desks. Our board room has continued to be utilised for meetings and seminars by various local government groups.



# Chairman's Review

## Marketing and Sponsorship

### Marketing

The main marketing activity of the LGFA continues to be our calling program on Members where we promote our products, provide insight into best practice treasury management and speak about the advantages of utilising debt financing. Over the past few years the Authority have shifted our marketing approach from focusing solely on council management teams to now also targeting the ultimate decision makers being the mayors, chairs and councillors. Over the past year staff have spoken directly to many mayors and chairs. They have attended a number of council meetings and workshops and each time, amongst other things have actively promoted the responsible use of debt.

LGFA's marketing plan targeted Members who were not 100% supporters of the Authority. We have seen positive results from this approach and will continue strive to attract 100% of the sector's lending requirements and investment needs.

LGFA also keeps council staff, mayors, chairs and councillors informed via our newsletter "In The Loop", which was distributed via e-mail in April and December this year. Over the last year we have used this publication to highlight the LGFA's role in the State Local Government Infrastructure Partnership (SLGIP) and how interest only long-term debt financing could help in a possible future rate capping environment.

### Sponsorship

LGFA sponsors a number of organisations and events that have strong links to the Local Government Sector.

- Local Government Professionals SA: Diamond Partner
- South Australian Local Government Financial Management Group (SALGFMG): Platinum Sponsor
- LGA AGM & Showcase
- LGA Mayors and Chairs Forum & CEO's Forum



(From left to right - Craig Birrell, Brett Jaggard, Mathen Allen, Tony Lines and Davin Lambert from LGFA)

LGFA was the proud sponsor of the LG Professionals Leadership in Strategic Financial Management award this year and was also a guest judge. LG Professionals received two high quality nominations that were shortlisted: City of Marion and City of Tea Tree Gully. The two finalists then gave a ten-minute telephone presentation on their project and a winner was declared and announced on the night of the LG Professionals Annual Excellence Gala Awards Dinner held in April.

Leadership in Strategic Financial Management  
Winner: City of Marion

Their winning project was the Open Space Transformation Project; where the City of Marion reduced their block pruning program from 14 years to 3 years which in turn has reduced the customer-initiated call outs by 40%. The project is also estimated to save the council around \$500,000 annually once fully implemented. The LGFA felt that the project was a real success because the customer and the council both benefited from the project.

  
John Comrie  
September 2018

# Authority Profile

## The Authority

The Local Government Finance Authority of South Australia, a body corporate, was established in January 1984 under the Local Government Finance Authority Act, 1983 and is administered by a Board of Trustees.

The Authority is a statutory authority established for the benefit of councils and other prescribed local government bodies within the state. It is not a part of the Crown, nor is it an agency or instrumentality of the Crown.

## Members

All local authorities are automatically members of the Finance Authority, but use of the Authority for investments and loans is entirely voluntary.

## Guarantee

In accordance with Section 24 of the Local Government Finance Authority Act, 1983 all the liabilities of the Authority (including monies accepted on deposit from local authorities) are guaranteed by the Treasurer of South Australia.

## Income Tax Equivalents

LGFA makes payments equivalent to company income tax. The equivalent liability is calculated/applied on an accounting profits basis and the amounts are paid into an account established with the State Treasurer entitled the "Local Government Taxation Equivalents Fund". The funds are then available for local government development purposes as recommended by the Local Government Association of South Australia and agreed to by the Minister for Local Government.



## Bonus

The bonus payment is a mechanism which enables the Authority to share its success with member councils and prescribed local government bodies.

Since its introduction in 1985, an amount of \$39.665 million has been distributed with a further \$2.3 million to be paid in respect of the year ended 30 June 2018. This year's payment of \$2.3 million when combined with previous special allocations for local government purposes of \$2.875 million will result in overall payments benefiting the local government community of \$44.84 million.

In line with past practice, the bonus payment has been calculated to relate to average deposit and loan levels held with the Authority during the course of the financial year. The deposit activity was recognised by an allocation of \$1.775 million with the balance of \$525,000 allocated to loans. The bonus payment was increased to \$2.3 million this year to reflect our strong level of profitability.

