



Local Government
Finance Authority

2023

ANNUAL REPORT



District Council of Yankalilla
Yankalilla Library

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Member Councils

AS AT 30 JUNE 2023

City of Adelaide
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 and Others

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
Limestone Coast Local Government Association
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
LG Income Protection Fund
LGCS Pty Ltd
Meadows Memorial Hall and Community Association Inc
Murraylands & Riverland Local Government Association
Murray Darling Association Inc
Northern Adelaide Waste Management Authority
SA Local Government Financial Management Group Inc
SA Local Government Grants Commission
Southern and Hills Local Government Association
Southern Region Waste Resource Authority
Stormwater Management Authority
Victor Harbor Tram Authority
Wynarka & District Recreation Committee

Chair's Review



Michael Sedgman
Chair

The Local Government Finance Authority (LGFA) continued to be the preferred financial partner of the South Australian Local Government sector over the past year.

The 2022-23 financial year was more positive than the previous three years as the COVID-19 pandemic moderated, allowing

the world to reset to a new normal. However, high price inflation coupled with higher interest rates restrained economic growth globally.

The LGFA remained active in the sector over the last year visiting 32 councils and prescribed bodies. In addition to these visits the LGFA also offered to present directly to councils about LGFA's lending assessment process and financial sustainability, delivering 10 interactive presentations across the State. Feedback indicated the workshops have been well received by elected members and administrations alike as they provide an additional financial education opportunity that is separate to the mandatory training requirements.

Over the past year, the LGFA partnered with the South Australian Local Government Finance Managers Group to deliver a student placement program to regional councils by committing funds that subsidised the cost of the placement. The LGFA also discussed the possibility of a cadet program into regional councils delivered by university hubs and we are hopeful that an agreement on a pilot program will be reached in the new financial year. The LGFA anticipate that these types of programs will fill skill gaps in the finance streams of the local government sector and that eventually learnings from these activities will be transferable to other workforce streams.

The LGFA loan portfolio was below 2021-22 and forecast levels over the first half of the financial year. However, appetite for debt increased over the second half of the financial year,

predominantly due to the sector catching up on infrastructure backlogs that had developed during the pandemic. The Reserve Bank of Australia's increases to interest rates over the last year resulted in increased financing costs for our local government clients. However, borrowers who have adhered to a contemporary treasury management policy that dictates having minimum proportions of floating and fixed-rate debt have been partially insulated from these higher interest costs. Total loan funds held by councils and prescribed local government bodies at year end decreased slightly from \$728 million to \$726 m.

As per the LGFA legislation, all South Australian councils and prescribed local government bodies are automatically members of the Authority, however, they are not obligated to use our financial products or services. Despite this, the LGFA continued to be a market leader in both the deposit and lending segments by forging strong relationships within the sector and by providing competitive market rates even before considering any special distributions. I would like to thank all our member councils and prescribed local government bodies for their continued support.

The LGFA has continued to work proactively regarding the challenging financial position faced by the District Council of Coober Pedy (DCCP). The DCCP was placed into administration by the State Government in 2019 and faces unique challenges relating to the provision of water and electricity to a remote part of South Australia. After serious consideration, the LGFA made an assessment that loans were impaired and that an expected credit loss (ECL) allowance of \$5 m be assigned to the DCCP's \$7.8 m loan portfolio. The LGFA has worked with both the DCCP and the State Government since the appointment of Administrators and we are hopeful that all loan funds will be eventually recovered.

The LGFA's financial performance for 2022-23 financial year has been impacted by the provision for an ECL allowance relating to DCCP, with a \$1.9 m pre-tax equivalent regime profit generated for the financial year. While noting this result, without this provision, our underlying profitability would have been higher than the 2021-22 financial year.



An income tax equivalent of approximately \$0.5 m 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 m has been approved for distribution by the LGFA Board. This special distribution takes the total bonuses and special distributions paid since inception of the Authority to \$54.2 m.

The LGFA Board conducted a strategic planning day in February 2023 where the Authority's strategic objectives were developed and reflected in a new Strategic Plan. The Audit and Risk (A&R) Committee was Chaired by Dr Andrew Johnson over the first half of the financial year and by Annette Martin over the second half of the financial year. In August 2022, the LGFA welcomed its first independent A&R member with Nicolle Rantanen-Reynolds joining the committee for a two-year term. I would like to thank the Committee for their diligent work on audit and risk matters, with the Committee's work on the strategic risk register requiring a special mention. I would also like to thank LGFA staff for their focus on applying contemporary banking methodology and modernising our business processes over the past year.

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.

Thank you to 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 like to acknowledge the efforts and support of my fellow Board members. I note the departure of Local Government Association (LGA) appointed Trustee, Dr Andrew Johnson, who served on our Board for six years and I would thank Andrew for his long-term commitment to the Authority, which included four years as Deputy Chair as well as six years on the Audit and Risk Committee, including four years as Chair.

I would also take this opportunity to welcome the three new Trustees who joined over the 2022-23 financial year, Ministerial appointees; Trustees Belinda Merrett and Danielle Lawlor; and new LGA appointee, Trustee Andrew Wroniak.

Michael Sedgman
September 2023

Chair's Review

THE BOARD



Mr Michael Sedgman
Chair

Chief Operating Officer
City of Adelaide
LGFA Elected Member



Mr Terry Buss PSM
Deputy Chair

Chief Executive Officer
City of West Torrens
LGA Nominee
Audit & Risk Committee Member



Mr Clinton Jury

Chief Executive Officer
Local Government Association
of SA
Deputy: Mr Nathan Petrus
Executive Director Member
Services



Ms Annette Martin

Manager Financial Services
City of Charles Sturt
LGFA Elected Member
Audit & Risk Committee Chair



Ms Belinda Merrett

Director | Secretariat
Board of Treasurers
Department of Treasury and
Finance
Appointee of the Treasurer



Ms Danielle Lawlor

Manager, Systems and Business
Improvement
South Australian Government
Financing Authority
Appointee of the Treasurer



Mr Andrew Wroniak

Executive Director Corporate
Services
Local Government Association
of SA
LGA Nominee
Audit & Risk Committee Member

Board meetings attended by board members:

	LGFA Board	
	Attended	Eligible
Mr Michael Sedgman	6	6
Dr Andrew Johnson	3	3
Mr Terry Buss	5	6
Mr Clinton Jury	6	6
Ms Danielle Lawlor	4	4
Ms Annette Martin	6	6
Ms Belinda Merrett	4	4
Mr Andrew Wroniak	3	3

Audit and Risk Committee meetings attended by board members:

	A & R	
	Attended	Eligible
Dr Andrew Johnson	3	3
Mr Terry Buss	5	5
Ms Annette Martin	5	5
Mr Andrew Wroniak	2	2
Independent A & R Committee Member	5	5
Ms Nicolle Rantanen-Reynolds		

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.

