Local Government Finance Authority

2022
ANNUAL REPORT

Barossa Council
Angas Recreation Park
Redevelopment, Angaston

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MEMBER COUNCILS

AS AT 30 JUNE 2022

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

PRESCRIBED BODIES

Adelaide Hills Regional Waste Management Authority
Alywndor Complex
Brown Hill and Keswick Creeks Stormwater Board
Centennial Park Cemetery Authority
Central Adelaide Waste and Recycling Authority
Central Local Government Region of SA
Eastern Health Authority Inc
Eastern Regional Alliance (ERA) Water
Eastern Waste Management Authority Inc
Eyre Peninsula Local Government Association
Fleurieu Regional Aquatic Centre Authority
Fleurieu Regional Waste Authority
Gawler River Floodplain Management Authority
Highbury Landfill Authority
Institute of Public Works Engineering Australia (SA Division) Inc
Lerwin Nursing Home
Local Government Association of SA
Local Government Association Asset Mutual Fund
Local Government Association Mutual Liability Scheme
Local Government Association Workers Compensation Scheme
Local Government Professionals South Australia Incorporated
Meadows Memorial Hall Committee
Murraylands & Riverland Local Government Association
Murray Darling Association
Northern Adelaide Waste Management Authority
SA Local Government Grants Commission
Southern & Hills Local Government Association
Southern Region Waste Resource Authority
Wynarka & District Recreation Committee

CHAIR'S REVIEW

Michael Sedgman
Chair

The LGFA continued to fulfil its vision of being the preferred financial partner of the South Australian Local Government sector over the past year.

The 2021-22 financial year continued to be affected by the COVID-19 pandemic with new variants of the virus prolonging the health and economic issues facing the world. The pandemic continued to adversely affect global supply chains and when coupled with the Russian invasion of Ukraine resulted in high price inflation in most nations around the world.

The first half of the year saw most developed economies continue to rebound from the difficult economic conditions experienced at the start of the pandemic with unemployment levels falling rapidly and, in most cases, falling below pre-covid levels. The second half of the year saw a period of high price inflation resulting from stronger economic conditions and higher energy prices due to the Russian invasion of Ukraine. The high price inflation resulted in central banks across the globe increasing rates in an attempt to dampen demand and stabilise prices.

In 2021-22 our visitation program was extremely productive with 51 council and prescribed bodies visited over the course of the year. This was our highest number of visits on record. The LGFA management team continued to actively promote the responsible use of debt, contemporary treasury management and the risk-based loan assessment process undertaken by the LGFA. As part of this program, the LGFA conducted 8 workshops with Councils to deliver these messages directly. This direct messaging to elected members is an important opportunity for the Authority to provide clear communication to the ultimate decision makers in relation to both borrowings and investments. The LGFA also presented at many local government sector events to further promote responsible borrowing.

The LGFA implemented a new risked based lending policy at the start of the financial year which ensures that the Authority lends to councils and prescribed local government bodies in a responsible manner. The risk-based assessment is driven from annual reports, indicators and benchmarks developed as part of the LGA's Financial Sustainability Program as well as statutory reporting requirements in accordance with the Local Government Act 1999.

Over the course of the year the LGFA continued to investigate possible cadetship programs to source hard-to-find skills sets within the South Australian local government sector and we were pleased to hear that the South Australian Local Government Finance Managers Group were keen to initiate a cadet program partnering with the University of South Australia. The LGFA have committed funding to this initiative and look forward to partnering with these groups to ensure its success and are hopeful that this type of program will eventually be transferable to other workforce segments within the local government sector.

In November 2020, the former State Government announced the Local Government Infrastructure Partnership Program (LGIPP). The grants program allocated $106.9 million of economic stimulus grants linked to infrastructure projects all over the State and the LGFA committed to offering discounted loan facilities to fund the matched contributions for approved projects. Applications for these new or converted discounted facilities closed in May 2022 and were well subscribed.

The LGFA loan portfolio reduced over the past year with the sector also having an increased appetite for fixed rate debt due to the rising rate environment. The LGFA promotes that council's debt profiles should be governed by a council adopted treasury management policy that provides a council with a mix of fixed and floating products including the use of LGFA cash advance debenture floating rate come and go loan facilities. Total loan funds held by councils and prescribed local government bodies at year end decreased from $781 million to $728 million.

Councils and prescribed local government bodies are not obligated to use the LGFA, however, our close connection with the sector coupled with competitive market rates ensured we remained the market leader in both the deposit and lending segments. I would like to thank all our member councils and prescribed local government bodies for their support.

Financial performance this year was sound, with a $5.1 million pre-tax profit being generated which was mainly attributed to typical margin-based banking and the return on our capital reserves. Our profitability was lower when compared to the prior 2 years due to lower than forecast loan portfolio volumes primarily due to infrastructure project lags within the sector caused by supply chain issues relating to the pandemic and additional upfront grant funding provided by the Federal and State governments.

The income tax equivalent of $1.3 million will be paid to the State Government for use by local government to fund research and development projects. A special distribution to councils and prescribed local government bodies of $2.75 million has been approved for distribution by the Board of Trustees which is our largest distribution since inception and was possible due to our sound financial performance and strong capital adequacy. This special distribution takes the total bonuses and special distributions paid since inception to $52.2 million.

Although primarily driven by the LGFA Act, the LGFA Board focused on the strategic direction of the Authority while still overseeing the governance and risk management issues over the past year. The Audit and Risk (A&R) Committee, Chaired by Dr Andrew Johnson, once again provided valuable input into the oversight of the audit and risk functions. Towards the end of the financial year the A&R Committee recommended to the Board that an independent member be appointed to the committee. That recommendation was endorsed by the Board and recruitment has been finalised. The current rising rate environment will present some opportunities and challenges for the Authority, however, with the renewed focus on the risks associated with the banking like nature of this business by our CEO Davin Lambert and his team I feel we are in a better position to mitigate any potential issues.

I am pleased to report that the Auditor-General's Department and Galpins (Auditors), who review our Financial Management Compliance Program, have both given the LGFA an excellent report card. There were no qualifications in the audit of our financial report.

I would like to thank the State Government for their continued support by providing various funding options via committed facilities administered by SAFA, and for also providing the Treasurer's guarantee of our liabilities (including deposits from the South Australian Local Government sector).

Finally, I would acknowledge the efforts and considerable support of my fellow Board members. I would note the departure of one of our Minister appointed Trustees, Heather Watts who served on our Board for 4 years and I would thank her for her long-term commitment to the Authority and for her support of the change program that has taken place over the past 2 years. I would also thank, Anna Hughes who replaced Heather Watts as one of the Minister's appointees in October 2021 and would thank her for her diligent work as a Board Trustee until her resignation in July 2022.