## State Wide Coverage

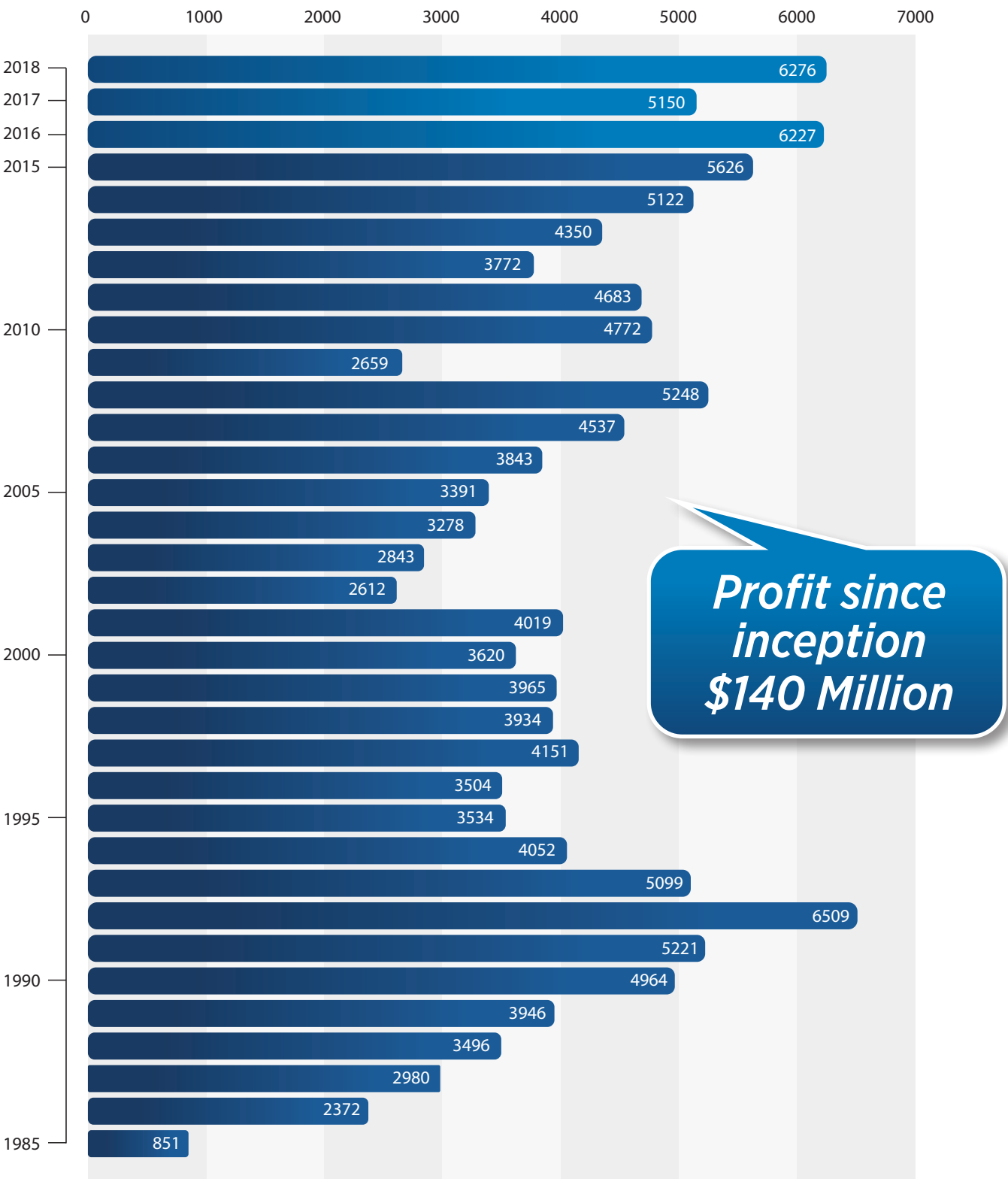
At LGFA we pride ourselves on our continuing ability to meet local government needs in both metropolitan and regional areas. Our calling program is planned to cover diverse local government communities throughout our geographically large state, with regular communications, meetings and conference attendances, including presentations and at times, sponsorship. We have worked closely this year with the LGA to ensure optimal responsiveness despite remoteness of some councils and busy schedules.



**Proudly contributing to  
South Australia**



# Profit Before Income Tax Equivalents



This graph illustrates Profit before Income Tax Equivalents for the Local Government Finance Authority of South Australia since 1985. (All profits as \$'000)

## Case Studies

LGFA is proud to utilise a selection of innovative and representative case studies to show the results of our lending to the local government sector. We are proud to provide the funding and expertise that deliver better outcomes to South Australian communities.



# Case Study

Copper Coast Council  
COPPER COAST SPORT AND LEISURE CENTRE

Construction of the Kadina and District Recreation Centre started with a vision driven by the Kadina community in the 1970s. Through much of the same hard work involved with the current redevelopment, a sporting hub was built and opened on December 19, 1976. It was named the Kadina and District Recreation Centre and officially opened by the Minister of Tourism, Recreation and Sport Tom Casey, Senator Harold Young representing the Commonwealth Government, and Kadina Mayor John Olsen.

The community recreation hub had arrived!

"After serving the community for 40 years, the original facility was tired and in need of major maintenance to meet current safety and building codes together with community standards and expectations," Copper Coast Council mayor Paul Thomas said.

"The Copper Coast literally faced the loss of this 40-year-old community recreation hub."

Copper Coast Council, in consultation with its community, made the decision to investigate design possibilities for a new, improved facility that would be able to accommodate the growing community in the long term.

"The focus for the new hub was to provide a community space that would offer improved health and wellbeing in a growing population balanced with economic development for the community and wider Yorke Peninsula region," Mr Thomas said. "The initial phase was to scope a project that would be affordable for our community.

"After much hard work and perseverance, thousands of pages of plans and grant applications, the project goal was within reach."

A total budget of \$10.3 million was finalised with a combined \$7.8 million of grant funding through federal and state government departments, Kadina Memorial School, local clubs, businesses, individuals and the sale of community unmade roads.

Funding partners included:

- \$4,803,424 Australian Government
- \$900,000 Office of Sport and Recreation
- \$1,500,000 Department of Education
- \$500,000 Kadina Memorial School
- \$100,000 + of Community Donations



# Case Study

Copper Coast Council

COPPER COAST SPORT AND LEISURE CENTRE



**The LGFA currently provide long term loan funds and flexible convertible cash advance debenture facilities to the Copper Coast Council which enable the Council to create intergenerational equity for their community.**

The dream became a reality. In June 2016, a contract with builder Unique Urban Built was signed. That month, the first sod was turned by Mr Thomas and federal Member for Grey Rowan Ramsey, then construction began.

"The new facility comprising the program pool, show court, three additional indoor courts, squash courts, gymnasium, upgraded outdoor courts, playground, car park, café, crèche, changerooms, meeting and conference rooms and community spaces is being well utilised," Mr Thomas said.

The new leisure centre has been built as a hub for the whole Copper Coast community.

Manager Amanda Carmichael said anyone is welcome to come in at any time and utilise the programs or services, or simply meet up with friends for coffee and lunch.

The centre is being used by hundreds of people of all ages every week. Many user groups are utilising the centre with a variety of activities including MKA karate, Kadina Gymnastics Club, Kadina Tennis Club, Kadina and District Netball Association, Bears and Kadina Basketball Clubs, and Yorkers basketball development program".

The leisure centre runs social netball, basketball and Futsal competitions, sports ability group programs and kindergym. The new squash courts will be available from August 1.

The leisure centre's swimming pool is used daily for swim school, hydrotherapy and aqua aerobics. The pool is fully heated so the classes can be run year-round.



Wallaroo Hospital, Novita Children's Services and Flex Physiotherapy all use the pool for their hydrotherapy services.