Effective 1 January 2023, Mr Terry Buss and Mr Andrew Wroniak were appointed to the Board as the two LGA representatives. Mr Andrew Wroniak replaced Dr Andrew Johnson, who served as a member since 2017, as deputy chair since 2019 and to the audit and risk committee as a member since 2017, and as chair since 2019. The board and staff thank Andrew for his valued service to the Authority and wish him well with future endeavours.

Annette Martin and Michael Sedgman were re-elected for their fourth and third terms respectively.

Ms Anna Hughes who commenced her two-year term on 23 October 2021 as an appointee of the Treasurer, resigned on 15 July 2022. Her position and the vacant position were both filled by Ms Belinda Merrett and Ms Danielle Lawlor. As appointees of the Treasurer, they commenced their two-year term on 24 November 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 throughout the year and, when combined with the LGFA management handbook, provided the Authority with a contemporary governance framework that supports the strategic and business plan adopted and monitored by the Board.

CEO's Review



Davin Lambert
Chief Executive Officer

Economic conditions

The global economy was volatile over the past year as the world moved from restrictive conditions associated with the COVID-19 pandemic, into a new normal where pent up demand, supply chain issues and very tight labour markets have resulted in inflationary

pressures in most countries around the world. Central banks have attempted to quell inflation by increasing interest rates, and in some cases rapidly, which has had varied outcomes. However, towards the end of the year, higher interest rates appeared to be capping inflation.

The Russian invasion of Ukraine somewhat stabilised over the year, turning into a prolonged conflict which has resulted in a stabilisation of commodity prices which remain elevated when compared to levels prior to the start of the conflict.

The Organisation for Economic Cooperation and Development (OECD) indicators revealed that inflation as measured by the aggregate of consumer price indices around the globe fell from 10.3% year-on-year (YoY) in July 2023 to 6.5% YoY in May 2023 with all items excluding food and energy being the main inflationary driver.

China continued to suffer from the effects of the COVID-19 pandemic longer than most western economies with social distancing restrictions still being in place at the start of 2022-23. Despite a slow start to the year and challenges in the countries residential and commercial property markets the Chinese economy expanded by 6.3% YoY in the second quarter of 2023, which was below market estimates of 7.3%. China has not suffered from the

inflationary pressures seen in other parts of the world, with core inflation ranging between 0.1 - 2.8% over the course of the 2022-23 financial year

The United States (US) economy somewhat recovered from the pandemic over the past year with gross domestic product (GDP) increasing at 2% YoY. Consumer price inflation (CPI) peaked at 9.1% YoY in June 2022 which forced the US Federal Reserve to raise benchmark rates by 3.5% over the course of the year, closing the year at a target range between 5 - 5.25%. As a result of the more restrictive monetary policy, inflation had moderated to 3% YoY by June 2023 which occurred despite a strong job market with the US unemployment rate at 3.6% which sits near generational lows.

Eurozone GDP data for the first quarter of 2023 was only 1.1% YoY, its weakest print since late 2020. Inflationary issues were also the main point of focus in Europe with CPI peaking at 10.6% YoY in October 2022, however, has since significantly moderated to 5.5% YoY by June 2023. The European Central Bank (ECB) increased the zone's official cash rate by 4% over 2022-23, closing at 4.25%. While inflation is still above the ECB target inflation of 2%, increases to the ECB's official cash rate over the year appears to be taking effect. The Eurozone job market has also improved over the past year with the unemployment rate falling from 6.7% to 6.5%, which is now much lower than prior to the start of the pandemic.

Australian first quarter 2023 GDP data saw a 2.3% YoY growth rate. Like most parts of the world, the Reserve Bank of Australia (RBA) also committed to an aggressive 3.25% of interest rate hikes over the course of the year in an attempt to reduce inflation that peaked at 7.8% YoY in December 2022. Australian inflation slightly moderated to 7% YoY in March 2023 but is yet to see some of the large deflationary movements seen in the US and Europe. Australia's inflationary environment may be different



“Like most parts of the world, the Reserve Bank of Australia (RBA) also committed to an aggressive 3.25% of interest rate hikes over the course of the year in an attempt to reduce inflation that peaked at 7.8% ”

to the rest of the world as our strong terms of trade, coupled with near generational levels of low unemployment (3.5% June 2023), may be offsetting the restrictive monetary policy settings of the RBA.

Overall global equity markets had a positive 2022-23 financial year, despite the rising inflation and interest rate environment. The growth was primarily driven by strong performance in western advanced economies with the US Dow Jones Industrial average index increasing by 10.6%, the United Kingdom Financial Times Stock Exchange 100 Index increasing by 5.1%, the German Deutscher Aktienindex (German stock index) increasing by 26% over the period in question. However, the performance of emerging markets in Asia lagged

developed western equity markets, highlighted by the Chinese Shanghai Stock Exchange Composite Index decreasing by -5.5% over the same time period.

The Australian Dollar (AUD) similarly witnessed significant volatility over 2022-23, ranging from a low in October 2022 of \$0.62 US Dollar (USD) from a high of \$0.72 USD the month prior. Broader USD strength, changes in risk sentiment and influences from data from China has influenced the AUD over the year, closing the 2022-23 financial year at \$0.66 USD. The Australian terms of trade reached an all-time high of 144.2 in the second quarter of 2022 driven by strong commodity prices despite the relatively weak AUD.

CEO's Review

Lending activities

The LGFA witnessed a substantial increase in lending volumes in the second half of 2022-23 as councils started to drawdown on loan facilities to meet Annual Business Plan capital requirements. However, lending volumes ended the year lower than prior years largely due to the prepayment of 100% of the 2023-24 Financial Assistance Grants at the end of June 2023, which assisted many councils to payback debt before the end of the financial year.