J.F. Sedgman

Michael Sedgman
September 2022

CHAIR'S REVIEW

THE BOARD

Mr Michael Sedgman
Chair

Chief Executive Officer
Rural City of Murray Bridge

LGFA Elected Member

Dr Andrew Johnson
Deputy Chair

Audit & Risk Committee Chair

Chief Executive Officer
LGASA Mutual Pty Ltd

LGA Nominee

Mr Clinton Jury

Chief Executive Officer
Local Government Association

Deputy: Mr Nathan Petrus
Executive Director Member Services

Mr Terry Buss PSM

Chief Executive Officer
City of West Torrens

LGA Nominee
Audit & Risk Committee Member

Ms Annette Martin

Manager Financial Services
City of Charles Sturt

LGFA Elected Member
Audit & Risk Committee Member

Ms Anna Hughes

Deputy Under Treasurer
Department of Treasury and Finance

Appointee of the Treasurer

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.

Ms Heather Watts, completed her second term as an appointee of Treasurer on 22 October 2021 and was replaced by Ms Anna Hughes who commenced her two year term on 23 October 2021.

Matt Pinnegar resigned from his position as Chief Executive Officer at LGA on 2 July 2021, after six years' service. Lisa Teburea was acting CEO until Clinton Jury commenced the role on 11 October 2021. Nathan Petrus was nominated as Clinton Jury's deputy.

We would like to thank Matt Pinnegar, Lisa Teburea and Heather Watts for their dedicated and valued service to the Authority and wish them well.

The appointee of the Minister position was still vacant as of 30 June 2022.

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 was reviewed and a new board charter was adopted 21 October 2021, combined 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.

The Rules for General Meetings and Elections were reviewed, amended and adopted by the LGFA Board and submitted to our members at the AGM for their approval, which were adopted.

Board meetings attended by board members

Number of meetings held: 6

	Attended	Eligible
Mr Michael Sedgman	6	6
Dr Andrew Johnson	4	6
Mr Clinton Jury	4	5
Ms Lisa Teburea	1	1
Mr Terry Buss	3	6
Ms Annette Martin	6	6
Ms Anna Hughes	4	4
Ms Heather Watts	1	2
Mr Nathan Petrus (C Jury Deputy)	1	1

CEO'S REVIEW

Davin Lambert
Chief Executive Officer

Economic conditions

The economic landscape for both Australia and the global economy shifted considerably over the past 12 months. The result of the extraordinary monetary support that was in place in the face of the pandemic has witnessed a better-than-expected economic rebound in developing nations. Inflation has defied expectations and has rapidly become the key topic in the developed world, with most inflation-targeting central banks now facing inflation rates well above target ranges. Central banks around the world have swiftly shifted their stance from supportive monetary policy and have begun to raise rates from emergency levels in an attempt to reduce inflation towards targets.

The invasion of Ukraine by Russia has heightened geopolitical tensions around the world, weighing on global activity and putting upward pressure on inflation. Most recently, China's zero COVID strategy also exacerbated supply chain disruptions, impacting the availability of goods and pushing up prices globally.

The Organisation for Economic Cooperation and Development (OECD) indicators revealed deteriorating consumer confidence globally. The OECD downgraded estimates of global gross domestic production (GDP) by 1.5%, forecasting 3% in 2022, they also doubled its forecast for inflation among its members (which include the United States, Australia, Japan as well as other Latin American and European nations) to 8.5%, its highest level since 1988.

Global equities have seen a stark reversal of the trend seen in the previous twelve months. In June 2022, the global share market had its worst six months since the Cuban Missile Crisis, with equities down 20% since December 2021. The rising risk of global recession in addition to new waves of COVID infections in China has concerns that China's goal of zero-COVID will trigger further lockdowns, influencing further supply constraints and stall commodity demand. This has led to falls in oil and metal commodities including iron ore prices, which has also impacted the Australian dollar, with iron ore falling over 30% in 2022, and the Australian Dollar at its lowest level since May 2020.

China's strong bounce back in 2021 has witnessed a reversal, with weak retail sales and falling home prices. The fall in iron ore prices has coincided with signs of an oversupply in China's steel sector, where furnace utilisation rates continued to fall. Concerns about whether China will be able to achieve its annual growth target of 5.5% remains, despite the governments focus on achieving this level of growth and setting policy accordingly.

In stark contrast to last year, where consumer confidence was at highs not seen for a decade, there has been evidence of consumer confidence plummeting due to higher cost of living concerns as well as increasing interest rates. Data globally has been mixed, with evidence of weakening economic conditions from countries that began their rate hiking cycles earlier such as New Zealand, Canada, the United Kingdom and the United States. In these countries, consumer confidence has plummeted, and household budgets have been squeezed by higher mortgage costs and higher living costs. At the same time, developing countries need to navigate competing economic challenges, including a tight labour market and inflation at three-decade highs which poses a significant risk to economic growth.

In the US, the Federal Reserve raised its benchmark rates by 0.75% in June, a move that equates to the most aggressive hike since 1994. Inflation has continued to climb, reaching 9.1% over the year, the highest level since 1981. However, a tight labour market persists highlighted by unemployment being at its lowest level since 2008.

"After increasing the cash rate by 0.5% in July to 1.35%, it is expected that the RBA will continue to normalise monetary conditions and the major banks expect the cash rate to be at 2.30% by the end of 2022 calendar year."

Inflationary pressures remain to be the key point of discussion in most economies around the world. In Europe, Germany and Spain recorded their largest price increases since the 90s, with European inflation at 7.5%. Energy prices have risen by a staggering 44%. The ECB is widely expected to raise rates for the first time in a decade. In the UK, they have also continued down the path of rate hikes, with annual inflation hitting a 30 year high of 7% in March, as food and energy prices continued to soar. The UK is now also witnessing some soft economic data, with monthly GDP contracting, and if it continues, it might be the first major developed nation to enter into a recession.

Locally, there has been significant change both in the political and the economic landscape. In March, Labour won a landslide victory in the South Australian election. In May, the Australian federal government also witnessed a change to a Labour government after nine years under the Liberal National coalition.

Also in May, the Reserve Bank of Australia (RBA) hiked rates for the first time in 11 years by 0.25%, and has since raised rates to 1.35% in July, with expectations that the RBA will continue to normalise monetary conditions over coming months to help combat high inflation. Inflation in Australia whilst not as high as in some countries, is expected to peak later this year. Global factors account for much of the increase in inflation in Australia, but domestic factors are also playing a role. Strong demand, a tight labour market and capacity constraints in some sectors are contributing to the upward pressure on prices. The floods experienced on the east coast of Australia are also affecting some prices. After witnessing the sharpest recovery since the 70's and consumer confidence at historically high levels, the RBA's expectation to not raise rates until 2024 did not eventuate.

Whilst consumer and business sentiment are seeing an impact, with consumer sentiment printing its twelfth monthly decline in July, data continues to support a resilient economy. The labour market remains strong, with unemployment remaining at its lowest level since the 70s, and job vacancies and ads are both at very high levels. Retail sales continues to see strength, despite household budgets being under pressure due to higher prices. National property prices have seen some weakness in the major cities, with the market expecting a reduction of property prices by around 15% over the next 18 months. After increasing the cash rate by 0.5% in July to 1.35%, it is expected that the RBA will continue to normalise monetary conditions and the major banks expect the cash rate to be at 2.30% by the end of 2022 calendar year.

