



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

To the Chief Officer South Australian Metropolitan Fire Service

Opinion

I have audited the financial report of the South Australian Metropolitan Fire Service 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 South Australian Metropolitan Fire Service 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 policies and other explanatory information
- a Certificate from the Chief Officer and the Business Manager.

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 South Australian Metropolitan Fire Service. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* have been met.

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

Responsibilities of the Chief Officer for the financial report

The Chief 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 Officer is responsible for assessing the entity's ability to continue as a going concern, taking into account any policy or funding decisions the government has made which affect the continued existence of the entity. The Chief Officer is also responsible for 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.

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 52(2) of the *Fire and Emergency Services Act 2005*, I have audited the financial report of the South Australian Metropolitan Fire Service 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 South Australian Metropolitan Fire Service's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Officer

- conclude on the appropriateness of the Chief 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 Officer 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)

19 September 2023

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South Australian Metropolitan Fire Service

Financial Statements

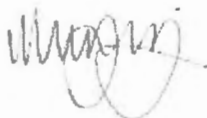
For the year ended 30 June 2023

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South Australian Metropolitan Fire Service
Certification of the Financial Statements
for the year ended 30 June 2023

We certify that the:

- financial statements of the South Australian Metropolitan Fire Service:
 - are in accordance with the accounts and records of the South Australian Metropolitan Fire Service;
 - comply with relevant Treasurer's Instructions;
 - comply with relevant accounting standards; and
 - present a true and fair view of the financial position of the South Australian Metropolitan Fire Service 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 South Australian Metropolitan Fire Service for the financial year over its financial reporting and its preparation of financial statements have been effective.



Michael Morgan AFSM
Chief Officer
South Australian Metropolitan Fire Service
15 September 2023



Mahen Fernando
Business Manager
South Australian Metropolitan Fire Service
15 September 2023

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South Australian Metropolitan Fire Service
Statement of Comprehensive Income
for the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Income			
Contributions from the Community Emergency Services Fund	2.1	168 126	162 979
Appropriation	2.2	16 200	-
Fees and charges	2.3	5 876	5 417
Grants and contributions	2.4	1 449	1 259
SA Government grants, subsidies and transfers	2.5	12 067	30 280
Interest revenues		85	-
Other income	2.6	1 918	1 778
Total income		205 721	201 713
Expenses			
Employee benefits	3.3	182 635	151 202
Supplies and services	4.1	22 737	19 338
Grants and subsidies		73	35
Borrowing costs		23	23
Depreciation and amortisation	5.1, 5.4	8 676	8 521
Net loss from disposal of non-current assets	4.2	516	853
Other expenses		-	27
Total expenses		214 660	179 999
Net result		(8 939)	21 714
Total comprehensive result		(8 939)	21 714

The accompanying notes form part of these financial statements. The net result and total comprehensive result are attributable to the SA Government as owner.

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South Australian Metropolitan Fire Service
Statement of Financial Position
as at 30 June 2023

	Note	2023 \$'000	2022 \$'000
Current assets			
Cash and cash equivalents	6.1	3 069	6 836
Receivables	6.2	2 117	3 246
Total current assets		5 186	10 082
Non-current assets			
Property, plant and equipment	5.1	188 729	180 542
Capital works in progress	5.5	11 384	15 314
Intangible assets	5.4	165	86
Total non-current assets		200 278	195 942
Total assets		205 464	206 024
Current liabilities			
Payables	7.1	8 092	7 849
Employee benefits	3.4	18 533	17 016
Provisions	7.3	7 705	6 471
Financial liabilities	7.2	288	292
Total current liabilities		34 618	31 628
Non-current liabilities			
Payables	7.1	4 055	3 670
Employee benefits	3.4	21 111	21 056
Provisions	7.3	52 290	47 161
Financial liabilities	7.2	874	971
Total non-current liabilities		78 330	72 858
Total liabilities		112 948	104 486
Net assets		92 516	101 538
Equity			
Asset revaluation surplus	8.1	146 047	147 003
Retained earnings	8.1	(53 531)	(45 465)
Total equity		92 516	101 538

The accompanying notes form part of these financial statements. The total equity is attributable to the SA Government as owner.

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South Australian Metropolitan Fire Service
Statement of Changes in Equity
for the year ended 30 June 2023

	Asset revaluation surplus \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2021	147 567	(67 743)	79 824
Net result for 2021-22	-	21 714	21 714
Total comprehensive result for 2021-22	-	21 714	21 714
Transfer between equity components	(564)	564	-
Balance at 30 June 2022	147 003	(45 465)	101 538
Prior period adjustments	-	(83)	(83)
Restated balance at 30 June 2022	147 003	(45 548)	101 455
Net result for 2022-23	-	(8 939)	(8 939)
Total comprehensive result for 2022-23	-	(8 939)	(8 939)
Transfer between equity components	(956)	956	-
Balance at 30 June 2023	146 047	(53 531)	92 516

8.1

The accompanying notes form part of these financial statements. All changes in equity are attributable to the SA Government as owner.