Whilst councils have continued to face labour and contractor shortages delaying capital activity, improved supply chains helped councils make progress on previous years carryforwards in their capital programs in the second half of the financial year.

“The volatility in interest rate markets over 2022-23 has witnessed 10-year fixed loan rates move by as much as 1.50%. LGFA’s variable loan facility has increased by 2.75%, in line with changes to the RBA’s official cash rate.”

Councils held high levels of excess cash and lending growth was markedly lower than budget over the first half of the financial year, however lending volumes grew in the latter half of the financial year. Average loan balances decreased from \$740 m to \$690 m over the year. Loans outstanding as at 30 June 2023 were \$726 m, which was only approximately \$2 m lower than the prior year. Councils continued to take advantage of the flexible floating cash advance debenture facilities (CAD) which can be drawn and repaid daily.

With significant interest rate volatility over the year, borrowers increased the proportion of fixed rate debt to mitigate against the risk in higher interest rates. As at 30 June 2023, outstanding LGFA loans have a split of 50/50 between fixed and floating rates. The LGFA continues 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.

LGFA’s council workshops with elected members have been extremely popular with the change in elected member bodies following November’s council elections. This aligns to one of LGFA’s strategic goals of being a responsible lender and being transparent regarding our credit / lending process.

The volatility in interest rate markets over 2022-23 has witnessed 10-year fixed loan rates move by as much as 1.50%. LGFA’s variable loan facility has increased by 2.75%, in line with changes to the RBA’s official cash rate.

Council discounted loan facilities

The COVID relief discounted loan facilities continued to be utilised by the sector throughout the year. The 0.75% discount from LGFA’s standard CAD variable rate provided a real incentive for the priority of the usage of these facilities. Most of these loans were opened in the height of the COVID pandemic in mid-2020, with a 3-year discounted term offering, the discount period will expire at the start of the 2023- 2024 financial year.

Local Government Infrastructure Partnership Program (LGIPP) discounted facilities that were created to support a State Government grants program were well subscribed but remained lower than originally projected due to the delay in LGIPP projects. These facilities also have a 3-year discounted term offering which will begin to expire in 2025.

“Average deposit balances over the year increased by approximately \$32 m, from \$492 m to \$522 m. As at the end of June, council deposit levels were \$58 m higher than last year, at \$564 m.”

Investment activity

The LGFA are proud to see that deposits from councils and prescribed bodies continued to fund the majority of LGFA’s lending to local government and highlights the strength of our business model. LGFA’s own market analysis highlighted that fewer deposits were being invested externally which is a positive for the local government sector as a whole.

Over the past year, interest rates have risen sharply and the LGFA have continued to increase its at call deposit rate to our clients the day immediately following the RBA official cash rate decision. LGFA also continued to offer 0.20% above the RBA’s official cash rate on at call deposits which is still a very competitive offering.

Average deposit balances over the year increased by approximately \$32 m, from \$492 m to \$522 m. As at the end of June, council deposit levels were \$58 m higher than last year, at \$564 m. The Federal Government’s decision to prepay 100% of the 2023-24 Financial Assistance Grants in late June 2023 combined with project lag associated with the pandemic and supply chain issues being experienced by the SA local government sector led to increased deposit levels.

The continued strategy of providing competitive market rates in addition to our usual profit distribution has likely promoted further funds being invested with the LGFA, which also enables us to be predominantly funded by the local government sector.

CEO's Review

Information technology

The roll out of our upgraded LGFA client portal marked a significant achievement for LGFA. The portal enhances the client experience by providing a user-friendly and secure platform for accessing services, managing accounts, and communicating with our team. A number of new features were implemented with the new portal to achieve further efficiencies in our transaction processing and reporting. The deployment of our production server in a Tier 3 data centre has bolstered the reliability, scalability, and security of our ITC infrastructure. The new server and VMware Horizon software provides a contemporary cloud-based system for networking and communications for staff when working remotely or from home.

A cyber security audit was conducted during the year by Galpins, in conjunction with BRM Advisory. The audit report and recommendations were provided to the LGFA Audit and Risk Committee for review and monitoring of remedial work.

Version upgrades to the Quantum Treasury Management System and SAP accounting package were completed during the year. Ongoing services from our IT service provider, Enee Solutions, included improvements to our IT and cyber security policies and procedures.

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. During the year the board appointed an independent audit and risk committee member, Ms Nicolle Rantanen-Reynolds, to add further skills to the committee.

The Authority is required to comply with Treasurer's Instruction 2 Financial Management and 28 Financial Management Compliance Program (FMCP). Performance in 2022-23 relative to the FMCP was reviewed by an independent audit firm, Galpins.

A report detailing the results of the FMCP has been provided 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 was required to comply with Treasurer's Instruction 18 Procurement (TI 18) from 1 July 2022. After a letter from the LGFA Board Chair was sent to the Treasurer regarding this, a full exemption from the requirements of TI 18 was approved late in the financial year.



Our organisation



Davin Lambert
Chief Executive Officer



Natasha Grigg
Director 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 a continual change culture now evident within the business the organisation had a busy and productive year.

Since last year we farewelled Attila Keresztyen who completed a twelve-month contract whilst Rebecca Latto was on 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.

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 councils and prescribed local government bodies 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 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 \$52.215 m has been distributed with a further \$2.0 m to be paid in respect of the year ended 30 June 2023. This year's payment of \$2.0 m when combined with previous grants for local government purposes of \$3.225 m will result in overall payments benefiting the local government community of \$57.44 m.

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 \$0.86 m and loans allocated \$1.140 m.

Vale James (Jim) Maitland Hullick OAM

Former Local Government Association of South Australia Executive Director (1976-1997) passed away on 18 July 2023.

Jim's contributions to the local government sector were extensive, including being on the taskforce to establish the Local Government Finance Authority and the LGA Workers Compensation and Mutual Liability Schemes.

He was an inaugural board trustee (1984 - 1997) of the Local Government Finance Authority (LGFA) that was established by the LGA with bipartisan support of the State Government in 1984.

With his work in establishing the LGFA over thirty-nine years ago, and leadership during its formative years, Jim leaves behind a legacy that local government continues to benefit from today.