The leisure centre is also open to hosting other sports and activities in the centre. "We want to offer the community the sports and activities they want, so this is a great opportunity for us to gauge interest." Amanda said it is rewarding to see so many people making use of the facility.

The facility has already hosted major regional events but this is only the very beginning.

There is flexibility, scope and diversity for the entire community locally, and beyond.

The centre was officially opened on 26 July 2018, with a plaque unveiled by Deputy Prime Minister Michael McCormack. Federal Member for Grey Rowan Ramsey and official guests attended.

This information was provided by Peter Harder, Copper Coast Council's Chief Executive Officer as well as Mayor Paul Thomas and Centre Manager, Amanda Carmichael.

Photographs courtesy of the Yorke Peninsula Country Times.





# Case Study

## Northern Adelaide Waste Management Authority (NAWMA)

### MATERIALS RECOVERY FACILITY (MRF)



The NAWMA Materials Recovery Facility (MRF) is a recycling plant delivering local outcomes of global importance with significant environmental, economic and social benefits for current and future generations. The MRF is a credit to the NAWMA technical working group, board and constituent councils of Salisbury, Playford and Gawler. The 30,000 tonnes per annum recycling plant represents not only excellence in environmental leadership, but testament to councils working collaboratively as a regional waste management subsidiary to deliver economies of scale and efficiencies in service and infrastructure delivery.

One of only two large scale MRF's operating in SA, and the only one owned and operated by local government, the MRF is a state of the art facility for sorting household recycling bins. Balancing innovation and technology with localised employment opportunities, the MRF is meeting its' key performance criteria for diverting approximately 2500 tonnes per month from landfill, while realising a multimillion dollar revenue stream

from the sale of quality sorted paper, glass, plastic, steel and aluminium into local and international markets.

NAWMA's key performance criteria is to reduce the amount of material being sent to landfill, while our strategic intent is governed by principles of circular economy, advanced manufacturing and secondary remanufacturing, under a lens of innovation. Long gone are the days of viewing these types of facilities as a waste management tool, rather, NAWMA's MRF is a leader in resource recovery infrastructure of state significant importance.

Implementing a strategy direction of vertical integration, the NAWMA board and management set about delivering a vision of running South Australia's newest and most technologically advanced MRF. The planning commenced in 2013, and after various iterations of design, specification and location, the development application was approved in July 2017. The culmination was an investment of \$8.05 million by the constituent councils.

Most notably, the plant has been designed to future proof NAWMA, and more broadly, South Australia. A single shift five workday operation dutifully processes the current 30,000 tonnes per annum delivered by NAWMA constituent and client councils, and rural and regional council customers. However, the operation has capacity to run 24/7, and could process up to 90,000 tonnes per annum if required.

The result of this project has been transformational for NAWMA, and the constituent councils, but also more broadly for the northern precinct and South Australia in general. The development of this state of the art facility has doubled the recyclables processing capacity in South Australia, resulting in more yellow top bin recyclables being processed locally and supporting the South Australian recycling industry.

Operationally, the MRF has sorted approximately 25,000 tonnes in its' first ten months of operation, producing high quality finished goods such as paper, plastics, glass, aluminium and steel, which are marketed locally in Australia and internationally. Pointing to the success of the design, construction and operation of the MRF. Housed inside a large purpose-modified industrial building of some 3800 sqm, the MRF is a combination of trommels, magnets, eddy-currents, ballistic separators, and manual picking stations, fed by almost half a kilometre of conveyor belts. It is an entirely impressive plant, that is fronted by NAWMA's corporate administration office, boardroom and environmental education centre.

Economically, the MRF provides a significant revenue stream for NAWMA's constituent councils, while reducing exposure to the often-fickle commercial recycling industry.

Most importantly, the MRF provided nineteen full time jobs in northern Adelaide at the same time as Holden was closing. The generation of full time employment in advanced manufacturing at such a historic moment in South Australian manufacturing was not lost on Minister Hunter when he officially opened the facility on 06 October 2017.

In terms of tonnes per hour, and a "basket of goods" revenue stream, the MRF is a business leader for NAWMA. It drives the way we communicate with our community and councils, as everything we do is prefaced with how to get more material into the MRF and out of landfill. NAWMA's "cost of doing business" is far less in the MRF than it is in our landfill stream, and therefore it is an economic leader as well as an environmental one. The new state of the art MRF has proven that NAWMA can couple environmental leadership with economic development.

NAWMA's management team have "opened the doors" to the recycling industry to better educate councils and the community on every aspect of the complex operation. From the importance of lower contamination in the yellow top bin, to the use of high tech ballistic separators to sort out the paper and cardboard, down to the finished goods that are loaded into a purpose-built loading dock and following the shipping containers to outer harbour ready for their journey to both local and international markets.

This information was provided by Amy Quintrell, Executive Assistant, NAWMA.

**LGFA provided NAWMA with flexible loan funding facilities which were used during the construction of the facility.**



# Case Study

## State Local Government Infrastructure Partnership



*City of Mitcham: Mitcham Library and Brown Hill Creek Precinct Development*

*SOD Turning Ceremony (From left to right) Paul Slater, John Comrie, Mayor Glenn Spear, City of Mitcham, Lorraine Rosenberg, President of LGA, James Bruce, Chairman of the Libraries Board of SA and Annabel Digance, Member for Elder, representing the Treasurer and the Minister*

LGA advocacy secured a \$25 million State Government commitment to local government infrastructure projects in late 2016. The State Local Government Infrastructure Partnership provided councils with an upfront grant of up to 20% to bring forward infrastructure projects already identified in their long-term planning. Projects that offered employment opportunities, particularly in areas of high unemployment, provided mitigation against the impacts of

major events such as floods and storms and that provided ongoing economic, social or environmental benefit beyond the initial construction phase were given preference.