CEO'S REPORT

Lending activities

Lending volumes are significantly lower than prior years due to several factors. These include the prepayment of 75% of the 2022-23 Financial Assistance Grants in April 2022, significant volumes of grant funding for local projects and lengthy project and capital expenditure delays due to supply chain shortages and difficulties in finding contractors. As part of the LGFA visitation program, these higher than usual cash levels as well as supply chain and contractor issues are consistent throughout the sector.

As a result, the majority of councils debt levels are significantly lower than predicted due to the above factors.

> *"Long term fixed loan interest rates have bounced back to levels not seen since 2014.*
>
> *The 10-year fixed loan rate has increased by 2.50% since June 2021."*

Councils held high levels of excess cash and lending growth was markedly lower than budget over August-November 2021, however lending volumes grew in the latter half of the financial year. Average loan balances decreased from $810 million to $740 million over the year. Loans outstanding as at 30 June 2022 were $728 million, which is approximately $53 million lower than the prior year. Councils took advantage of the flexible floating cash advance debenture facilities (CAD), with the ability to pay down debt in the periods that they are holding higher than predicted levels of cash.

Over the year, borrowers increased in the proportion of fixed rate debt due to the low interest environment and the risk of higher lending rates. The LGFA continue to promote contemporary treasury management techniques and highly advocate the usage of a Treasury Management Policy to drive the decision making between fixed and floating debt.

As part of the continued strategy for the LGFA to be a responsible lender, LGFA management have actively been speaking to council staff and elected members alike discussing the LGFA's lending policy, in an attempt to increase transparency to the sector. It is also part of our role to promote the important role of councils to understand their debt strategy and to use debt responsibly.

As witnessed in developing countries around the globe, long term fixed loan interest rates have bounced back to levels not seen since 2014. The 10-year fixed loan rate has increased by 2.50% since June 2021. Markets have increasingly been pricing in continued rate hikes by the RBA and long-term loan rates have continued to increase exponentially since January 2021.

Council discounted loan facilities

The COVID relief discounted loan facilities continued to be utilised by the sector, albeit at lower levels when compared to last year due to overall lower lending requirements. The 0.75% discount from LGFA's standard CAD variable rate has been a popular and supported initiative and these facilities will continue until 2023.

The additional discounted loan facility to support the Local Government Infrastructure Partnership Program (LGIPP) funded by the State Government were also well subscribed, however facility out standings remain lower than projected due to the delay in LGIPP projects. These facilities also have a 3-year discounted term which expires in 2025.

Increased commitments from governments via grants to councils across Australia has been instrumental in supporting the resilience of local economies by delivering jobs which has helped communities bounce back from the last few turbulent years.

Investment activity

Council and prescribed bodies deposits continue to fund the majority of LGFA's lending to local government, and we appreciate the support from the sector.

> *"Average deposit balances over the year increased by around $40 million, from $450 million to $490 million. As at the end of June, council deposit levels were $46 million higher than last year, at $506 million."*

Over the past year, as rates have risen, LGFA have continued to increase deposit rates to our clients. As part of the support package announced at the start of the pandemic with discounted lending, the LGFA also made a commitment to increase the at call deposit rate to the sector, offering 0.20% above the RBA's official cash rate.

Average deposit balances over the year increased by around $40 million, from $450 million to $490 million. As at the end of June, council deposit levels were $46 million higher than last year, at $506 million. Whilst supply chain issues have led to project lag, as well as prepayment of the 2022-23 Financial Assistance Grants leading to higher-than-normal deposit levels, the LGFA continued to work diligently to win back any deposits held outside of the LGFA, increasing these deposit levels further.

The ongoing strategy to provide market competitive rates in addition to the profit distribution paid to members has seen further funds invested with the LGFA, supporting the strategy to obtain all available deposits from the sector.

CEO'S REPORT

Information technology

This year a great deal of effort has gone into the development of a new online portal which will be introduced to clients in the coming financial year. This will provide a more user friendly and responsive interface with some added functionality for clients to improve the overall online experience. Two factor authorisation for council logons will be included in the upgrade.

The implementation of Osko payments during the year has provided councils with faster same day receipt of payments from LGFA.

The LGFA boardroom video conferencing equipment has been upgraded to provide better capabilities for remote meeting attendance.

A new server is being implemented with the VMware Horizon application to facilitate cloud based networking for improved remote access for staff to communicate whilst working from home and in remote locations. The server will be located in a Tier 3 datacentre to provide maximum security and redundancy for power and communications.

Compliance

The Authority has a board appointed audit and risk committee in place to oversee the extensive auditing program 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 results of the FMCP has been produced by Galpins with a copy being 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.

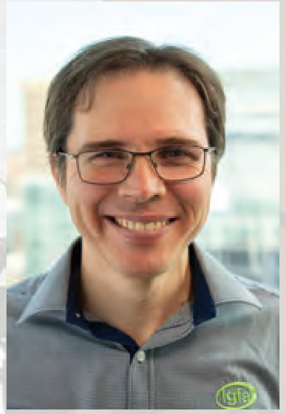
Under the State Procurement Repeal Act 2020 the Authority is required to comply with Treasurer's Instruction 18 Procurement (TI-18) from 1 July 2022. A procurement framework has been developed during the 2021-22 financial year in conjunction with Procurement Services SA (PSSA). The procurement framework was reviewed for compliance with TI-18 by PSSA in June 2022 and subsequently signed off by the LGFA CEO ready for implementation from 1 July 2022.

Our organisation

Davin Lambert
Chief Executive Officer

Natasha Grigg
Manager
Lending & Treasury

Geoff Hollitt
Financial Controller



Anthony Jones
Manager Software & IT

Our staff have again made a significant contribution to the Authority and have continued to meet the financial needs of the South Australian local government sector. With changes to our credit lending and pricing policies, it has been a productive year coupled with a busy council visitation and workshop program.

Since last year we farewelled Michelle Parcell and Joseph Veras and we welcomed Attila Keresztyen for a twelve month contract whilst Rebecca Latto commenced maternity leave.

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.

VALE Allan Paris died in October 2021. Allan was the first Money Market Dealer of LGFA 1983 – 1986.

AUTHORITY PROFILE

Authority Profile

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 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.

Profit distribution

The special distribution (previously called the bonus) 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 $49.465 million has been distributed with a further $2.75 million to be paid in respect of the year ended 30 June 2022. This year’s payment of $2.75 million when combined with previous grants for local government purposes of $3.225 million will result in overall payments benefiting the local government community of $55.44 million.

The special distribution payment has been increased to $2.75 million this year reflecting the Authority’s continued support for the local government sector. In line with past practice, the special distribution payment has been calculated to relate to average deposit and loan levels held with the Authority during the course of the financial year. This year deposit activity has been allocated $1.1 million and loans allocated $1.65 million.