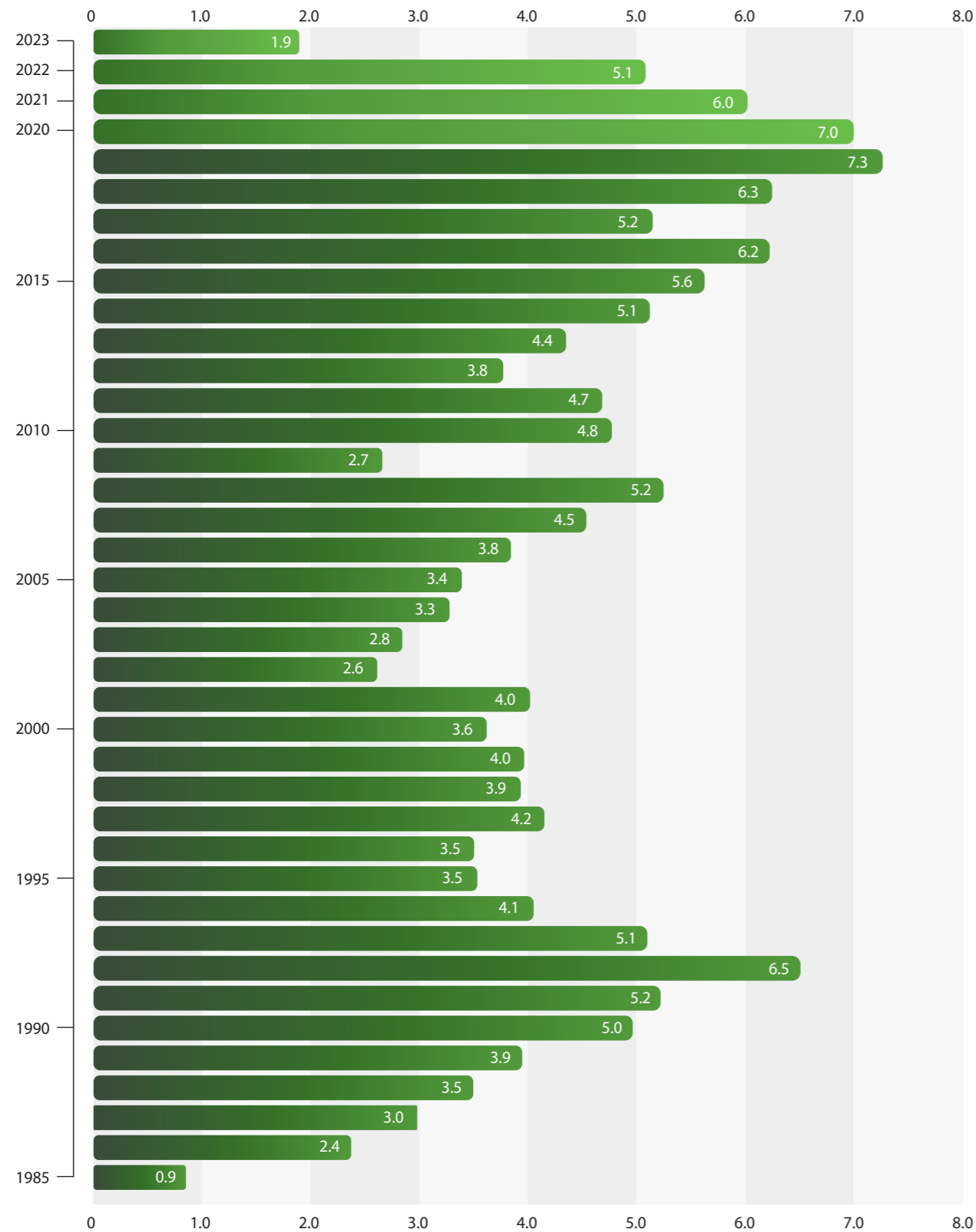
We proudly sponsor the following local government entities