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South Australian Metropolitan Fire Service
Statement of Cash Flows
for the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Cash inflows			
Contributions from the Community Emergency Services Fund		168 126	162 979
Appropriation		16 200	-
SA Government grants, subsidies and transfers		12 274	30 180
Fees and charges		5 620	5 417
Receipts from grants and contributions		1 557	1 283
Interest received		85	-
GST recovered from the Australian Taxation Office		2 845	2 974
Other receipts		2 077	1 954
Cash generated from operations		208 784	204 787
Cash outflows			
Employee benefits payments		(171 864)	(159 548)
Supplies and services payments		(24 965)	(24 451)
Interest paid		(23)	(23)
Grants and subsidies payments		(73)	(35)
Cash used in operations		(196 925)	(184 057)
Net cash provided by operating activities	8.2	11 859	20 730
Cash flows from investing activities			
Cash inflows			
Proceeds from the sale of property, plant and equipment		36	-
Cash generated from investing activities		36	-
Cash outflows			
Purchase of property, plant and equipment		(15 332)	(13 909)
Cash used in investing activities		(15 332)	(13 909)
Net cash used in investing activities		(15 296)	(13 909)
Cash flows from financing activities			
Cash outflows			
Repayment of principal portion of lease liabilities		(330)	(328)
Cash used in financing activities		(330)	(328)
Net cash used in financing activities		(330)	(328)
Net increase / (decrease) in cash and cash equivalents		(3 767)	6 493
Cash and cash equivalents at the beginning of the reporting period		6 836	343
Cash and cash equivalents at the end of the reporting period	6.1	3 069	6 836

The accompanying notes form part of these financial statements.

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South Australian Metropolitan Fire Service
Notes to and forming part of the financial statements
for the year ended 30 June 2023

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South Australian Metropolitan Fire Service
Notes to and forming part of the financial statements
For the year ended 30 June 2023

1. About the South Australian Metropolitan Fire Service

Under the *Fire and Emergency Services Act 2005* (the Act), the South Australian Metropolitan Fire Service (MFS) is a not-for-profit body corporate, an agency of the Crown and part of the consolidated emergency services sector.

The financial statements include all the controlled activities of the MFS.

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.

No Australian Accounting Standards have been adopted early other than AASB 2021-2 which was adopted from 1 July 2021.

The financial statements have been prepared based on a 12-month period and presented in Australian currency. All amounts in the financial statements and accompanying notes have been rounded to the nearest thousand dollars (\$'000). The historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured on a different basis.

Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

Significant accounting policies are set out throughout the notes.

The MFS is liable for Payroll Tax, Fringe Benefits Tax (FBT) and Goods and Services Tax (GST).

Income, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office (ATO), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis, and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the ATO is classified as part of operating cash flows.

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South Australian Metropolitan Fire Service
Notes to and forming part of the financial statements
For the year ended 30 June 2023

1.2. Objectives and programs

Objectives

The MFS is established under the *Fire and Emergency Services Act 2005* (the Act) and is responsible under the Act for the following functions:

- to provide services with a view to preventing the outbreak of fires, or reducing the impact of fires, in any fire district
- to provide efficient and responsive services in any fire district for the purpose of fighting fires, dealing with other emergencies or undertaking any rescue
- to protect life, property and environmental assets from fires and other emergencies occurring in any fire district
- to develop and maintain plans to cope with the effects of fires or emergencies in any fire district
- to provide services or support to assist with recovery in the event of a fire or other emergency in a fire district
- to perform any other function assigned to the MFS by or under this or any other Act.

Funding of the MFS is primarily derived from the Community Emergency Services Fund (the Fund), in accordance with the *Emergency Services Funding Act 1998*.

Programs

In achieving its objectives, the MFS provides services within three general areas: frontline services, frontline services support and governance and public value. These services are classified under one program titled 'South Australian Metropolitan Fire Service'.

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South Australian Metropolitan Fire Service
Notes to and forming part of the financial statements
For the year ended 30 June 2023

1.3. Budget performance

The budget performance table compares the MFS outcomes against budget information presented to Parliament (2022-23 Budget Paper 4). The budget amounts have not been adjusted to reflect revised budgets or administrative restructures. The budget process is not subject to audit.

	Note	Original budget 2023 \$'000	Actual 2023 \$'000	Variance \$'000
Statement of Comprehensive Income				
Income				
Contributions from the Community Emergency Services				
Fund		167 964	168 126	162
Appropriation	a	3 750	16 200	12 450
Fees and charges		5 139	5 876	737
Grants and contributions		1 290	1 449	159
SA government grants, subsidies and transfers	b	-	12 067	12 067
Interest revenue		-	85	85
Other income		190	1 918	1 728
Total Income		178 333	205 721	27 226
Expenses				
Employee benefits	c	141 019	182 635	41 616
Supplies and services	d	13 656	22 737	9 081
Grants and subsidies		-	73	73
Borrowing costs		23	23	-
Depreciation and amortisation		8 133	8 676	543
Net loss from disposal of non-current assets		-	516	516
Other expenses		2 018	-	(2 018)
Total expenses		164 849	214 650	49 811
Net result		13 484	(8 939)	(22 585)
Total comprehensive result		13 484	(8 939)	(22 585)

Explanations are provided for variances where the variance exceeds the greater of 10% of the original budgeted amount and 5% of original budgeted total expenses.

- a Variance mainly attributable to Governor's Appropriation Funding received from the Department of Treasury (DTF) to address 2022-23 funding shortfalls.
- b Variance mainly attributable to contingency funding received from the DTF to meet the funding outcomes of the new MFS Enterprise Agreement 2022.
- c Primarily due to the salary impacts of the MFS enterprise agreement back pay, increased regional incidents including SAAS assists, and annual revaluation of workers' compensation provisions.
- d Predominantly due to higher costs of repairs and maintenance, per-and polyfluoroalkyl substances (PFAS) investigation, and information technology.