LGFA proudly sponsors

Local Government Professionals Australia SA

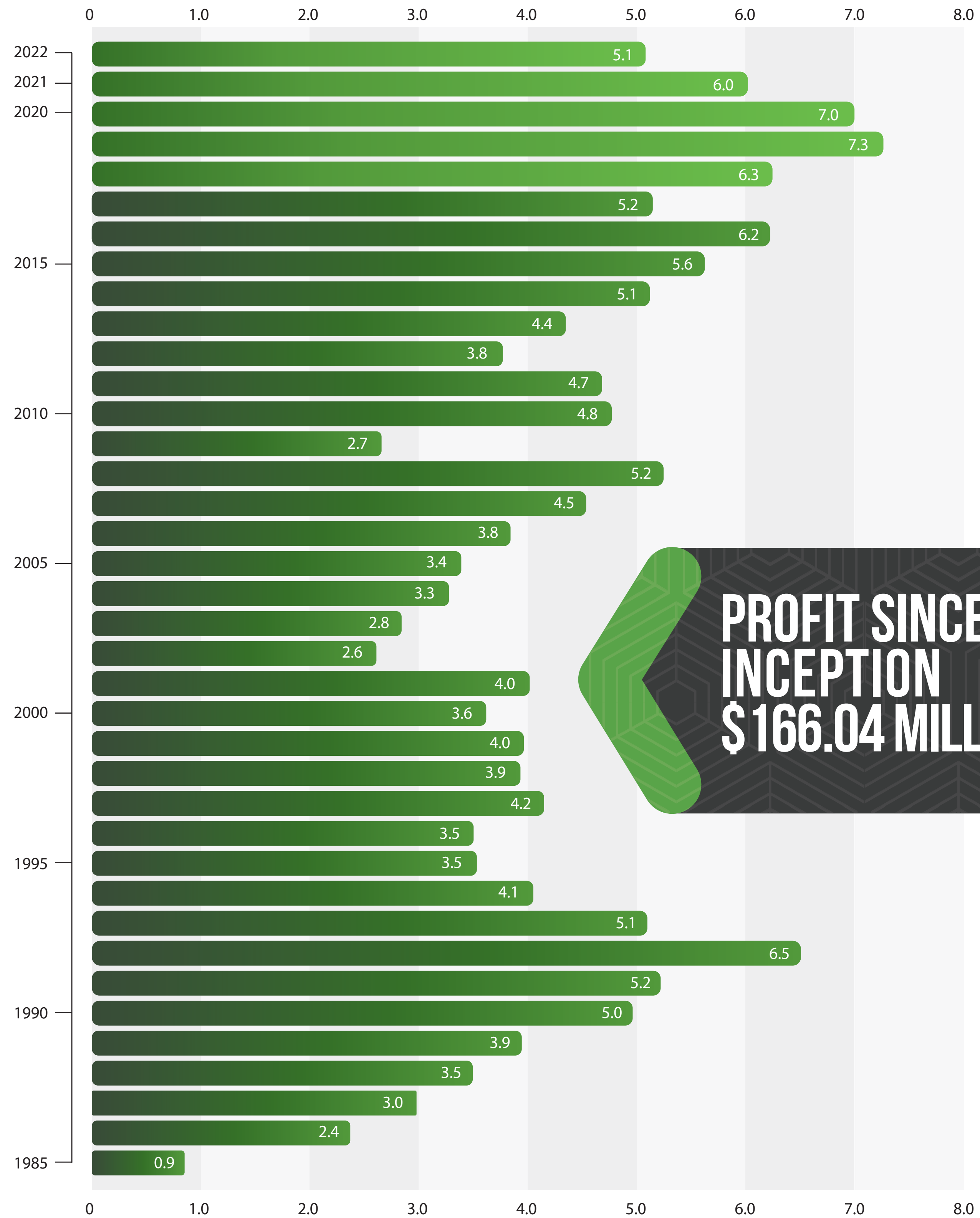
SALGFMG South Australian Local Government Financial Management Group Inc.

Local Government Association of South Australia

SOUTH AUSTRALIA

PROUDLY CONTRIBUTING TO SOUTH AUSTRALIA

PROFIT BEFORE INCOME TAX EQUIVALENTS



PROFIT SINCE INCEPTION $166.04 MILLION

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

CASE STUDIES

LGFA is proud to present three 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.

Barossa Council
Angas Recreation Park
Redevelopment, Angaston

CASE STUDY

DISTRICT COUNCIL OF FRANKLIN HARBOUR

COWELL FORESHORE & MARINA DEVELOPMENT

The District Council of Franklin Harbour is a small regional council centres on Cowell on the Eastern Eyre Peninsula.

Cowell is located on the beautiful Franklin Harbour, and in 2011 council developed a Masterplan which sought to both capitalise on the tourism potential of this beautiful location, and to enhance the liveability of Cowell.

After significant public consultation, planning and design, accessing grant funding and the gaining of all relevant approvals, in late 2019 DCFH commenced work on building a marina facility at Cowell, which was the first step in a full redevelopment and enhancement of the Cowell Foreshore area.

These works are now complete and include :

- a 32 berth marina
- a stunning building overlooking the marina which includes a commercial space, public facilities and a large undercover area
- a new road improving access to the foreshore and diverting oyster punts away from play/ recreational activities
- an aquatic playground including waterslides
- a new basketball court and huge bouncy pillow
- extensive paving/pathways/landscaping/shelters and barbecues which includes over 13,000 sqm of additional lawn/landscaped areas
- significant additional parking in the foreshore area

This was a very significant scope of works for a small regional council and presented a very challenging cashflow situation for us, and simply could not have happened without the support of the LGFA via both a 10 year loan and a CAD facility.

These works have transformed the Cowell Foreshore and greatly enhanced both liveability for the residents of Franklin Harbour, and the appeal of Cowell as a tourist destination.

Information and photos supplied by Shane Gill, Chief Executive Officer, District Council of Franklin Harbour

THESE WORKS HAVE TRANSFORMED THE COWELL FORESHORE AND GREATLY ENHANCED BOTH LIVEABILITY FOR THE RESIDENTS OF FRANKLIN HARBOUR, AND THE APPEAL OF COWELL AS A TOURIST DESTINATION

CASE STUDY

CITIES OF CHARLES STURT & PORT ADELAIDE ENFIELD

CENTRAL ADELAIDE WASTE RECYCLING AUTHORITY (CAWRA)

A joint initiative of the Cities of Charles Sturt and Port Adelaide Enfield.

The Central Adelaide Waste Recycling Authority (CAWRA) brand new material recovery facility (MRF) became fully operational in January 2022. In its first year of operation, the MRF is on track to process over 32,000 tonnes of kerbside recycling.

The MRF utilises a combination of human pickers and the latest in advanced technology to sort comingled recyclables into high value commodities for remanufacture whilst providing important local employment opportunities.