Local Government Association of South Australia



Profit Before Income Tax Equivalents

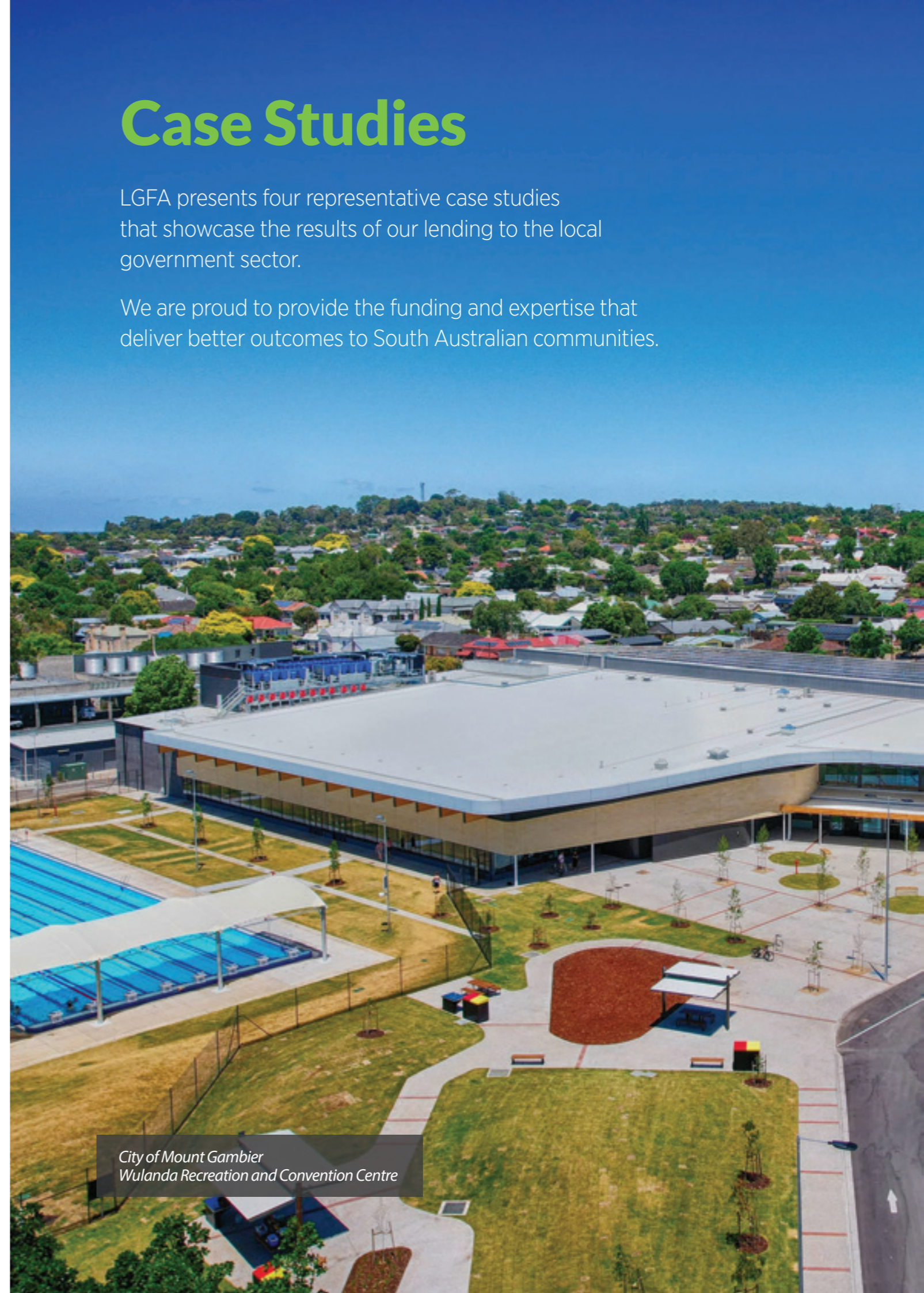


This graph illustrates Profit before Income Tax Equivalents for the Local Government Finance Authority of South Australia since 1985. (All profits as \$M)

Case Studies

LGFA presents four representative case studies that showcase 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.



City of Mount Gambier
Wulanda Recreation and Convention Centre

Case Study

CITY OF MOUNT GAMBIER

WULANDA RECREATION AND CONVENTION CENTRE

WULANDA IS AN EXTRAORDINARY BUILDING BORN FROM THE MOUNT GAMBIER COMMUNITY'S BOLD VISION TO CREATE A FUTURE-PROOF COMMUNITY HUB THAT WILL NOT ONLY LAST FOR 60 YEARS BUT WILL GENERATE A LEGACY THAT WILL BOOST THE CITY'S WELLBEING AND ECONOMIC OUTLOOK.



Case Study

CITY OF MOUNT GAMBIER

WULANDA RECREATION AND CONVENTION CENTRE



Wulanda, meaning 'enjoy or cherish' in Bunganditj, is a gathering place in Mount Gambier to participate in sports, recreation, community activities and events.

In a first for Mount Gambier and the Limestone Coast, Wulanda provides year-round aquatic facilities, including a revamped outdoor 50m pool and brand new indoor 25m pool, splash pad, warm-water program pool, and learn to swim pool.

Wulanda provides community spaces with facilities and activities for all ages and abilities, including children, families, youth, community groups, recreational and organised sports and those with special needs.

Accessibility is a crucial design feature of the facility. An example is a retractable screen for the program pool, allowing privacy, sound, and light control to address users' needs.

There are six courts at Wulanda, consisting of three timber show courts and three multipurpose courts for sporting and event purposes, along with a quality fitness program room and health club.

There is a first-floor multipurpose meeting room overlooking the pools, which can seat 200 people.

Mount Gambier now has a home for large-scale indoor concerts, with a capacity for 2000 patrons in the multipurpose bank of courts, complete with retractable tiered seating and VIP viewing from level one.

Wulanda increases Mount Gambier's profile and ability to host major sporting competitions, conferences, events and performances, providing significant social and economic benefits.

Throughout the build, Wulanda has benefitted local trades and contractors by more than \$22 million. This spend does not account for the corresponding investment in hospitality and accommodation venues by visiting businesses and services.

Olympic medallist and world champion Madi Wilson opened the 2023 Country Swimming Championships at Wulanda and said "It's crazy for me to be here and see this facility - it's absolutely incredible. You are so lucky to be able to swim in a facility like this - it is definitely closing the gap between country and city".

IT IS DEFINITELY CLOSING THE GAP BETWEEN COUNTRY AND CITY

Wulanda responds to the community's desire for quality aquatics and flexible sporting and event spaces. It will stand the test of time in reinforcing the City of Mount Gambier and this region as a unique and preferred destination.

Wulanda is an affordable community space that will serve Mount Gambier for multiple generations.

Wulanda was delivered with the assistance of our funding partners, the Commonwealth and State Government, and our neighbouring Council, District Council of Grant.

Information and photos provided by Maddi Brookes, Communications Officer, City of Mount Gambier



Case Study

DISTRICT COUNCIL OF YANKALILLA

NORMANVILLE FORESHORE AND JETTY CARAVAN PARK



23 NEW FULLY FURNISHED CABINS



The Normanville Foreshore and Jetty Caravan Park Masterplan has set the stage for a remarkable transformation of the always desirable Normanville Foreshore, revitalising it into a captivating destination.

The comprehensive plan, adopted in July 2021, aims to create a safer, more inclusive and vibrant environment for residents and visitors. Over five years in the making, the \$16.45 million Masterplan has secured over \$8 million in external funding towards its successful implementation.

The Masterplan consists of three main projects, each contributing to enhancing the foreshore's appeal and overall experience:

New Cabins within the upgraded Big4 Normanville Jetty Holiday Park

As part of the Masterplan, 23 new single-story cabins have been constructed in the Council-owned Big4 Normanville Jetty Holiday Park. These thoughtfully designed cabins offer a range of styles to cater to diverse accommodation needs from first-time visitors through to families and offer a high-quality accommodation experience. From open-plan studio-style cabins to spacious two-bedroom options, there's an ideal choice for every guest.

The project received funding from the State Government's Local Government Infrastructure

Partnership Program (\$2,045,450) and the Federal Government's Building Better Regions funding program (\$2,045,450). This funding not only assisted to deliver the 23 new fully furnished cabins but was also applied to improve local infrastructure in the park such as underground services, fire hydrants, electricity upgrades, fencing, landscaping and recreational amenities. The cabins are now completed and have been heavily booked since opening in a staged process across summer 2022-23. The offerings have been met with excitement, generating positive feedback from guests. As a Council-owned establishment, this project aims to increase revenue generation for the community, while adding significant economic value to surrounding local businesses.