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South Australian Metropolitan Fire Service
Notes to and forming part of the financial statements
For the year ended 30 June 2023

1.3. Budget performance (continued)

	Note	Original budget	Actual	Variance
		2023	2023	
		\$'000	\$'000	\$'000
Investing expenditure summary				
Total existing projects		8 607	9 048	(441)
Total Annual Programs	e	6 879	4 390	2 489
Total Leases		198	229	(31)
Total investing expenditure		15 684	13 667	2 017

Explanations are provided for variances where the variance exceeds the greater of 10% of the original budgeted amount and 5% of original budgeted total expenses.

e Due to delays associated with heavy urban appliances, which will be carried over to next financial year.

1.4. Significant transactions with government entities

Significant transactions with government related entities

Significant transactions with the SA Government are identifiable throughout this financial report. In addition:

- Contributions received from the Fund (refer note 2.1)
- Payments of \$2.860 million to Attorney-General's Department for the Government Radio network (refer note 4.1).

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South Australian Metropolitan Fire Service
Notes to and forming part of the financial statements
For the year ended 30 June 2023

2. Income

2.1. Contributions from the Community Emergency Service Fund

Contributions from the Fund are recognised as revenues when the MFS obtains control over the funding. Control over contributions is normally obtained upon receipt. Total contributions for the year were \$168.126 million (2022: \$162.979 million).

2.2. Appropriation

	2023	2022
	\$'000	\$'000
Appropriation from Consolidated Account pursuant to the <i>Appropriation Act</i>	3 750	-
Appropriation from Governor's Appropriation Fund	12 450	-
Total appropriation	16 200	-

Appropriation is recognised on receipt. Appropriation pursuant to the Appropriation Act consists of \$13.2 million for operational funding and \$3 million for capital projects.

2.3. Fees and charges

	2023	2022
	\$'000	\$'000
Fire alarm attendance fees	2 750	2 470
Fire alarm monitoring fees	2 727	2 624
Fire safety fees	399	282
Incident cost recoveries	-	41
Total fees and charges	5 876	5 417

All revenue from fees and charges is recognised from contracts with customers except for recoveries.

Fees and charges revenue are recognised at a point in time when the MFS satisfies performance obligations by transferring the promised goods or services to its customers.

The MFS recognises revenue from contracts with customers from the following major sources:

Fire alarm attendance and fire safety fees

The MFS provides a range of fire alarm attendance and fire safety services to customers and charge prescribed fees for these services as regulated under the *Fire and Emergency Services Act 2005*. The MFS recognises revenue for these services in arrears once the relevant deliverables have been provided to the customer in line with the MFS' legislated responsibilities and internal policies.

The MFS is a referral agency under the *Planning, Development and Infrastructure Regulations 2017* and receives revenue from customers for undertaking development assessments under the Planning and Design Code.

Payments for development assessments are received in advance upon referral of the development application to the MFS from the Attorney-General's Department or direct from the customer. The MFS is required to undertake an assessment of the development and provide statutory advice to the relevant parties. Revenue is recognised in arrears once statutory advice has been provided.

Fire alarm monitoring fees

The MFS undertakes fire alarm monitoring services for customers and charges prescribed fees for these services as regulated under the *Fire and Emergency Services Act 2005*. Customers are charged an annual fee for this service and generally pay upfront in the first quarter of the financial year. The MFS recognises revenue for monitoring services over the time services are provided, with all services delivered by 30 June.

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South Australian Metropolitan Fire Service
Notes to and forming part of the financial statements
For the year ended 30 June 2023

2.3. Fees and charges (continued)

Incident recoveries

The MFS provides support to Interstate Jurisdictions that request it when an emergency incident occurs. The terms of deployment are managed under the Arrangement for Interstate Assistance Framework by the National Resource Sharing Centre under the Australian and New Zealand National Council for Fire and Emergency Services (AFAC).

The inputs of the request are outlined in an operating plan and may include personnel, firefighting equipment and supplies, and consumables. Payment is made by the jurisdiction who received the assistance in arrears once performance obligations have been met and total costs of assistance have been assessed. Revenue is recognised in arrears once the emergency event has concluded and all assistance outlined in the operating plan has been ceased.

2.4. Grants and contributions

Commonwealth sourced grants \$1.449 million (2022: \$1.259 million) are recognised as an asset and income when the MFS obtains control of the contributions or obtains the right to receive the contributions and the income recognition criteria are met, this is generally on receipt.

Commonwealth grant funding for the MFS relates to the cost of providing fire and emergency services to Commonwealth properties under the Memorandum of Understanding for the Provision of Fire Services. All grants received from the Commonwealth are grants with unconditional stipulations.

2.5. SA Government grants, subsidies and transfers

	2023	2022
	\$'000	\$'000
Contingency funding provided by the Department of Treasury and Finance	11 777	-
Intra government transfer	290	30 280
Total SA Government grants, subsidies and transfers	12 067	30 280

SA Government grants, subsidies and transfers are recognised as income on receipt. Cash injections from DTF address MFS cost pressures and cash shortfalls.

2.6. Other income

	2023	2022
	\$'000	\$'000
Insurance recoveries	5	124
Donated assets	-	27
Salary recoveries	874	158
Sundry revenues	553	560
Rent of premises	436	687
Recoveries from legal cases	17	-
Other	33	222
Total other income	1 918	1 778

Other income is recognised upon receipt, except for Rent of premises.

The MFS receives revenue from long term lease agreements with tenants for land controlled by the Minister for Police, Emergency Services and Correctional Services (the Minister). Payment is made by the tenant on a monthly basis in advance. The MFS recognise this revenue on a time proportionate basis over the lease period.