CAWRA was established with the primary objectives of taking responsibility of the community's recyclables and developing the local circular economy. CAWRA are fully committed to achieving the highest possible circular economy outcomes. CAWRA has established access to commodity markets that are truly circular including an extensive network of on-shore recycling facilities for box and paper remanufacture, glass recycling and advanced plastics recycling.

Located within 11km of the Adelaide CBD the brand new MRF in Adelaide's central suburbs is a critical piece of South Australia's recycling infrastructure helping to ensure there is a sound basis in South Australia for kerbside recycling into the future. The MRF was built to cater for a state that is growing with the capacity to process over 50,000 tonnes each year.

CAWRA's recycling education facilities have been designed for DDA access. The viewing platform provides exceptional access to view the MRF in full operation where the community can learn about recycling processes.

Information and photos supplied by Stephen Payne, Contracts Coordinator, CAWRA

CASE STUDY

BAROSSA COUNCIL

ANGAS RECREATION PARK REDEVELOPMENT, ANGASTON

WE'RE THRILLED TO SEE THE COMMUNITY ACTIVELY ENJOYING THE NEW FACILITIES AND OVAL FOR ORGANISED SPORT AND EVERYDAY USE, PROVIDING A HUGE BOOST TO COMMUNITY HEALTH AND WELLBEING

CASE STUDY

BAROSSA COUNCIL

ANGAS RECREATION PARK REDEVELOPMENT, ANGASTON

The Barossa Council has officially opened a $3.34 million redevelopment of recreation facilities at Angas Recreation Park, another milestone in the delivery of The Big Project.

The new clubrooms, changerooms, multi-use junior oval and cricket nets at Angaston have created more opportunities for people to participate in sport and recreation, addressing the enormous growth of grassroots sports across the Barossa region and the need for female-friendly facilities.

The facilities are also accessible to the wider community, providing state-of-the-art spaces for community activation and socialisation.

Council has worked closely with SACA, SANFL and grassroots sporting clubs to ensure Barossa facilities meet contemporary standards, and this project is Council's largest investment to-date in a regional sporting ground.

Along with the $2.1 million investment by Council, the project was supported by a State Government grant of $881,000 through the Office of Recreation, Sport and Racing. Angaston Football Club also contributed $330,000, with Council facilitating a community loan via the LGFA.

Barossa Mayor Bim Lange said the new facilities meet Australian standards and create new opportunities to attract high-calibre sporting events to the Barossa, such as the 2023 SANFL Country Championships.

"This upgrade has been a major undertaking and we thank our club and community representatives, contractors and peak bodies who have all supported our vision of the Barossa as a premier regional sports event tourism destination," said Mayor Lange.

"We're thrilled to see the community actively enjoying the new facilities and oval for organised sport and everyday use, providing a huge boost to community health and wellbeing."

The redevelopment was officially opened in March 2022 as part of The Big Project.

The Big Project is the Barossa region's largest and most ambitious community infrastructure project. It provides a blueprint for investment in recreation, culture and social infrastructure over a 35-year horizon.

Information provided by Heidi Helbig, Team Leader Communications and Engagement, The Barossa Council

Photo credit: Kristi Schultz

FINANCIAL REPORT

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2022

	Note	2022 $'000	2021 $'000
INCOME			
Interest on investments	3.1	70	267
Interest on loans and advances	3.2	23,805	26,553
Other income	3.3	33	110
TOTAL INCOME		**23,908**	**26,930**
EXPENSES			
Interest on deposits from councils and local government bodies	4.1	1,961	2,200
Interest on borrowings	4.2	12,693	15,328
State Government guarantee fee	4.3	1,352	1,529
Administration expenses	4.4	1,958	1,861
Other expenses	4.5	819	-
TOTAL EXPENSES		**18,783**	**20,918**
PROFIT BEFORE INCOME TAX EQUIVALENTS		**5,125**	**6,012**
Income tax equivalent expense	4.6	1,281	1,563
PROFIT AFTER INCOME TAX EQUIVALENTS		**3,844**	**4,449**
TOTAL COMPREHENSIVE RESULT		**3,844**	**4,449**

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

	Note	2022 $'000	2021 $'000
ASSETS			
Cash at bank		1	5,078
Accrued interest receivable	5.1	3,089	3,302
Investment securities	5.2	31,368	10,000
Other assets	5.3	111	102
Net loans and advances	5.4	710,816	812,527
Derivatives	5.5	19,161	-
Property, plant & equipment	5.6	1,930	1,924
Intangible assets	5.7	92	110
TOTAL ASSETS		**766,568**	**833,043**
LIABILITIES			
Deposits from councils and local government bodies	6.1	505,704	460,312
Accrued interest payable	6.2	1,013	778
Borrowings	6.3	182,150	267,927
Derivatives	6.4	-	27,487
Provisions	6.5	3,568	3,531
Other liabilities	6.6	275	244
TOTAL LIABILITIES		**692,710**	**760,279**
NET ASSETS		**73,858**	**72,764**
EQUITY			
General reserve	7.1	73,150	72,000
Retained profits		579	635
Revaluation reserve	7.1	129	129
TOTAL EQUITY		**73,858**	**72,764**
Contingent assets and liabilities	8.2		

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2022

	General reserve $'000	Retained profits $'000	Revaluation reserve $'000	Total $'000
Balance at 30 June 2020	**70,400**	**636**	**129**	**71,165**
Profit after income tax equivalents for 2020/21	-	4,449	-	4,449
Total comprehensive result for 2020/21	**-**	**4,449**	**-**	**4,449**
Grant to Local Government Association of South Australia*	-	(350)	-	(350)
Transfer to Special Distribution payment provision	-	(2,500)	-	(2,500)
Transfer to general reserve	1,600	(1,600)	-	-
Balance at 30 June 2021	**72,000**	**635**	**129**	**72,764**
Profit after income tax equivalents for 2021/22	-	3,844	-	3,844
Total comprehensive result for 2021/22	**-**	**3,844**	**-**	**3,844**
Transfer to Special Distribution payment provision	-	(2,750)	-	(2,750)
Transfer to general reserve	1,150	(1,150)	-	-
Balance at 30 June 2022	**73,150**	**579**	**129**	**73,858**

* The Grant to Local Government Association of South Australia was an appropriation of profit for local government purposes as enabled by the *Local Government Finance Authority Act, 1983* Section 22(2)(c).