Normanville Foreshore Upgrade Works

The Normanville Foreshore has undergone a remarkable 'placemaking' urban design transformation with the implementation of the Masterplan. The beach plaza, inclusive beach access, lawn areas and nature play space have been successfully completed, providing a hub of activity for the local community and visitors. The renovation has been well-utilised, especially during the festive period and early feedback has been overwhelmingly positive. The Council was delighted to receive funding of \$2,100,000 through the State Government's Open Space and Places for People Grant Programs from the Planning and Development Fund.

Case Study

DISTRICT COUNCIL OF YANKALILLA

NORMANVILLE FORESHORE AND JETTY CARAVAN PARK



A HUB OF ACTIVITY FOR THE LOCAL COMMUNITY AND VISITORS

Remaining work, including carpark resealing, will be completed towards the end of 2023, aligning with the completion of the cornerstone Normanville Surf Lifesaving Club & Café/Kiosk development.

Mayor Darryl Houston states, "The Normanville Foreshore is a hub in the summer months and we are proud to have delivered a safer and more inclusive space for our community and visitors to enjoy."

Combined Rebuild of the Normanville Surf Lifesaving Club & Café/Kiosk

The iconic Normanville Surf Lifesaving Club & Café/Kiosk are undergoing a combined rebuild, set to be completed late in 2023. This project has been long awaited since the need for an upgrade was first identified in 2015 and is now coming to fruition through close collaboration between Council, the Normanville Surf Life Saving Club and Surf Life Saving SA. Funding has been provided by both the State Government and the Normanville Surf Life Saving Club.

The rebuilt Normanville Surf Lifesaving Club & Café/Kiosk will serve as a popular destination for

both tourists and the local community, offering an expanded range of amenities and enhancing the overall foreshore experience. It will create a safe and inviting beach environment, promoting leisure and recreation.

The successful delivery of these projects is a testament to the District Council of Yankalilla's commitment to community engagement and the aim of delivering great experiences through quality infrastructure. The Masterplan not only enhances the Normanville Foreshore and Big4 Normanville Jetty Holiday Park but also contributes to the local economy with ongoing job creation, improved community infrastructure and reduced rates burden on the community. The Council is

delighted with the completion of the Masterplan's initial stages and looks forward to the completion of the final stages, including the completion of the Normanville Surf Lifesaving Club & Café/Kiosk, elevating the Normanville Foreshore to a premier destination on the picturesque Fleurieu Peninsula.

Information and photos were provided by Liz Soper, Executive Administration and Communications Officer District Council of Yankalilla



**A BEAUTIFUL PUBLIC SPACE
AND A TRUE LOCAL ASSET TO BE
CELEBRATED**



Case Study

DISTRICT COUNCIL OF YANKALILLA

YANKALILLA LIBRARY

The completion of the District Council of Yankalilla's new Library marks the culmination of a seven-year journey, characterised by extensive community involvement and collaboration with our Community Library Advisory Group. Through the collective efforts of local building designer Harmonic Design and South Australian-based firm Building Solutions, a modern and highly functional design has been brought to life, seamlessly integrating the old with the new, celebrating the past while embracing the future in a flexible, warm and contemporary space.

The choice of materials for the Yankalilla Library was made to complement and contrast the existing building, drawing inspiration from the surrounding public buildings, such as the neighbouring school. The selected colours exude a restrained vibrancy, perfectly suited for a public space that caters to all ages. The warm tones of red and sandstone pay homage to the hues found in the neighbouring school's windows and metalwork, while carefully placed splashes of colour inside the library resonate with local sporting teams, like the vibrant yellow highlights that pay tribute to the local Yankalilla Tigers.

Council is thankful that this ambitious project received funding from the Australian Government's Local Roads and Community Infrastructure Program. The funds were allocated towards essential aspects of the project, including the sealing of Thomas Street, the construction of car parking areas (including disability parking) and the creation of footpaths. Additionally, the funding supported lighting, stormwater treatment, landscaping and the incorporation of rain gardens. Department of Infrastructure, Transport, Regional

Development and Communications (Federal) also generously provided a grant of \$250,000 towards the fit-out of the library, further enhancing its functionality and appeal.

The Yankalilla Library proudly opened its doors on Friday, 20th January 2023, marking the completion of the \$1.85 million project. The official opening was attended by over 100 people, including dignitaries such as Trish Day (representing Member for Mayo Rebekah Sharkie), Member for Mawson the Hon. Leon Bignell MP, together with local Mayors and staff from neighbouring councils. State Library Director Geoff Stempel was also present and praised the project, describing it as a beautiful public space and a true local asset to be celebrated.

Since its official opening, the Yankalilla Library has swiftly become a cherished resource for our community. Welcoming over 12,550 visitors, facilitating the lending of over 16,000 items and offering an impressive array of 172 programs since opening, the library has quickly become a place where community members of all ages can gather, learn and engage with one another, fostering a sense of connection and enrichment.

Information and photos were provided by Liz Soper, Executive Administration and Communications Officer District Council of Yankalilla

Case Study

SOUTHERN MALLEE DISTRICT COUNCIL
THE PINNAROO VILLAGE GREEN PROJECT

THE PINNAROO VILLAGE GREEN PROJECT WAS UNDERTAKEN TO HELP REVITALISE THE MAIN STREET OF PINNAROO. THE PROJECT FOCUSED ON IMPROVING THE AMENITIES IN THE CENTRAL GREEN AREA ADJACENT THE MAIN STREET, WITH THE AIM OF INCREASING THE VIBRANCY OF THE TOWN AND ENTICING TRAVELLERS TO STOP AND EXPLORE THE SOUTHERN MALLEE.



Case Study

SOUTHERN MALLEE DISTRICT COUNCIL

THE PINNAROO VILLAGE GREEN PROJECT



Financial Report

The finished project was the culmination of four years of work. It began with community consultation and the development of a masterplan. Significant work went into applying for grant funding which was successful. A steering committee was formed to help guide the project design. The project works were completed in two stages and feature:

- A new nature playspace which includes a large rock mound with two slides, a basket swing, a 25m flying fox, a tri cell net climb, spinning disc and sand pit. The inclusion of paths, seating, plantings and natural rock and log edging elements complete the space.
- A civic plaza which includes a large paved area, the installation of totem pieces, seating and landscaping.
- Revitalisation of the war memorial surrounds through new landscaping.
- A new footpath which runs the length of the street ensuring easy accessibility and strengthening the street aesthetics.
- Four new pavilions and picnic settings.