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South Australian Metropolitan Fire Service
Notes to and forming part of the financial statements
For the year ended 30 June 2023

3. Board, committees and employees

3.1. Key management personnel

Key management personnel of the MFS include the Minister, the Chief Officer and the Deputy Chief Officer of the MFS who have responsibility for the strategic direction and management of the agency.

The compensation detailed below excludes the salary and other benefits of the Minister receives. The Minister's remuneration and allowances are set by the *Parliamentary Remuneration Act 1990* and the Remuneration Tribunal of SA respectively and are payable from the Consolidated Account (via DTF) under section 6 the *Parliamentary Remuneration Act 1990*.

	2023	2022
	\$'000	\$'000
Compensation		
Salaries and other short term employee benefits	543	498
Post-employment benefits	65	79
Total compensation	608	577

Transactions with key management personnel and other related parties

The MFS did not enter into any transactions with key management personnel or their close family during the reporting period that were not consistent with normal procurement arrangements.

3.2. Remuneration of board and committee members

Members of boards and committees during 2023 were:

South Australian Metropolitan Fire Service Disciplinary Committee

L D P Holland (appointed 1 February 2023)

S J Smithson*

G S Uren* (appointed 18 January 2023)

A J Caire* (appointed 1 February 2023)

C J Lindsay* (resigned 11 November 2022)

* In accordance with the Premier and Cabinet's Circular Number 016, government employees did not receive any remuneration for board/committee duties during the financial year.

Board and committee remuneration

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

	2023	2022
\$0 - \$19 999	4	4
Total number of members	4	4

The total remuneration received or receivable by members was \$3 000 (2022: \$6 000). Remuneration of members reflects all costs of performing board/committee member duties including sitting fees, superannuation contributions, salary sacrifice benefits and fringe benefits and any related fringe benefits tax paid.

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South Australian Metropolitan Fire Service
Notes to and forming part of the financial statements
For the year ended 30 June 2023

3.3. Employee benefits expenses

	2023	2022
	\$'000	\$'000
Salaries and wages	120 165	105 819
Workers compensation	13 906	7 977
Employment on-costs - superannuation	18 471	14 996
Annual leave	14 384	11 993
Long service leave	3 994	(1 354)
Payroll tax	7 820	6 557
Skills and experience retention leave	1 295	1 037
Targeted voluntary separation payments	-	858
Additional compensation	2 198	2 835
Board fees	3	5
Other employment related expenses	399	479
Total employee benefits expenses	182 635	151 202

Employment expenses

The MFS's staff are employed under Part 3 of the *South Australian Fire and Emergency Services Act 2005*.

The superannuation employment on-cost charge represents the MFS's contributions to superannuation plans in respect of current services of current employees. There are no liabilities for payments to beneficiaries recognised by the MFS as DTF centrally recognises the superannuation liability in the whole-of-government financial statements.

Employee Remuneration

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

	Employees	
	2023	2022
	Number	Number
\$157 001 to \$160 000 *	-	24
\$160 001 to \$180 000	138	108
\$180 001 to \$200 000	115	45
\$200 001 to \$220 000	65	17
\$220 001 to \$240 000	20	12
\$240 001 to \$260 000	3	1
\$260 001 to \$280 000	1	-
\$280 001 to \$300 000	-	2
\$320 001 to \$340 000	1	1
Total	343	210

*This band has been included for the purposes of reporting comparative figures based on the executive base level remuneration for 2021-22.

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 any related fringe benefits tax paid. The total remuneration received by these employees for the year was \$64.683 million (2022: \$37.923 million).

The number of employees included in the banding for 2023 has increased from 2022 partly due to backpay received following the introduction of a new enterprise bargaining agreement.

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South Australian Metropolitan Fire Service
Notes to and forming part of the financial statements
For the year ended 30 June 2023

3.3. Employee benefits expenses (continued)

Targeted voluntary separation packages (TVSP)

The number of employees who received a TVSP during the reporting period was nil (2022: 19).

	2023	2022
	\$'000	\$'000
Amount paid to separated employees:		
Public Sector Workforce Rejuvenation Scheme payments	-	858
Leave paid to those employees	-	526
Net cost of TVSPs	-	1 384

In 2021-22, TVSPs include payments made under the Public Sector Workforce Rejuvenation Scheme.

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3.4. Employee benefits liability

	2023	2022
	\$'000	\$'000
Current		
Annual leave	13 223	12 124
Long service leave	3 160	2 943
Skills and experience retention leave	2 150	1 949
Total current employee benefits	<u>18 533</u>	<u>17 016</u>
Non-current		
Long service leave	21 111	21 056
Total non-current employee benefits	<u>21 111</u>	<u>21 056</u>
Total employee benefits	<u>39 644</u>	<u>38 072</u>

Employee benefits accrue as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

Salaries and wages, annual leave skills and experience retention leave (SERL) and sick leave

The liability for salary and wages is measured as the amount unpaid at the reporting date at remuneration rates current at reporting date.

The annual leave liability and the SERL liability in full is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid. The salary inflation rate applied to the annual leave and SERL liabilities increased to 2% in 2023 from 1.5% in 2022.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement of sick leave.

Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the project unit credit methods.

AASB 119 *Employee Benefits* contains the calculation methodology for long service leave liability.

The actuarial assessment performed by the DTF has provided a basis for the measurement of long service leave and is based on actuarial assumptions on expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over the police and emergency services sector.

AASB 119 *Employee Benefits* requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds has increased from 3.75% in 2022 to 4% in 2023. This increase in the bond yield, which is used as the rate to discount future long service leave cash flows, results in an overall decrease in the reported long service leave liability.