**In early 2018, the LGA facilitated the distribution of this funding to 28 councils for 32 projects worth around \$122 million. Projects funded through this program will support 190 jobs a year over the next three years.**



*Coorong District Council: Meningie Stormwater Infrastructure Upgrade*



*Mid Murray Council: Better Roads for Growth- Eudunda Road Upgrade project*

The LGFA's contribution to the scheme is via subsidised loans to fund the remaining cost (80%) of successful projects. These subsidised loans will be around 0.5 - 0.7% per annum lower than our already market leading rates and will save councils around the State millions of dollars in interest costs over the life of the loans.

The subsidised loans were available from January 2018 and the lending will be on a

10-year fixed rate basis and we envisage that all loans associated with the Partnership will be drawn by December 2018.

The first council's receiving the loans:

- Coorong District Council
- Mid Murray Council
- City of Mitcham
- City of Prospect



*City of Prospect: Alexandra Street Road Reconstruction*





# Financial Report



# Statement of Comprehensive Income

For the Year Ended 30 June 2018

		2018	2017
	Note	\$'000	\$'000
<b>INCOME</b>			
Interest on Investments	2(c)	1,633	1,343
Interest on Loans and Advances	2(c)	39,485	39,669
Other Income	3	37	156
<b>TOTAL INCOME</b>		<b>41,155</b>	<b>41,168</b>
<b>EXPENSES</b>			
Interest on Deposits from Councils and Local Government Bodies	2(d)	9,282	8,453
Interest on Borrowings	2(d)	22,129	23,975
Fees for the Guarantee of the Treasurer of S.A. on Liabilities	24	1,309	1,207
Administration Expenses	4	2,148	2,064
Other Expenses	2(h),2(j)(i),5	11	319
<b>TOTAL EXPENSES</b>		<b>34,879</b>	<b>36,018</b>
<b>PROFIT BEFORE INCOME TAX EQUIVALENTS</b>		<b>6,276</b>	<b>5,150</b>
Income Tax Equivalent Expense	2(e)	1,883	1,545
<b>PROFIT AFTER INCOME TAX EQUIVALENTS</b>		<b>4,393</b>	<b>3,605</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Items that will not be reclassified to Profit Before Income Tax Equivalents			
Change in Revaluation Reserve	2(j)(ii),11	129	-
<b>TOTAL COMPREHENSIVE RESULT</b>		<b>4,522</b>	<b>3,605</b>

The profit after income tax equivalents and comprehensive result are attributable to the owners.

The above statement should be read in conjunction with the accompanying notes.

# Statement of Financial Position

As at 30 June 2018

		2018	2017
	Note	\$'000	\$'000
<b>ASSETS</b>			
Cash and Liquid Assets	6	1	54
Accrued Interest Receivable	7	4,084	3,437
Investment Securities	2(f),8	42,000	28,000
Other Assets	9	275	235
Net Loans and Advances	2(g),10	744,548	676,130
Property, Plant & Equipment	2(j)(ii),2(k),11	2,073	1,974
<b>TOTAL ASSETS</b>		<b>792,981</b>	<b>709,830</b>
<b>LIABILITIES</b>			
Deposits from Councils and Local Government Bodies	2(l),12	498,932	462,145
Accrued Interest Payable	13	2,407	2,306
Borrowings	14	199,228	150,674
Derivatives	2(i),2(j)(i),15	21,769	27,120
Provisions	2(m),16	3,850	3,030
Other Liabilities	17	300	282
<b>TOTAL LIABILITIES</b>		<b>726,486</b>	<b>645,557</b>
<b>NET ASSETS</b>		<b>66,495</b>	<b>64,273</b>
<b>EQUITY</b>			
General Reserve	2(n)	65,700	63,600
Retained Profits		666	673
Revaluation Reserve	2(j)(ii),11	129	-
<b>TOTAL EQUITY</b>		<b>66,495</b>	<b>64,273</b>
The equity is attributable to the owners.			
Contingent Assets and Liabilities	22		

The above statement should be read in conjunction with the accompanying notes.

# Statement of Changes in Equity

For the Year Ended 30 June 2018

	General Reserve	Retained Profits	Revaluation Reserve	Total
	\$'000	\$'000		\$'000
<b>Balance at 30 June 2016</b>	<b>62,000</b>	<b>668</b>	<b>-</b>	<b>62,668</b>
Profit After Income Tax Equivalents for 2016/17	-	3,605	-	3,605
<b>Total Comprehensive Result for 2016/17</b>	<b>-</b>	<b>3,605</b>	<b>-</b>	<b>3,605</b>
Transfer to Bonus Payment Provision	-	(2,000)	-	(2,000)
Transfer to General Reserve	1,600	(1,600)	-	-
<b>Balance at 30 June 2017</b>	<b>63,600</b>	<b>673</b>	<b>-</b>	<b>64,273</b>
Profit After Income Tax Equivalents for 2017/18	-	4,393	-	4,393
Gain on Revaluation of Building Floorspace	-	-	129	129
<b>Total Comprehensive Result for 2017/18</b>	<b>-</b>	<b>4,393</b>	<b>129</b>	<b>4,522</b>
Transfer to Bonus Payment Provision	-	(2,300)	-	(2,300)
Transfer to General Reserve	2,100	(2,100)	-	-
<b>Balance at 30 June 2018</b>	<b>65,700</b>	<b>666</b>	<b>129</b>	<b>66,495</b>

All changes in equity are attributable to the owners.

The above statement should be read in conjunction with the accompanying notes.