- The addition of a caravan and RV rest area, access road and recreational loop paths which provide a high level of connection throughout the area.

This project was a significant scope of works for a small regional Council and it has successfully transformed the village green area. It has been great to see high visitation to the area since the project was completed with both the local community and tourists stopping to enjoy the space, utilise the towns services and explore the area.

The project would not have been possible without the support of the funding bodies which included Commonwealth Drought Extension Programme Funding, Commonwealth Building Better Regions Funding and Commonwealth Government Local Roads and Community Infrastructure Program.

Our relationship with the LGFA and use of CAD loan facilities was also critical to the success of the project as we managed cash flow and progress payments through the construction phase in the different stages of the project

*Information provided by Rachel Ridgway, Project & Corporate Services Officer,
Southern Mallee District Council*

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2023

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

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 2023

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

	General reserve \$'000	Retained profits \$'000	Revaluation reserve \$'000	Total \$'000
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
Profit after income tax equivalents for 2022-23	-	1,400	-	1,400
Total comprehensive result for 2022-23	-	1,400	-	1,400
Transfer to Special Distribution payment provision	-	(2,000)	-	(2,000)
Transfer to general reserve	(600)	600	-	-
Balance at 30 June 2023	72,550	579	129	73,258

All changes in equity are attributable to the owners.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2023

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

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

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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 and to stage 3 when it is credit impaired. *AASB 9 Financial Instruments* does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased management takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

Comparative information

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

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

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

Rounding

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

1.2 Objectives and programs

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

The functions of the Authority are as follows:

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

1.3 Impact of COVID-19 pandemic on the Authority

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

1.4 Significant transactions with government related entities

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

2. Board, committees and executives

2.1 Key management personnel

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

Total compensation for key management personnel was as follows:

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

Transactions with key management personnel and other related parties

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

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

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

2.2 Board and audit and risk committee members

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

Members during the 2022-2023 financial year were:

LGFA governing board

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

LGFA audit and risk committee

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

2.3 Board and executive remuneration

Board member remuneration

The number of members whose remuneration received or receivable falls within the following bands:	2023 No	2022 No
No remuneration	3	2
\$1 - \$19 999	5	6
\$20 000 - \$39 999	1	1
Total	9	9

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

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

Executive Remuneration

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

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

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year. Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits.

3. Income

3.1 Interest on investments	2023 \$'000	2022 \$'000
Interest received on investments	2,646	70
Total interest on investments	2,646	70

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

3.3 Other income	2023 \$'000	2022 \$'000
Guarantee fee income	34	33
Gain on sale of fixed assets	2	-
Total other income	36	33

4. Expenses

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

4.3 State Government guarantee fee	2023	2022
	\$'000	\$'000
State Government guarantee fee	1,395	1,352
Total State Government guarantee fee	1,395	1,352

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

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

Audit fees

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

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

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

Consultants

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

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

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

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

Useful life

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

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

4.5 Loan impairment expense	2023	2022
	\$'000	\$'000
Increase in expected credit loss allowance	4,957	37
Total loan impairment expenses	4,957	37

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

4.6 Other expenses	2023	2022
	\$'000	\$'000
Fair value hedge accounting loss	212	782
Total other expenses	212	782

4.7 Income tax equivalent expense	2023	2022
	\$'000	\$'000
Income tax equivalent expense	467	1,281
Total income tax equivalent expense	467	1,281

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

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

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

5.3 Other assets	2023	2022
	\$'000	\$'000
Sundry debtors and prepayments	93	111
Provision for income tax equivalents	431	-
Total sundry debtors and prepayments	524	111

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

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

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Property, plant and equipment	2023	2022
	\$'000	\$'000
5.6 Building floorspace		
Building floorspace at fair value	1,813	1,813
Accumulated depreciation at the end of the period	(148)	(123)
Total building floorspace	1,665	1,690
Furniture and fittings		
Furniture and fittings at cost (deemed fair value)	425	401
Accumulated depreciation at the end of the period	(366)	(350)
Total furniture and fittings	59	51
Motor vehicles		
Motor vehicles at cost (deemed fair value)	62	161
Accumulated depreciation at the end of the period	(4)	(46)
Total motor vehicles	58	115
Office equipment		
Office equipment at cost (deemed fair value)	217	195
Accumulated depreciation at the end of the period	(154)	(121)
Total office equipment	63	74
Total property, plant and equipment	1,845	1,930

Initial Recognition

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

Revaluation

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

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

Building floorspace

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

Impairment

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

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

Reconciliation 2021-22	Building floorspace	Furniture & fittings	Motor vehicles	Office equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July 2021	1,716	51	130	27	1,924
Acquisitions	-	11	-	78	89
Disposals	-	-	-	-	-
Depreciation	(26)	(11)	(15)	(31)	(83)
Carrying amount at 30 June 2022	1,690	51	115	74	1,930

5.7 Intangible assets	2023	2022
	\$'000	\$'000
Computer software		
Internally developed computer software	214	184
Accumulated amortisation	(176)	(139)
Purchased computer software	519	489
Accumulated amortisation	(485)	(442)
Total computer software	72	92

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

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

Reconciliation 2022-23	Internally developed computer software	Purchased computer software	Total
	\$'000	\$'000	\$'000
Carrying amount at 1 July 2022	45	47	92
Acquisitions	30	20	50
Amortisation	(36)	(34)	(70)
Carrying amount at 30 June 2023	39	33	72

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

6. Liabilities

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

Concentrations of deposits

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

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

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

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

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

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

Special distribution payment

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

Income tax equivalents

A provision is made for income tax equivalents payable as at 30 June 2023.

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

6.5 Other liabilities

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

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

Cash flow reconciliation	2023 \$'000	2022 \$'000
Reconciliation of cash at bank at the end of the reporting period		
Cash at bank disclosed in the statement of financial position	1	1
Balance as per the statement of cash flows	1	1

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

Reconciliation of profit after income tax to net cash provided by operating activities

Profit after income tax equivalents	1,400	3,844
Decrease/(increase) in interest receivable	(4,472)	(61)
Decrease/(increase) in sundry debtors	11	(3)
Increase/(decrease) in interest payable	2,344	163
Increase/(decrease) in other liabilities	42	18
Increase/(decrease) in provisions	(984)	(213)
Expected credit loss allowance	4,957	36
Depreciation and amortisation	158	169
Revaluation loss/(gain)	213	782
Loss/(gain) on disposal of fixed assets	(2)	-
Net cash provided by operating activities	3,667	4,735

8. Outlook

8.1 Unrecognised contractual commitments

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

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

8.2 Contingent assets and liabilities

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

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

Contingent assets

(a) Guarantee of the Treasurer of SA on liabilities

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

As at 30 June 2023 the total liabilities guaranteed was \$697.793 million.