All changes in equity are attributable to the owners.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2022

	Note	2022 $'000 Inflows (outflows)	2021 $'000 Inflows (outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		23,813	27,982
Interest paid		(14,490)	(18,571)
State Government guarantee fee		(1,360)	(1,542)
Payments to suppliers and employees		(1,845)	(1,817)
Fees received		28	37
Income tax equivalents paid		(1,411)	(1,841)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**7.2**	**4,735**	**4,248**
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans to councils and local government bodies		53,385	48,252
Investment securities		(21,364)	35,494
Payments for property, plant & equipment		(157)	(135)
Proceeds from sale of property, plant & equipment		-	56
NET CASH PROVIDED BY INVESTING ACTIVITIES		**31,864**	**83,667**
CASH FLOWS FROM FINANCING ACTIVITIES			
Promissory notes		5	5
Deposits from councils and local government bodies		45,392	11,112
Short term money market facilities		(83,488)	(145,420)
Fixed term borrowings		(2,293)	55,850
Special Distribution payment to councils and local government bodies		(2,500)	(2,500)
Grant to Local Government Association of South Australia		-	(350)
Other		1,208	1,607
NET CASH USED IN FINANCING ACTIVITIES		**(41,676)**	**(79,696)**
NET INCREASE/(DECREASE) IN CASH HELD		(5,077)	8,219
Cash at 1 July		5,078	(3,141)
CASH AT 30 JUNE	**7.2**	**1**	**5,078**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

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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 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. *AASB 9 Financial Instruments* does not define what constitutes a significant 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

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

The Reserve Bank response to the COVID-19 pandemic has had the effect of marginally lowering the 90 day BBSW rates used in the floating rate side of our interest rate swaps. As this reduction has been fully repriced in our interest rate swap portfolio there will be a reduction in income and therefore profitability until the 90 day BBSW rate returns to a normal position. This process has commenced in the last quarter of the 2021-22 financial year with successive RBA cash rate increases in May and June 2022.

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 February 2024.

Significant transactions with government related entities	2022 $'000	2021 $'000
Expense transactions with the South Australian government		
Interest paid on borrowings	1,265	2,247
State Government guarantee fee	1,352	1,529
Income tax equivalents expense	1,281	1,563
Liabilities outstanding to the South Australian government		
Borrowings	182,150	267,927
Interest payable on borrowings	388	343

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:

	2022 $'000	2021 $'000
Salaries and other short-term employee benefits	327	314
Post-employment benefits	32	30
Total compensation	**359**	**344**

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 2021-2022 financial year were:

LGFA governing board

Mr Michael Sedgman (Chair)	Council representative
Dr Andrew Johnson (Deputy Chair)	LGA representative
Mr Terry Buss PSM	LGA representative
Ms Annette Martin	Council representative
Mr Matt Pinnegar	LGA Chief Executive Officer to 2 July 2021
Ms Lisa Teburea	Acting LGA Chief Executive Officer from 3 July 2021 to 10 October 2021
Mr Clinton Jury	LGA Chief Executive Officer from 11 October 2021
Ms Heather Watts *	Appointee of the Treasurer to 22 October 2021
Ms Anna Hughes *	Appointee of the Treasurer from 23 October 2021

LGFA audit and risk committee
Dr Andrew Johnson (Chair)
Mr Terry Buss PSM
Ms Annette Martin

2.3 Board and executive remuneration

Board member remuneration

	2022	2021
The number of members whose remuneration received or receivable falls within the following bands:	**No**	**No**
No remuneration	2	1
$1 - $19 999	6	6
$20 000 - $39 999	1	-
Total	**9**	**7**

The total remuneration received or receivable by governing board members was $64,400 ($64,100) 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 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	2022	2021
The number of employees whose remuneration received or receivable falls within the following bands:	**No**	**No**
$157 001 to $177 000	1	1
$217 001 to $237 000	-	1
$277 001 to $297 000	1	1
Total	**2**	**3**

The total remuneration received by those employees for the year was $457,000 ($675,000).

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

	2022 $'000	2021 $'000
Interest received on investments	70	256
Gain on futures contracts	-	11
Total interest on investments	**70**	**267**

3.2 Interest on loans and advances

	2022 $'000	2021 $'000
Interest received on fixed rate debenture loans	16,656	18,576
Interest received on cash advance debenture loans	6,603	7,758
Interest received on interest rate swaps	546	219
Total interest on loans and advances	**23,805**	**26,553**

3.3 Other income

	2022 $'000	2021 $'000
Guarantee fee income	33	33
Fair value hedge accounting gain	-	57
Decrease in expected credit loss allowance	-	11
Gain on sale of fixed assets	-	9
Total other income	**33**	**110**

4. Expenses

4.1 Interest on deposits from councils and local government bodies

	2022 $'000	2021 $'000
Interest paid on deposits from councils and local government bodies	1,961	2,200
Total interest on deposits from councils and local government bodies	**1,961**	**2,200**

4.2 Interest on borrowings

	2022 $'000	2021 $'000
Interest paid on borrowings	1,265	2,249
Interest paid on interest rate swaps	11,422	13,079
Loss on futures contracts	6	-
Total interest on borrowings	**12,693**	**15,328**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

4.3 State government guarantee fee

	2022 $'000	2021 $'000
State government guarantee fee	1,352	1,529
Total State government guarantee fee	**1,352**	**1,529**

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

4.4 Administration expenses

	2022 $'000	2021 $'000
Audit fees	95	70
Board fees	63	64
Computer expenses	20	28
Consultancy fees	76	70
Depreciation and amortisation	169	165
Insurance	28	22
Legal Expenses	59	39
Market information service	48	38
Occupancy expenses	39	41
Salaries & on-costs	949	932
Software license fees	151	138
Sponsorships	123	100
Other administration expenses	138	154
Total administration expenses	**1,958**	**1,861**

Audit fees

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

	2022 $'000	2021 $'000
Auditing work performed by the Auditor-General's Department*	67	50
Financial Management Compliance Program by an independent audit firm	28	20
Total audit fees	**95**	**70**

* 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	2022 $'000	No	2021 $'000
Below $10 000	5	17	3	12
$10 000 or above	1	60	1	58
Total consultants	**6**	**77**	**4**	**70**

Depreciation and amortisation	2022 $'000	2021 $'000
Building floorspace	26	26
Computer software	86	87
Furniture and fittings	11	4
Motor vehicles	16	22
Office equipment	30	26
Total depreciation and amortisation	**169**	**165**

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 Other expenses

	2022 $'000	2021 $'000
Increase in expected credit loss allowance	37	-
Fair value hedge accounting loss	782	-
Total other expenses	**819**	**-**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

4.6 Income tax equivalent expense

	2022	2021
	$'000	$'000
Income tax equivalent expense	1,281	1,563
Total income tax equivalent expense	**1,281**	**1,563**

The Authority is required to make payments equivalent to company income tax under the taxation equivalent payment system. The equivalent company income tax liability is calculated/applied on an accounting profits basis.