# Statement of Cash Flows

For the Year Ended 30 June 2018

	2018	2017
Note	\$'000	\$'000
	Inflows (Outflows)	Inflows (Outflows)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest and Bill Discounts Received	40,776	41,298
Interest Paid	(31,543)	(32,784)
Fees Paid re Guarantee provided by Treasurer of S.A.	(1,294)	(1,205)
Cash Payments to Suppliers and Employees	(1,936)	(1,863)
Fees Received	34	67
Income Tax Equivalents Paid	(1,384)	(1,958)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>19(c) 4,653</b>	<b>3,555</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loans to Councils and Local Government Bodies	(74,507)	(15,463)
Investment Securities	14,000	13,396
Payments for Property, Plant & Equipment	(153)	(107)
Proceeds from Sale of Property, Plant & Equipment	41	33
<b>NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES</b>	<b>(88,619)</b>	<b>(2,141)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Promissory Notes	(652)	(1,485)
Deposits from Councils and Local Government Bodies	36,786	78,234
Short Term Money Market Facilities	25,132	(76,219)
Fixed Term Borrowings	24,070	-
Bonus Payment to Councils and Local Government Bodies	(2,000)	(2,000)
Other	573	50
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>83,913</b>	<b>(1,420)</b>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>(53)</b>	<b>(6)</b>
Cash at 1 July	54	60
<b>CASH AT 30 JUNE</b>	<b>19(a) 1</b>	<b>54</b>

The above statement should be read in conjunction with the accompanying notes.



# Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2018

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## 1. Objectives of the Local Government Finance Authority of South Australia

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 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.

The financial statements have been prepared based on a twelve month period and presented in Australian currency.

## 2. Statement of Accounting Policies

### a) Basis of Accounting

The financial report is a general purpose financial report. The accounts have been prepared in accordance with applicable Australian Accounting Standards and the requirements of the Treasurer's Instructions relating to financial reporting by statutory authorities, which are issued pursuant to the Public Finance and Audit Act 1987.

The Authority's Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity have been prepared on an accrual basis and are in

accordance with the historical cost convention, except for certain financial instruments that have been valued in accordance with the valuation policy applicable.

The Statement of Cash Flows has been prepared on a cash basis.

### b) Classification of Financial Instruments

Management determines the classification of its investments at initial recognition and at each reporting date in accordance with AASB 139 Financial Instruments: Recognition and Measurement. The Authority classifies its investments into the following categories, which determines the applicable accounting treatment:

#### Loans and receivables

Measured at amortised cost. The Authority classifies Loans and Advances, Accrued Interest Receivable, Cash and Liquid Assets and Other Assets under this category.

#### Held to maturity financial assets

Measured at amortised cost. The Authority did not have any assets in this category at balance date.

#### Available-for-sale financial assets

Measured at fair value. The Authority did not have any assets in this category at balance date.

#### Financial assets or financial liabilities at fair value through profit and loss

Measured at fair value with fair value changes taken to the Statement of Comprehensive Income. The Authority classifies derivative instruments that are not classified as effective hedging instruments under this category (Note 2(i) Refer).

# Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2018

## Fair Value Hedge

Measured at fair value with hedge accounting adjustments taken to the Statement of Comprehensive Income. The Authority classifies derivatives which are effective hedging instruments (Note 2(i) Refer) and the corresponding hedged items (Note 2(h) Refer), which are all fixed rate debenture loans under this category.

## Financial Liabilities at amortised cost

The Authority classifies all liabilities under this category, other than derivative instrument liabilities which are not classified as effective hedging instruments (Note 2(i) Refer).

## c) Interest Income

### Interest on Investments

This item includes interest income from investment assets which are classified as Loans and receivables, Available-for-sale financial assets and Financial assets at fair value through profit and loss. The interest income is calculated on an accruals basis.

### Interest on Loans and Advances

This item includes interest income from loan assets classified as Loans and receivables as well as interest income from derivatives that are classified under the Fair Value Hedge category. The interest income is calculated on an accruals basis.

## d) Interest Expense

### Interest on Deposits from Councils and Local Government Bodies

This item includes interest paid to Councils and Local Government Bodies and is calculated on an accruals basis.

### Interest on Borrowings

This item includes interest expense on other liabilities used in funding lending activity and interest expense on derivative instruments, and is calculated on an accruals basis.

## e) Income Tax Equivalents

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.

## f) Investment Securities

Investment securities held by the Authority are mainly Australian bank term deposits which are categorised as Loans and receivables and therefore accounted for at amortised cost.

## g) Loans and Advances

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.

Due to the high level of security provided for loan agreements no specific or general provision for doubtful debts has been made.

The Authority has not incurred any bad debts since its inception in 1984.

## h) Hedge Accounting

Loans which are not effectively hedged by a derivative financial instrument are recorded in the accounts on the basis of historical cost. Loans which are effectively hedged by a derivative financial instrument are recorded using hedge accounting.

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 according to AASB 139 Financial Instruments: Recognition and Measurement.

The hedges used by the Authority are classified as Fair Value Hedges and the hedged items are all long term fixed rate debenture loans. The hedged amount of the loan is recorded at fair value with the non-interest rate risk component or credit margin recorded on an accrual accounting basis.

## i) Derivative Transactions

The Authority has entered into agreements with high credit status

organisations to swap certain rights and obligations (Note 23 Refer).

Interest Rate Swaps are categorised as Fair Value Hedges and Futures Contracts are categorised as financial assets or financial liabilities at fair value through profit and loss.

## j) Revaluations

### i) Financial Instruments

AASB13 Fair Value Measurement stipulates the method for revaluing financial instruments. A credit value adjustment (CVA) is required to be applied to financial instrument revaluations where the adjustment amount is considered to be material. The Authority utilises a portfolio of long dated, high dollar value interest rate swaps to manage interest rate risk. After revaluation this portfolio is a liability, therefore the resulting adjustment required is a gain, known as a debit value adjustment (DVA), which is included in the fair value calculation.

### ii) 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 APFIII Asset Accounting Framework.

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.



# Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2018

## k) Property, Plant and Equipment

Property, Plant & Equipment are brought to account at cost less, where applicable, any accumulated depreciation.

The depreciable amount of all property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives from the time the asset is held ready for use. The useful life of each category is as follows:

Office Equipment	3 Years
Office Furniture	5 Years
Computer Software	2.5 Years to 3 Years
Motor Vehicles	5.5 Years to 10 Years
Building Floorspace	70 Years

## l) 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.

## m) Provisions

### 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.

A reconciliation of movements in this provision is provided at Note 16(i).