(b) Security for loan agreements

(i) Debentures over council general revenue

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

As at 30 June 2023 the total loans secured by debenture was \$691.656 million.

(ii) Schedule 2 of the Local Government Act 1999

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

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

(iii) First registered mortgage and specific security deed

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

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

(iv) Mortgages over freehold properties and specific security deed

The Authority holds mortgages over freehold properties and a specific security deed over certain water supply assets of the District Council of 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 2023 the value of the properties secured by mortgages and the specific security deed assets were not available.

Contingent liabilities

(a) Financial guarantee

The Authority has issued a financial guarantee on behalf of the Workers Compensation Scheme of the Local Government Association of South Australia in favour of the Return to Work Corporation of South Australia. The guarantee is fully secured against depositor funds held, the value of which will not be less than the value of any liability that might be incurred.

As at 30 June 2023 the amount guaranteed was \$27.141 million.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

(b) Performance bond/guarantees

(i) Northern Adelaide Waste Management Authority

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

As at 30 June 2023 the amount guaranteed was \$1.350 million.

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

8.3 Impact of standards not yet effective

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

8.4 COVID-19 pandemic outlook for the Authority

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

9. Measurement and risk

9.1 Fair value

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

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

Fair value of financial assets and financial liabilities

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

Cash at bank

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

Investment securities

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

Other assets

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

Net loans and advances

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

Derivatives

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

Deposits from councils and prescribed local government bodies

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

Borrowings

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

Other liabilities

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

	Category	2023		2022	
		Book value \$'000	Fair value \$'000	Book value \$'000	Fair value \$'000
Cash at bank	Amortised cost	1	1	1	1
Investment securities	Amortised cost	20,337	20,342	31,429	31,415
Other assets	Amortised cost	524	524	111	111
Net loans and advances	Amortised cost	705,190	722,655	713,845	732,853
Derivatives	FVTPL	25,082	25,082	19,161	19,161

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

Financial liabilities	Category				
Deposits from councils and local government bodies	Amortised cost	566,504	566,405	506,329	505,878
Borrowings	Amortised cost	110,713	109,486	182,538	181,197
Other liabilities	Amortised cost	311	311	275	275

Fair value hierarchy

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

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

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

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

All financial assets and liabilities are classified as level 2.

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

9.2 Financial instruments

Classification of financial instruments

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

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

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

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

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

The Authority has determined the following classifications for financial instruments:

Classification of financial assets

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

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

Classification of financial liabilities

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

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

9.3 Risk management policies and procedures

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

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

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

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

(b) Credit risk

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

Credit Limits

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

(i) Investments and derivatives

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

(ii) Loans and advances

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

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

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

Measurement and recognition of expected credit losses (ECL)

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

The measurement of expected credit losses is a function of the probability of default, loss given default (ie. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward looking information as described below.

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For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Authority in accordance with the contract and all the cash flows that the Authority expects to receive, discounted at the original interest rate.

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

LGFA considers three forward looking economic scenarios as follows:

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

The Authority recognises an impairment gain or loss in profit or loss for investment securities and loans with a corresponding adjustment to their carrying amount through a loss allowance account. Where a financial asset has become credit impaired then interest will be recognised by applying the effective interest rate to the amortised cost of the asset.

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

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

Credit Impairment

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

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

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

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

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

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

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

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

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

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

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

Credit Exposure Analysis

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

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

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

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

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

(c) Liquidity risk

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

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.

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

2023	Carrying amount \$'000	Contracted cash flows \$'000	0 - 3 months \$'000	3 - 12 months \$'000	1 - 5 years \$'000	> 5 years \$'000
Non-derivative financial liabilities						
Deposits from councils and local government bodies	566,504	(566,504)	(508,974)	(55,030)	(2,500)	-
Borrowings	110,713	(110,713)	(17,983)	(71,226)	(21,504)	-
Derivative financial liabilities						
Interest rate swaps - outflow	75,242	(87,381)	(3,298)	(16,797)	(49,897)	(17,389)
Interest rate swaps - inflow	(100,324)	114,995	6,023	18,095	63,255	27,622
2022						
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

9.4 Fair value hedges

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

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

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

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

No other sources of ineffectiveness emerged from these hedging relationships.

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

Fair value hedges

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

Hedged items	Carrying amount of the hedged item: assets / (liabilities)		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item: debit/ (credit)		Line item in the statement of financial position in which the hedged item is included	Change in fair value used for recognising hedge ineffectiveness	
	2023	2022	2023	2022		2023	2022
	\$'000	\$'000	\$'000	\$'000		\$'000	\$'000
Fixed rate loans	343,727	378,934	(21,751)	(16,361)	Net loans and advances	(5,149)	(48,219)

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

Hedged items	Amount of hedge ineffectiveness recognised in profit or loss (P/L)		Line item in P/L in which hedge ineffectiveness is included
	2023	2023	
	\$'000	\$'000	
Fixed rate loans	(213)	(782)	Other income/expenses

Certification of the Financial Statements

We certify that the:

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



DJ Lambert
Chief Executive Officer



GC Hollitt
Financial Controller



Michael Sedgman
Chair

1 September 2023

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 2023.

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Local Government Finance Authority of South Australia as at 30 June 2023, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

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

Basis for opinion

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

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

Independent Auditor's Report

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

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

In preparing the financial report, the Chief Executive Officer is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

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

Auditor's responsibilities for the audit of the financial report

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

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Local Government Finance Authority of South Australia's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive Officer
- conclude on the appropriateness of the Chief Executive Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the opinion. My conclusion is based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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

Daniel O'Donohue
Assistant Auditor-General (Financial Audit)
07 September 2023

NOTES



*Southern Mallee District Council
The Pinnaroo Village Green Project*



**Local Government
Finance Authority**

**Suite 1205
147 Pirie St
Adelaide SA 5000
T 08 8223 1550
www.lgfa.com.au**