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

5. Assets

5.1 Accrued interest receivable *

	2022	2021
Interest receivable on:	**$'000**	**$'000**
Loans to councils and local government bodies	3,029	3,208
Investment securities	60	94
Total accrued interest receivable	**3,089**	**3,302**

* 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

	2022	2021
	$'000	$'000
Bank term deposits	31,370	10,000
Expected credit loss allowance	(2)	-
Total investment securities	**31,368**	**10,000**

5.3 Other assets

	2022	2021
	$'000	$'000
Sundry debtors and prepayments	111	102
Total sundry debtors and prepayments	**111**	**102**

5.4 Net loans and advances

	2022	2021
	$'000	$'000
Advances	286,501	359,136
Term loans	441,161	421,912
Loans and advances	**727,662**	**781,048**
Hedge accounting revaluation	(16,361)	31,930
Expected credit loss allowance	(485)	(451)
Net loans and advances	**710,816**	**812,527**

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 Cooper 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

	2022	2021
	$'000	$'000
Swap principal receivable	2,120	-
Interest receivable on interest rate swaps	362	-
Interest payable on interest rate swaps	(2,316)	-
Fair value adjustment	18,995	-
Interest rate swaps	**19,161**	**-**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

	Property, plant and equipment	2022 $'000	2021 $'000
5.6	**Building floorspace**		
	Building floorspace at fair value	1,813	1,813
	Accumulated depreciation at the end of the period	(123)	(97)
	Total building floorspace	**1,690**	**1,716**
	Furniture and fittings		
	Furniture and fittings at cost (deemed fair value)	401	391
	Accumulated depreciation at the end of the period	(350)	(340)
	Total furniture and fittings	**51**	**51**
	Motor vehicles		
	Motor vehicles at cost (deemed fair value)	161	161
	Accumulated depreciation at the end of the period	(46)	(31)
	Total motor vehicles	**115**	**130**
	Office equipment		
	Office equipment at cost (deemed fair value)	195	117
	Accumulated depreciation at the end of the period	(121)	(90)
	Total office equipment	**74**	**27**
	Total property, plant and equipment	**1,930**	**1,924**

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 2021-22	Building floorspace $'000	Furniture & 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**

Reconciliation 2020-21	Building floorspace $'000	Furniture & fittings $'000	Motor vehicles $'000	Office equipment $'000	Total $'000
Carrying amount at 1 July 2020	**1,742**	**2**	**199**	**39**	**1,982**
Acquisitions	-	53	-	14	67
Disposals	-	-	(47)	-	(47)
Depreciation	(26)	(4)	(22)	(26)	(78)
Carrying amount at 30 June 2021	**1,716**	**51**	**130**	**27**	**1,924**

5.7	**Intangible assets**	2022 $'000	2021 $'000
	Computer software		
	Internally developed computer software	184	156
	Accumulated amortisation	(139)	(97)
	Purchased computer software	489	449
	Accumulated amortisation	(442)	(398)
	Total computer software	**92**	**110**

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 2021-22	Internally developed computer software	Purchased computer software	Total
	$'000	$'000	$'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**

Reconciliation 2020-21	Internally developed computer software	Purchased computer software	Total
	$'000	$'000	$'000
Carrying amount at 1 July 2020	**60**	**74**	**134**
Acquisitions	41	22	63
Amortisation	(42)	(45)	(87)
Carrying amount at 30 June 2021	**59**	**51**	**110**

6. Liabilities

6.1 Deposits from councils and local government bodies	2022	2021
	$'000	$'000
At call	323,897	250,984
Fixed term	181,807	209,328
Total deposits from councils and local government bodies	**505,704**	**460,312**

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	2022	2021
Interest payable on:	**$'000**	**$'000**
Deposits from councils and local government bodies	625	435
Borrowings*	388	343
Total accrued interest payable	**1,013**	**778**

* 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	2022	2021
	$'000	$'000
Short term money market facility	72,832	156,320
Fixed term borrowings	101,302	103,595
Promissory notes	8,016	8,012
Total borrowings	**182,150**	**267,927**

6.4 Derivatives	2022	2021
	$'000	$'000
Swap principal receivable	-	(3,327)
Interest receivable on interest rate swaps	-	(16)
Interest payable on interest rate swaps	-	2,388
Fair value adjustment	-	28,442
Interest rate swaps	**-**	**27,487**

6.5 Provisions	2022	2021
	$'000	$'000
Employee benefits	208	287
Fringe benefits tax	11	14
Special distribution payment to councils and local government bodies	2,750	2,500
Provision for income tax equivalents	599	730
Total provisions	**3,568**	**3,531**

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 2022.

Movement in provisions during the year	**2022 $'000**	**2021 $'000**
Special distribution payment to councils and local government bodies		
Opening balance 1 July	2,500	2,500
Increase in provision	2,750	2,500
Amounts paid	(2,500)	(2,500)
Closing balance 30 June	**2,750**	**2,500**
Provision for income tax equivalents		
Opening balance 1 July	730	1,007
Increase in provision	1,281	1,563
Amounts paid	(1,412)	(1,840)
Closing balance 30 June	**599**	**730**

6.6 Other liabilities

	2022 $'000	**2021 $'000**
Employee on-costs	23	31
Sundry creditors	252	213
Total other liabilities	**275**	**244**

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

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

Superannuation commitments

The Authority contributes to superannuation funds as chosen by individual employees. There is no liability for payments to beneficiaries as they have been assumed by the 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

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FOR THE YEAR ENDED 30 JUNE 2022

Cash flow reconciliation	2022 $'000	2021 $'000
Reconciliation of cash at bank at the end of the reporting period		
Cash at bank disclosed in the statement of financial position	1	5,078
Balance as per the statement of cash flows	**1**	**5,078**
Reconciliation of profit after income tax to net cash provided by operating activities		
Profit after income tax equivalents	3,844	4,449
Decrease/(increase) in interest receivable	(61)	1,173
Decrease/(increase) in sundry debtors	(3)	(22)
Increase/(decrease) in interest payable	163	(1,055)
Increase/(decrease) in other liabilities	18	(48)
Increase/(decrease) in provisions	(213)	(337)
Expected credit loss allowance	36	(11)
Depreciation and amortisation	169	165
Revaluation loss/(gain)	782	(57)
Loss/(gain) on disposal of fixed assets	-	(9)
Net cash provided by operating activities	**4,735**	**4,248**

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	2022 $'000	2021 $'000
Unused cash advance facilities	828,579	729,880
Term loans approved not advanced	700	-
Total loan commitments	**829,279**	**729,880**

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 2022 the total liabilities guaranteed was $692.710 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 2022 the total loans secured by debenture was $691.873 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 2022 the total loans secured by Schedule 2 of the *Local Government Act 1999* was $20.378 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 (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 2022 the total loans secured by first registered mortgage and specific security deed was $15.412 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 Cooper 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 2022 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 2022 the amount guaranteed was $26.495 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 2022 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

The Reserve Bank response to the COVID-19 pandemic has had the effect of marginally lowering the 90 day BBSW rates used in the floating rate side of our interest rate swaps. As this reduction has been fully repriced in our interest rate swap portfolio there will be a reduction in income and therefore profitability until the 90 day BBSW rate returns to a normal position. This process has commenced in the last quarter of the 2021-22 financial year with successive RBA cash rate increases in May and June 2022.

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 February 2024.

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.

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*.