The net financial effect of the changes to actuarial assumptions in the current financial year is a reduction in both the long service leave liability and employee benefits expense of \$0.434 million. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of demographical and financial assumptions – including the long-term discount rate.

The actuarial assessment performed by DTF increased the salary inflation rate to 3.5% (2022: 2.5%) for long service leave liability. As a result, there is no net financial effect resulting from changes in the salary inflation rate.

Current long service leave reflects the portion of leave expected to be settled within the next 12 months, based on the average proportion of long service leave taken or paid over the last 3 years.

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4. Expenses

4.1. Supplies and services

	2023	2022
	\$'000	\$'000
Property costs	4 080	2 962
Vehicles	3 009	3 298
Government radio network	2 860	2 507
Consultancy, contractors and legal fees	3 460	2 766
Computing costs	1 466	1 494
Operational costs	2 489	1 708
Uniforms and protective clothing	1 310	907
Travel and training	725	469
Communications	677	941
Insurance premiums	497	455
Low-value leases	304	265
Accommodation	289	165
Other expenses	1 571	1 401
Total supplies and services	22 737	19 338

Accommodation

A part of the MFS's accommodation is provided by the Department of Infrastructure and Transport (DIT) under Memoranda of Administrative Arrangements (MoAA) issued in accordance with Government wide accommodation policies. These arrangements do not meet the definition of a lease and accordingly are expensed (disclosed within 'Accommodation' above).

Other

Includes audit fees paid/payable to the Auditor-General's Department relating to work performed under the *Public Finance and Audit Act 1987* of \$60 000 (2022: \$31 000). No other services were provided by the Auditor-General's Department.

Leases

The MFS recognises lease payments associated with low value leases (less than \$10 000) as an expense on a straight-line basis over the lease term. Lease commitments for short-term leases is similar to short term lease expenses disclosed.

Consultants

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

	No.	2023	No.	2022
		\$'000		\$'000
Below \$10 000	5	15	5	18
\$10 000 or above	3	742	4	224
Total paid / payable to the consultants engaged	8	757	9	242

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4.2. Net gain / (loss) from disposal of non-current assets

	2023	2022
	\$'000	\$'000
Vehicles		
Net proceeds from disposal	30	-
Less net book value of assets disposed	(550)	(846)
Net gain / (loss) from disposal of vehicles	<u>(520)</u>	<u>846</u>
Plant and equipment		
Net proceeds from disposal	6	-
Less net book value of assets disposed	(2)	(7)
Net gain / (loss) from disposal of plant and equipment	<u>4</u>	<u>7</u>
Total assets:		
Net proceeds from disposal	36	-
Less net book value of assets disposed	(552)	(853)
Net gain / (loss) from disposal of owned assets	<u>(516)</u>	<u>(853)</u>
Total net gain / (loss) from disposal of non-current assets	<u>(516)</u>	<u>(853)</u>

Gains/losses on disposal are recognised at the date which control of the asset is passed to the buyer and are determined after deducting the cost of the asset from the proceeds at that time. When revalued assets are sold, the revaluation surplus is transferred to retained earnings.

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5. Non-financial assets

5.1. Property, plant and equipment

Property, plant and equipment comprises owned and right-of-use leased (ROU) tangible assets that do not meet the definition of investment property.

Reconciliation of property, plant and equipment during 2022-23

	Land \$'000	Buildings \$'000	Vehicles \$'000	Plant & equipment \$'000	ROU Buildings \$'000	ROU Vehicles \$'000	Total \$'000
Carrying amount at the beginning of the period	61 801	68 909	41 961	6 634	860	377	180 542
Prior period adjustments	-	-	-	(52)	-	-	(52)
Restated carrying amount at the beginning of the period	61 801	68 909	41 961	6 582	860	377	180 490
Acquisitions	-	-	-	-	-	229	229
Transfers from capital WIP ⁽¹⁾	-	10 452	5 603	1 109	-	-	17 164
Disposals	-	-	(550)	(2)	-	-	(552)
Subtotal:	61 801	79 361	47 014	7 689	860	606	197 331
Gains/(losses) for the period recognised in net result:							
Depreciation	-	(3 275)	(3 922)	(1 062)	(96)	(247)	(8 602)
Subtotal:	-	(3 275)	(3 922)	(1 062)	(96)	(247)	(8 602)
Carrying amount at the end of the period	61 801	76 086	43 092	6 627	764	359	188 729
Gross carrying amount							
Gross carrying amount	61 801	87 956	56 674	9 814	1 134	771	218 150
Accumulated depreciation	-	(11 870)	(13 582)	(3 187)	(370)	(412)	(29 421)
Carrying amount at the end of the period	61 801	76 086	43 092	6 627	764	359	188 729

*All property, plant and equipment are classified in the level 3 fair value hierarchy. Refer to note 7.2 for details about the lease liability for right-of-use assets.

⁽¹⁾ Refer to note 5.5.