### Income Tax Equivalents

A provision is made for Tax Equivalents payable as at 30 June 2018 (Note 2(e) Refer).

A reconciliation of movements in this provision is provided at Note 16(ii).

## n) 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.

## o) Accounting Judgements, Estimates and Assumptions

### Significant accounting judgements

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. In particular, the classification of derivatives and long term fixed rate debenture loans as Fair Value Hedges has enabled management to utilise the hedge accounting provisions of AASB 139 Financial Instruments: Recognition and Measurement.

### Significant accounting estimates and assumptions

The fair values of hedged long term fixed rate debenture loans and derivatives are based on observable market rates as at balance date.

## p) 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.

## q) Rounding

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

## r) New and Revised Accounting Standards

Australian accounting standards and interpretations that have recently been issued or amended but are not yet effective, have not been adopted by the Authority for the period ending 30 June 2018.

The Authority did not voluntarily change any of its accounting policies during 2017-18.

The Authority has assessed the impact of the new and amended standards and interpretations and considers there will be no material impact on the accounting policies or the financial statements of the Authority.

With regard to impending Accounting Standards, the Authority has assessed the impact of AASB 9 Financial Instruments and

considers based on our initial assessment that there will be no material financial impact when it is due to be adopted in the financial year ending 30 June 2019. The table below summarises the significant areas of changes in accounting for financial instruments that AASB 9 requires and potential impacts on LGFA:

### Classification and measurement

LGFA expects that the changes to the classification of financial instruments will result in changes to our written disclosures for reporting purposes, but this will have no financial impact.

### Impairment

In accordance with AASB 9 impairment on financial assets is based on the expected credit losses while current accounting is based on incurred credit losses. Management has performed an assessment of the quantitative impact of the change. Based on the low default rates on loans experienced historically and the value of the security provided by the member councils the impact is considered minimal.

### Hedge Accounting

AASB 9 allows entities to continue with the hedge accounting rules applied under AASB 139. LGFA intends to continue with AASB 139 hedge accounting. As LGFA does not intend to adopt AASB 9 hedge accounting there will not be any impact on the financial statements arising from the hedge accounting component of IFRS 9.

# Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2018

3. Other Income	2018	2017
	\$'000	\$'000
Fee Income	32	59
Gain on Sale of Available-for-Sale Assets	-	86
Gain on Sale of Fixed Assets	5	11
	<b>37</b>	<b>156</b>

4. Administration Expenses		
Audit Fees	75	108
Consultancy Fees	60	19
Depreciation	150	170
Occupancy Expenses	33	34
Salaries & On-Costs	1,174	1,121
Software License Fees	113	111
Sponsorships	107	94
Other Administration Expenses	436	407
	<b>2,148</b>	<b>2,064</b>

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

Auditing work performed by the Auditor-General's Department*	55	58
Financial Management Compliance Program by an external audit firm	20	50
	<b>75</b>	<b>108</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.

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

	No.	No.		
Below \$10,000	3	8	1	2
\$10,000 to \$50,000	2	52	1	17
	<b>60</b>		<b>19</b>	

5. Other Expenses		
Fair Value Hedge Accounting Loss	11	319

6. Cash and Liquid Assets		
Cash at Bank	1	54

7. Accrued Interest Receivable*	2018	2017
	\$'000	\$'000
Interest Receivable - Loans to Councils and Local Government Bodies	3,625	2,774
Interest Receivable - Investment Securities	459	663
	<b>4,084</b>	<b>3,437</b>

\* The accrued interest receivable on Investment Securities, Net Loans and Advances and Derivatives which are required to be recorded at fair value have been transferred to the respective line item.

8. Investment Securities		
Deposits and Securities issued by Banks	42,000	28,000

9. Other Assets		
Sundry Debtors and Prepayments	275	235

10. Net Loans and Advances		
Advances	237,937	178,317
Term Loans	476,382	461,495
<b>Loans and Advances - at Cost</b>	<b>714,319</b>	<b>639,812</b>
Fair Value Adjustment (Note 2(h) Refer)	30,229	36,318
<b>Net Loans and Advances</b>	<b>744,548</b>	<b>676,130</b>

Unrecognised Commitments - Loans and Advances		
Unused Cash Advance facilities	522,872	458,565
Term loans approved not advanced	1,320	2,006
	<b>524,192</b>	<b>460,571</b>

11. Property, Plant & Equipment		
Plant, Equipment, and Motor Vehicles:		
- at cost	1,069	984
less, accumulated depreciation	(791)	(701)
Building Floorspace:		
- at revaluation (Note 2(j)(ii) Refer)	1,814	1,799
less, accumulated depreciation	(19)	(108)
<b>Total Property, Plant &amp; Equipment</b>	<b>2,073</b>	<b>1,974</b>

# Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2018

11. Property, Plant & Equipment (cont.)	2018	2017
	\$'000	\$'000
<b>Reconciliation of Property, Plant &amp; Equipment</b>		
Carrying Amount at 1 July	1,974	2,060
Acquisitions	156	107
Disposals	(36)	(23)
Revaluation	129	-
Depreciation	(150)	(170)
<b>Carrying Amount at 30 June</b>	<b>2,073</b>	<b>1,974</b>
<b>12. Deposits from Councils and Local Government Bodies</b>		
At Call	256,282	232,366
Fixed Term	242,650	229,779
	<b>498,932</b>	<b>462,145</b>
<b>13. Accrued Interest Payable</b>		
Interest Payable on :		
- Deposits from Councils and Local Government Bodies	1,811	2,150
- Borrowings*	596	156
	<b>2,407</b>	<b>2,306</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.		
<b>14. Borrowings</b>		
Short Term Money Market Facility	128,987	103,855
Fixed Term Borrowings	49,074	25,000
Promissory Notes	21,167	21,819
	<b>199,228</b>	<b>150,674</b>
<b>15. Derivatives</b>		
Swap Principal Receivable	(6,837)	(7,492)
Interest Receivable - Interest Rate Swaps	(953)	(865)
Interest Payable - Interest Rate Swaps	3,507	3,807
Fair Value Adjustment	25,984	31,762
<b>Interest Rate Swaps*</b>	<b>21,701</b>	<b>27,212</b>
<b>Futures Contracts</b>	<b>68</b>	<b>(92)</b>
	<b>21,769</b>	<b>27,120</b>
* Interest rate swaps are shown as the net of the fixed rate leg and the floating rate leg.		