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Other liabilities

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

		2022		2021	
		Book value $'000	Fair value $'000	Book value $'000	Fair value $'000
Financial assets	**Category**				
Cash at bank	Amortised cost	1	1	5,078	5,078
Investment securities	Amortised cost	31,429	31,415	10,094	10,095
Other assets	Amortised cost	111	111	102	102
Net loans and advances	Amortised cost	713,845	732,853	815,735	842,265
Derivatives	FVTPL	19,161	19,161	-	-
Financial liabilities	**Category**				
Deposits from councils and local government bodies	Amortised cost	506,329	505,878	460,747	460,936
Borrowings	Amortised cost	182,538	181,197	268,270	270,145
Derivatives	FVTPL	-	-	27,487	27,487
Other liabilities	Amortised cost	275	275	244	244

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 2022 and 2021 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.

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 9 June 2021, 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.

(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 30/06/22	+0.5%	-0.5%	Principal balance 30/06/21	+0.5%	-0.5%
	$'000	$'000	$'000	$'000	$'000	$'000
Variable rate financial assets						
Investment securities	10,000	50	(50)	10,000	50	(50)
Loans and advances	288,002	1,440	(1,440)	367,939	1,840	(1,840)
Variable rate financial liabilities						
Council deposits	466,465	(2,332)	2,332	409,647	(2,048)	2,048
Short term money market facility	72,832	(364)	364	156,320	(782)	782
Promissory notes	8,016	(40)	40	8,012	(40)	40
Variable rate derivatives						
Interest rate swaps (notional principal)	390,077	1,950	(1,950)	364,786	1,824	(1,824)
Profit/(loss) interest rate sensitivity		**704**	**(704)**		**844**	**(844)**

(b) Credit risk

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

Included in the Authority's risk policy document is a credit risk limits policy which stipulates counterparty credit limits as follows:

(i) **Investments and derivatives**

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

(ii) **Loans and advances**

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

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

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

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

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

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

	12-month ECL	
	Investment securities	**Loans and advances**
	$'000	**$'000**
Balance at 30 June 2020	1	460
Movement for the year	(1)	(9)
Balance at 30 June 2021	-	451
Movement for the year	2	34
Balance at 30 June 2022	2	485

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

The carrying amount of the Authority's financial assets at FVTPL as disclosed in Note 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.

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.

	Short term rating		Long term rating			
2022	**A1+**	**A2**	**AA-**	**A**	**NR**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Investment securities	27,900	-	3,500	-	-	31,400
Loans and advances	-	-	-	-	727,662	727,662
Derivatives	-	-	24,900	200	-	25,100
Total	**27,900**	**-**	**28,400**	**200**	**727,662**	**784,162**

	Short term rating		Long term rating			
2021	**A1+**	**A2**	**AA-**	**A**	**NR**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Investment securities	5,000	5,000	-	-	-	10,000
Loans and advances	-	-	-	-	781,048	781,048
Derivatives	-	-	3,800	400	-	4,200
Total	**5,000**	**5,000**	**3,800**	**400**	**781,048**	**795,248**

(c) Liquidity risk

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

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

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

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

2022	Carrying amount $'000	Contracted cash flows $'000	0 - 3 months $'000	3 - 12 months $'000	1 - 5 years $'000	> 5 years $'000
Non-derivative financial liabilities						
Deposits from councils and local government bodies	506,329	(506,329)	(467,080)	(32,871)	(6,368)	-
Borrowings	182,538	(182,538)	(87,409)	(1,190)	(91,194)	(2,745)
Derivative financial liabilities						
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

2021	Carrying amount $'000	Contracted cash flows $'000	0 - 3 months $'000	3 - 12 months $'000	1 - 5 years $'000	> 5 years $'000
Non-derivative financial liabilities						
Deposits from councils and local government bodies	460,747	(460,747)	(410,082)	(50,665)	-	-
Borrowings	268,270	(268,270)	(165,813)	(1,155)	(95,892)	(5,410)
Derivative financial liabilities						
Interest rate swaps - outflow	116,663	(120,540)	(6,801)	(23,318)	(68,536)	(21,885)
Interest rate swaps - inflow	(89,176)	70,661	6,756	13,444	43,230	7,231

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

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

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

No other sources of ineffectiveness emerged from these hedging relationships.

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

Fair value hedges

	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	
Hedging instruments	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
	%	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Interest rate swaps	3.005	3.245	387,957	361,459	19,161	(27,487)	47,437	19,459

	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	
Hedged items	**2022**	**2021**	**2022**	**2021**		**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**		**$'000**	**$'000**
Fixed rate loans	378,934	401,477	(16,361)	31,930	Net loans and advances	(48,219)	(19,402)

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.

	Amount of hedge ineffectiveness recognised in profit or loss (P/L)		Line item in P/L in which hedge ineffectiveness is included
Hedged items	**2022**	**2021**	
	$'000	**$'000**	
Fixed rate loans	(782)	57	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 Hollitt
Financial Controller

Michael Sedgman
Chair

12 September 2022

INDEPENDENT AUDITOR'S REPORT

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 2022.

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 2022, 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 2022
- a Statement of Financial Position as at 30 June 2022
- a Statement of Changes in Equity for the year ended 30 June 2022
- a Statement of Cash Flows for the year ended 30 June 2022
- notes, comprising material accounting policies and other explanatory information
- a Certificate from the Chair, Chief Executive Officer and Financial Controller.

Basis for opinion

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

INDEPENDENT AUDITOR'S REPORT

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

The Chief Executive is responsible for the preparation of the financial report that gives a true and fair view in accordance with 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 are 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 2022.

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

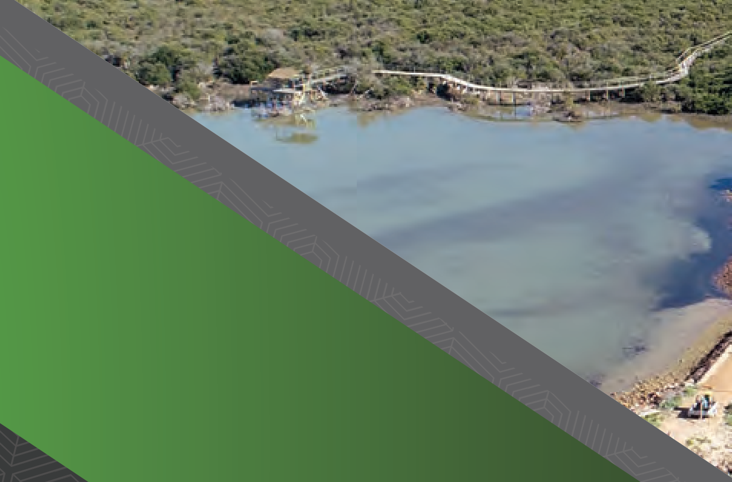
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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 wmch may have been hyperlinked to/from the report.

I communicate with the Chief Executive Officer and 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)
16 September 2022

NOTES



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