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5.1 Property, plant and equipment (continued)

Reconciliation of property, plant and equipment during 2021-22

	Land \$'000	Buildings \$'000	Vehicles \$'000	Plant & equipment \$'000	ROU Buildings \$'000	ROU Vehicles \$'000	Total \$'000
Carrying amount at the beginning of the period	61 801	70 032	42 952	5 327	908	394	181 414
Acquisitions	-	-	-	-	-	221	221
Donated assets received	-	-	27	-	-	-	27
Transfers from capital WIP (1)	-	2 146	3 847	2 193	-	-	8 186
Disposals	-	-	(846)	(7)	-	-	(853)
Remeasurement	-	-	-	-	51	-	51
Donated assets provided	-	-	(27)	-	-	-	(27)
Subtotal:	61 801	72 178	45 953	7 513	959	615	189 019
Gains/(losses) for the period recognised in net result:							
Depreciation	-	(3 269)	(3 992)	(879)	(99)	(238)	(8 477)
Subtotal:	-	(3 269)	(3 992)	(879)	(99)	(238)	(8 477)
Carrying amount at the end of the period	61 801	68 909	41 961	6 634	860	377	180 542
Gross carrying amount							
Gross carrying amount	61 801	77 504	52 166	8 718	1 135	750	202 074
Accumulated depreciation	-	(8 595)	(10 205)	(2 084)	(275)	(373)	(21 532)
Carrying amount at the end of the period	61 801	68 909	41 961	6 634	860	377	180 542

*All property, plant and equipment are classified in the level 3 fair value hierarchy. Refer to note 7.2 for details about the lease liability for right-of-use assets.

⁽¹⁾ Refer to note 5.5

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5.1 Property, plant and equipment (continued)

Depreciation expense

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

Useful life

Depreciation is calculated on a straight-line basis. Property, plant and equipment depreciation is calculated over the estimated useful life as follows:

Class of asset	Useful life (years)
Buildings	1-60
Vehicles	1-20
Plant and equipment	1-20
ROU Buildings	12
ROU Vehicles	3-5

Review of Accounting Estimates

Assets' residual values, useful lives and amortisation methods are reviewed and adjusted, if appropriate, on an annual basis. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate.

The MFS revalued its vehicles and buildings as at 1 November 2019.

5.2. Property, plant and equipment owned by MFS

Property, plant and equipment owned by the MFS with a value equal to or in excess of \$10,000 is capitalised. However, the MFS can control large quantities of similar assets that individually fall under the capitalisation threshold but, when grouped together, comprise a large proportion of a particular asset class. In these circumstances, the MFS groups these asset types for the purpose of capitalisation in the financial statements.

Property, plant and equipment owned by the MFS is recorded at fair value. Detail about the MFS's approach to fair value is set out in note 10.1.

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 and are subject to regular revaluation.

Revaluation of property, plant and equipment is undertaken on a regular cycle as detailed in Note 10.1. 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.

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5.3. Property, plant and equipment leased by the MFS

Right-of-use property, plant and equipment leased by the MFS is measured at cost and there were no indications of impairment of right-of-use assets.

Short-term leases of 12 months or less and low value leases where the underlying asset value is less than \$10,000 are not recognised as right-of-use assets. The associated lease payments are recognised as an expense and are disclosed in note 4.1.

The MFS has a limited number of lease arrangements:

- 47 motor vehicle leases with the South Australian Government Financing Authority (SAFA). Motor vehicle leases are non-cancellable, with rental payments monthly in arrears. Motor vehicle lease terms can range from 3 years (60,000km) up to 5 years (100,000km). No contingent rental provisions exist within the lease agreements and no options exist to renew the leases at the end of their term.
- the MFS has one commercial lease for a building used for the purpose of operating a regional fire station at Mount Barker.

The lease liabilities and interest expense related to the ROU assets are disclosed in note 7.2. The MFS's maturity analysis of lease liabilities is disclosed in note 7.2. Cash outflows related to leases are disclosed in note 8.2. The MFS has not committed to any lease arrangements that have not commenced from 1 July.

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5.4. Intangible assets

Reconciliation of intangible assets	2023	2022
	\$'000	\$'000
Carrying amount at the beginning of the period	86	52
Prior period adjustments	(31)	-
Restated carrying amount at the beginning of the period	55	52
Transfers from capital WIP ⁽¹⁾	184	78
Subtotal:	239	130
Gains/(losses) for the period recognised in net result:		
Amortisation	(74)	(44)
Subtotal:	(74)	(44)
Carrying amount at the end of the period	165	86
Gross carrying amount		
Gross carrying amount	528	344
Accumulated depreciation	(363)	(258)
Carrying amount at the end of the period	165	86

⁽¹⁾ Refer to note 5.5.

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.

Amortisation of computer software is calculated on a straight-line basis over the estimated useful life of 5 years.

The amortisation period and the amortisation method for intangible assets is reviewed on an annual basis.

The acquisition of or internal development of software is capitalised only when the expenditure meets the definition and recognition criteria and when the amount of expenditure is greater than or equal to \$10 000.

All research and development costs that do not meet the capitalisation criteria outlined in AASB 138 *Intangible Assets* are expensed.

5.5. Capital works in progress

	2023	2022
	\$'000	\$'000
Carrying amount at the beginning of the period	15 314	8 691
Acquisitions	13 439	14 926
Transfers to property, plant and equipment	(17 164)	(8 186)
Transfers to intangible assets	(184)	(78)
CWIP write off	(21)	(39)
Carrying amount at the end of the period	11 384	15 314

Capital works in progress are recognised as the cumulative costs of capital projects to balance date. Projects completed during the year have been recognised as property, plant and equipment (refer note 5.1) or intangible assets (refer note 5.4) and are valued at cost.

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6. Financial assets

6.1. Cash and cash equivalents

	2023	2022
	\$'000	\$'000
Deposits with the Treasurer	3 063	6 830
Cash on hand	6	6
Total cash and cash equivalents	3 069	6 836

Cash is measured at nominal amounts.

Deposits with the Treasurer

Special deposit accounts are established under section 8 of the *Public Finance and Audit Act 1987*. Special deposit accounts must be used in accordance with their approved purpose. The operating account held with the Treasurer is interest bearing. In November 2020, Treasury advised public authorities that, given interest rates were approximately 0%, no interest would be paid on any interest bearing accounts held with the Treasurer. Therefore, no interest was earned during 2022. Interest re-commenced being paid in February 2023 on cash balances from May 2022.