16. Provisions	2018	2017
	\$'000	\$'000
Employee Benefits	420	399
Fringe Benefits Tax	20	20
Bonus Payment to Councils and Local Government Bodies	2,300	2,000
Provision for Income Tax Equivalents	1,110	611
	<b>3,850</b>	<b>3,030</b>
<b>Movements of major provisions during the year</b>		
(i) Bonus Payment to Councils and Local Government Bodies		
Opening Balance 1 July	2,000	2,000
Increase in Provision	2,300	2,000
Amounts Paid	(2,000)	(2,000)
<b>Closing Balance 30 June</b>	<b>2,300</b>	<b>2,000</b>
(ii) Provision for Income Tax Equivalents		
Opening Balance 1 July	611	1,024
Increase in Provision	1,883	1,545
Amounts Paid	(1,384)	(1,958)
<b>Closing Balance 30 June</b>	<b>1,110</b>	<b>611</b>
<b>17. Other Liabilities</b>		
Employee On-costs	46	44
Sundry Creditors	254	238
	<b>300</b>	<b>282</b>

<b>18. Superannuation Commitments</b>
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.



# Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2018

19. Notes to Statement of Cash Flows	Note	2018 \$'000	2017 \$'000
<b>(a) Reconciliation of Cash</b>			
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:			
Cash and Liquid Assets	6	1	54
<b>(b) Cash Flows Presented on a Net Basis</b>			
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			
<b>(c) Reconciliation of Net Cash Provided by/(Used in) Operating Activities to Profit after Income Tax Equivalents.</b>			
PROFIT AFTER INCOME TAX EQUIVALENTS		4,393	3,605
Decrease/(Increase) in Interest Receivable		(342)	286
Decrease/(Increase) in Sundry Debtors		41	(28)
Increase/(Decrease) in Interest Payable		(131)	(356)
Increase/(Decrease) in Other Liabilities		16	30
Increase/(Decrease) in Provisions		520	(374)
Depreciation		150	170
Revaluation Loss/(Gain)		11	319
Loss/(Gain) on Disposal of Available-for-Sale Assets		-	(86)
Loss/(Gain) on Disposal of Fixed Assets		(5)	(11)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<b>4,653</b>	<b>3,555</b>

## 20. 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.

### a) Board Members

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

The following persons held the position of governing Board member during the financial year:

Mr John Comrie (Chair)	LGA representative
Cr John Frogley (Deputy Chair)	Council representative
Mr Craig Fowler	Appointee of the Treasurer to 22 October 2017
Dr Andrew Johnson	LGA representative
Ms Annette Martin	Council representative
Ms Susan McCormick	Appointee of the Minister to 31 December 2017
Mr Matt Pinnegar	LGA Chief Executive Officer
Ms Heather Watts	Appointee of the Treasurer from 23 October 2017

### b) Other Key Management Personnel

The following person also held a position of authority and responsibility for planning, directing and controlling the activities of the Authority, directly or indirectly during the financial year:

Mr Paul Slater	Chief Executive Officer
----------------	-------------------------

### c) Related Party Transactions

The Authority operates independently under its own legislation and has no other controlled entities.

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 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 on terms which are consistent with the Authority's normal commercial arrangements.

# Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2018

## d) Key Management Personnel Remuneration

The compensation for key management personnel is set out below:

	2018	2017
	\$'000	\$'000
Salaries and other short-term employee benefits	446	439
Post-employment benefits	47	42
	<b>493</b>	<b>481</b>

## e) Board Members Remuneration

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

	2018	2017
No Remuneration	3	2
\$1 - \$9,999	3	6
\$10,000 - \$19,999	1	2
\$20,000 - \$29,999	1	-
	<b>8</b>	<b>10</b>

The total remuneration received or receivable by those governing Board members was \$61,400 (\$60,267) which includes salary and superannuation. Note, these amounts are also disclosed in note 20(d) above.

In accordance with the Premier and Cabinet Circular No. 016, SA Government employees did not receive any remuneration for governing Board 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.

## 21. Employee Remuneration

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

	2018	2017
\$149,001 - \$159,000	1	-
\$199,001 - \$209,000	1	1
\$419,001 - \$429,000	-	1
\$429,001 - \$439,000	1	-
	<b>3</b>	<b>2</b>

The table includes all employees who received remuneration equal to or greater than the Department of Treasury and Finance base executive remuneration level of \$149,000 (\$147,000) during the year.

Remuneration of employees reflects all costs of employment including salary, 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. The total remuneration received by personnel in this table for the year was 785,518 (\$621,632).

## 22. Contingent Assets and Liabilities

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 2018 the total liabilities guaranteed was \$726.486 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 2018 the total loans secured by debenture was \$659.784 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 2018 the total loans secured by Schedule 2 of the Local Government Act 1999 was \$30.461 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 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 2018 the total loans secured by First Registered Mortgage and Specific Security Deed was \$24.074 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 2018 the amount guaranteed was \$21.995 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 2018 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.



# Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2018

## 23. Financial Risk Management

### a) Risk Management Policies and Procedures

The Treasurer issued a revised consent dated 28 October 2016, 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.