6.2. Receivables

	2023	2022
	\$'000	\$'000
Current		
Receivables	988	1 258
Less impairment loss on receivables	(6)	(9)
Prepayments	142	1 278
Accrued revenues	527	18
GST input tax recoverable	466	701
Total current receivables	2 117	3 246
Total receivables	2 117	3 246

Receivables arise in the normal course of selling goods and services to other government agencies and to the public. Receivables are normally settled within 30 days after the issue of an invoice or the goods/services have been provided under a contractual arrangement. Receivables, prepayments and accrued revenues are non-interest bearing. Receivables are held with the objective of collecting the contractual cash flows and they are measured at amortised cost.

Other than as recognised in the allowance for impairment loss, it is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand. There is no concentration of credit risk.

Refer to note 10.2 for further information on risk management.

The MFS has adopted the simplified impairment approach under AASB 9 and measured lifetime expected credit losses on all contractual receivables using an allowance matrix as a practical expedient to measure the impairment allowance.

Movement in allowance for impairment loss on receivables

	2023	2022
	\$'000	\$'000
Carrying amount at the beginning of the period	9	3
Increase/(decrease) in the allowance	(3)	8
Amounts written off	-	(2)
Carrying amount at the end of the period	6	9

Impairment losses relate to receivables arising from contracts with customers that are external to the SA Government. Refer to note 10.2 for details regarding credit risk and the methodology for determining impairment.

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7. Liabilities

7.1. Payables

	2023	2022
	\$'000	\$'000
Current		
Creditors	1 231	21
Accrued expenses	2 185	3 687
Paid Parental Leave Scheme payable	1	8
Employment on-costs	4 675	4 133
Total current payables	8 092	7 849
Non-current		
Creditors	1	-
Employment on-costs	4 054	3 670
Total non-current payables	4 055	3 670
Total payables	12 147	11 519

Payables and accrued expenses recognised for all amounts owing but unpaid. Contractual payables are normally settled within 30 days from the date the invoice is first received. All payables are non-interest bearing. The carrying amount of payables represents fair value due to their short-term nature.

Employment on-costs

Employment on-costs include payroll tax, ReturntoWorkSA levies and superannuation contributions and are settled when the respective employee benefits that they relate to are discharged. These on-costs primarily relate to the balance of leave owing to employees. Estimates as to the proportion of long service leave estimated to be taken as leave, rather than paid on termination, affects whether certain on-costs are recognised as a consequence of long service leave liabilities.

The MFS makes contributions to several State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at reporting date relates to any contributions due but not yet paid to the superannuation schemes.

As a result of an actuarial assessment performed by DTF, the proportion of long service leave taken has increased to 89.28% from 80.78% in 2022. The average factor for the calculation of employer superannuation on-costs has changed to 15.1% from 14.6% in 2022. These rates are used in the employment on-cost calculation. The net financial effect of the changes in the current financial year is not material. The estimated impact on future periods is not expected to be materially different to the effect on the current period as shown above.

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7.2. Financial liabilities

The MFS measures lease liabilities \$1.162 million (2022: \$1.263 million) at discounted future lease payments using either the interest rate implicit in the lease or the DTF's incremental borrowing rate. There were no defaults or breaches throughout the year.

Interest expense paid on lease liabilities during 2022-23 was \$23 000 (2022: \$23 000). The MFS does not capitalise borrowing costs.

A maturity analysis of lease liabilities based on undiscounted gross cash flows is reported in the table below:

	2023	2022
	\$'000	\$'000
within 1 year	312	314
1 to 5 years	606	603
More than 5 years	325	434
Total lease liabilities (undiscounted)	1 243	1 351

All material cash outflows are reflected in the lease liabilities disclosed above.

7.3. Provisions

	2023	2022
	\$'000	\$'000
Current		
Provision for workers compensation	5 954	4 906
Additional compensation	1 751	1 565
Total current provisions	7 705	6 471

Non-current		
Provision for workers compensation	32 682	29 564
Additional compensation	19 608	17 597
Total non-current provisions	52 290	47 161
Total provisions	59 995	53 632

Movement in workers compensation provisions	2023	2022
	\$'000	\$'000

Workers compensation		
Carrying amount at the beginning of the period	34 470	34 119
Reductions arising from payments	(6 805)	(7 626)
Changes from remeasurement	10 971	7 977
Carrying amount at the end of the period	38 636	34 470

Additional compensation		
Carrying amount at the beginning of the period	19 162	16 327
Reductions arising from payments	(1 685)	(1 835)
Changes from remeasurement	3 882	4 670
Carrying amount at the end of the period	21 359	19 162

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7.3 Provisions (continued)

Workers Compensation provision (statutory and additional compensation schemes)

The MFS is an exempt employer under the *Return to Work Act 2014*. Under a scheme arrangement, the MFS is responsible for the management of workers rehabilitation and compensation and is directly responsible for meeting the cost of workers' compensation claims and the implementation and funding of preventive programs.

According, a liability has been reported to reflect unsettled workers compensation claims (statutory and additional compensation schemes).

The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2023 provided by a consulting actuary engaged through the Office of the Commissioner of Public Sector Employment.

The additional compensation scheme provides continuing benefits to workers who have suffered eligible work-related injuries and whose entitlements have ceased under the statutory workers compensation scheme. Eligible injuries are nonserious injuries sustained in circumstances which involved, or appeared to involve, the commission of a criminal offence, or which arose from a dangerous situation.