### b) 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.

#### 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 in the adjacent 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 30/06/18	+0.5%	-0.5%	Principal Balance 30/06/17	+0.5%	-0.5%
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Variable Rate Financial Assets</b>						
Investment Securities	38,000	190	(190)	13,000	65	(65)
Loans and Advances	237,937	1,190	(1,190)	178,317	892	(892)
<b>Variable Rate Financial Liabilities</b>						
Council Deposits	424,891	(2,124)	2,124	382,142	(1,911)	1,911
Short Term Money Market Facility	128,987	(645)	645	103,855	(519)	519
Promissory Notes	21,167	(106)	106	21,819	(109)	109
<b>Variable Rate Derivatives</b>						
Interest Rate Swaps (Notional Principal)	431,218	2,156	(2,156)	448,591	2,243	(2,243)
Futures (Notional Principal/Bond Formula)	11,000	312	(312)	10,000	226	(226)
<b>Profit/(Loss) Interest Rate Sensitivity</b>		<b>973</b>	<b>(973)</b>		<b>887</b>	<b>(887)</b>

# Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2018

## c) 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 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 since its inception in 1984.

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 (Note 2(g) Refer).

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.

2018	Short Term Rating			Long Term Rating			Total
	A1+	A1	A2	AA-	A	NR	
	\$'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
<b>Total</b>	<b>28,001</b>	<b>5,000</b>	<b>9,000</b>	<b>3,500</b>	<b>1,600</b>	<b>714,318</b>	<b>761,419</b>

2017	Short Term Rating			Long Term Rating			Total
	A1+	A2	AA-	A	BBB+	NR	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and Liquid Assets	54	-	-	-	-	-	54
Investment Securities	13,000	1,000	10,000	-	4,000	-	28,000
Loans and Advances	-	-	-	-	-	639,812	639,812
Derivatives	-	-	3,400	1,900	-	-	5,300
<b>Total</b>	<b>13,054</b>	<b>1,000</b>	<b>13,400</b>	<b>1,900</b>	<b>4,000</b>	<b>639,812</b>	<b>673,166</b>

## d) 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.

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

2018	Carrying Amount	Contracted Cash Flows	0 - 3 Months	3 - 12 Months	1 - 5 Years	> 5 Years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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

2017	Carrying Amount	Contracted Cash Flows	0 - 3 Months	3 - 12 Months	1 - 5 Years	> 5 Years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-Derivative Financial Liabilities						
Deposits from Councils and Local Government Bodies	464,295	(464,295)	(384,291)	(24,004)	(56,000)	-
Borrowings	150,830	(150,830)	(125,830)	-	(25,000)	-

Derivative Financial Liabilities						
Interest Rate Swaps - Outflow	267,428	(295,417)	(10,113)	(41,046)	(168,045)	(76,213)
Interest Rate Swaps - Inflow	(240,216)	246,946	12,290	27,764	142,996	63,896



# Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2018

## 24. Transactions with South Australian Government

The following expense transactions were undertaken during the financial year between the Authority and the South Australian Government:

	2018	2017
	\$'000	\$'000
Interest Paid - Short Term Money Market Facility	1,832	2,392
Interest Paid - Fixed Term Borrowings	812	482
Interest Paid - Promissory Notes	352	385
Fees for the Guarantee of the Treasurer of S.A. on Liabilities	1,309	1,207
Income Tax Equivalents Expense	1,883	1,545
Audit Fees	55	58
Payroll Tax	16	23

The following financial liabilities were outstanding at the end of the financial year between the Authority and the South Australian Government:

	2018	2017
	\$'000	\$'000
Short Term Money Market Facility	128,987	103,855
Promissory Notes	21,167	21,819
Fixed Term Borrowings	49,074	25,000
Interest Payable - Short Term Money Market Facility	193	97
Interest Payable - Promissory Notes	40	36
Interest Payable - Fixed Term Borrowings	363	23
Audit Fees	55	58

## 25. Fair Value of Financial Instruments

The book value of financial assets and financial liabilities shown in the table 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.

All Derivative Financial Instruments have been recorded at fair value, including accrued interest, in the accounts. A portion of Net Loans and Advances has been recorded at fair value using hedge accounting with the remainder recorded at amortised cost.

The fair value of Other Assets and Other Liabilities is not required as the book value is a reasonable approximation of fair value.

## a) 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:

### 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.

### 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.

		2018		2017	
		BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
		\$'000	\$'000	\$'000	\$'000
<b>Financial Assets</b>	<b>Category (Note 2(b) Refer)</b>				
Investment Securities	Loans and Receivables	42,459	42,520	28,663	28,864
Net Loans and Advances	Loans and Receivables	287,087	309,552	196,689	218,874
Net Loans and Advances	Fair Value Hedge	461,086	461,086	482,214	482,214
<b>Financial Liabilities</b>	<b>Category (Note 2(b) Refer)</b>				
Deposits from Councils and Prescribed Bodies	Financial Liabilities at Amortised Cost	500,742	501,036	464,295	464,785
Borrowings	Financial Liabilities at Amortised Cost	199,824	200,223	150,830	150,853
Derivatives	Fair Value Hedge	21,701	21,701	27,212	27,212
Derivatives	Financial Assets at Fair Value	68	68	(92)	(92)

# Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2018

## b) 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.

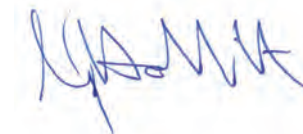
# Certification of the Financial Statements

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  
Manager Corporate Services



JAC Comrie  
Chairman

30 August 2018



# Independent Auditor's Report

## 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 the Local Government Finance Authority of South Australia for the financial year ended 30 June 2018.

### 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 2018, their financial performance and their 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 consolidated financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2018
- a Statement of Financial Position as at 30 June 2018
- a Statement of Changes in Equity for the year ended 30 June 2018
- a Statement of Cash Flows for the year ended 30 June 2018
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chairman, Chief Executive Officer and the Manager Corporate Services.

## Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of my report. I am independent of 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 Officer and the Board of Trustees for the financial report

The Chief Executive Officer is responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and 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 entity is to be liquidated or to cease operations, or has no realistic alternative but to do so.

The Board of Trustees 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

# Independent Auditor's Report

## Notes

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances
- 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 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 Officer and the Board of Trustees 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**  
5 September 2018









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