There is a significant degree of uncertainty associated with estimating future claim and expense payments and also around the timing of future payments due to the variety of factors involved. The liability is impacted by agency claim experience relative to other agencies, average claim sizes and other economic and actuarial assumptions.

In addition to these uncertainties, the additional compensation scheme is impacted by the limited claims history and the evolving nature of the interpretation of, and evidence required to meeting, eligibility criteria. Given these uncertainties, the actual cost of additional compensation claims may differ materially from the estimate.

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8. Other disclosures

8.1. Equity

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

8.2. Cash flow reconciliation

	2023	2022
	\$'000	\$'000
Reconciliation of cash and cash equivalents at the end of the reporting period		
Cash and cash equivalents disclosed in the Statement of Financial Position	3 069	6 836
Balance as per the Statement of Cash Flows	3 069	6 836
Reconciliation of net cash provided by operating activities to net cost of providing services		
Net cash provided by operating activities	11 859	20 730
Add / (less) non-cash items		
Depreciation and amortisation	(8 676)	(8 521)
Net gain/(loss) from disposal of non-current assets	(516)	(853)
CWIP write off	(21)	(39)
Capital accruals	(1 893)	1 017
Movement in assets and liabilities		
Increase/(decrease) in receivables	(1 129)	1 277
(Increase)/decrease in payables	(628)	2 141
(Increase)/decrease in employee benefits	(1 572)	9 148
(Increase)/decrease in provisions	(6 363)	(3 186)
Net result	(8 939)	21 714

Total cash outflows for leases for the MFS was \$657 000 (2021-22: \$616 000).

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9. Outlook

9.1. Unrecognised contractual commitments

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

Contractual commitments to acquire property, plant and equipment

Capital expenditure contracted for at the reporting date but not recognised as liabilities in the financial report, are payable as follows:

	2023	2022
	\$'000	\$'000
Within one year	584	1 606
Total capital commitments	584	1 606

These capital commitments are related to the Noarlunga Command Station and vehicle equipment.

Other contractual commitments

Expenditure contracted for at the reporting date but not recognised as liabilities in the financial report, are payable as follows:

	2023	2022
	\$'000	\$'000
Within one year	3 181	1 612
Later than one year but not later than five years	1 656	1 849
Later than five years	2 566	2 846
Total expenditure commitments	7 403	6 307

MFS's expenditure commitments are for accommodation, agreements for contractual commitments relating to asset maintenance, information technology, protective firefighting equipment and equipment.

9.2. Contingent assets and liabilities

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

The MFS is not aware of any contingent assets or liabilities.

9.3. Impact of standards not yet implemented

The MFS has assessed the impact of the new and amended Australian Accounting Standards and Interpretations not yet effective and does not expect these to have a material impact on the MFS statements.

9.4. Events after the reporting period

There were no events after the reporting period affecting the financial statements.

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10. Measurement and risk

10.1. Fair value

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

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.

Where assets are acquired at no value, or minimal value, they are recorded at fair value in the Statement of Financial Position.

Revaluation

Property, plant and equipment, other than right of use assets, are subsequently measured at fair value after allowing for accumulated depreciation.

Non-current tangible assets are valued at fair value and 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 \$1.0 million and estimated useful life is greater than three years.

Revaluation is undertaken on a regular cycle as detailed below. 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.

The 2019-20 valuation highlighted a possibility of the COVID-19 pandemic impacting the determined fair values. However there is no observable evidence that can reliably quantify the impact at the reporting date.

Fair value hierarchy

The MFS classifies the value measurement using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements, based on the data and assumptions used in the most recent revaluation:

Level 1: traded in active markets and is based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at measurement date.

Level 2: not traded in active market and are derived from inputs (inputs other than quoted prices included within level 1) that are observable for the asset, either directly or indirectly.

Level 3: not traded in active market and are derived from unobservable inputs.

The MFS's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

During 2022 and 2023, the MFS had no valuations categorised into level 1; there were no transfers of assets between level 1 and 2 fair value hierarchy levels and there were no changes in valuation technique.

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10.1. Fair value (continued)

Land and buildings

An independent valuation of land and buildings was performed by a Certified Practising Valuer from Liquid Pacific Holdings Pty Ltd as at 1 November 2019. These have been recognised at their carrying amounts from 30 June 2019. The land and buildings values at revaluation were considered relevant for 30 June 2023.

Fair value of land has been determined using the market approach. The valuation was based on recent market transactions for similar land in the area and includes adjustment for factors specific to the land such as size and location. For land classified as restricted in use, fair value was determined by applying an adjustment to reflect the restriction.

The fair value of buildings was determined using current replacement cost, due to there not being an active market. The current replacement cost considered the need for ongoing provision of government services, specialised nature and restricted use of the assets, their size, condition and location.

Plant and equipment

All items of plant and equipment that had a fair value at the time of acquisition less than \$1.0 million and had an estimated useful life that less than three years have not been revalued. The carrying value of these items is deemed to approximate fair value.

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10.2. Financial instruments

Financial risk management

Risk management is managed by the MFS corporate services section and the MFS risk management policies are in accordance with the *Risk Management Guide* issued by the Premier and Treasurer and the principles established in the Australian Standard *Risk Management Principles and Guidelines*.

The exposure of the MFS to financial risk (liquidity risk, credit risk and market risk) is low due to the nature of the financial instruments held. There have been no changes in risk exposure since the last reporting period.

Liquidity risk

Liquidity risk arises from the possibility that the MFS is unable to meet its financial obligations as they fall due. The MFS is funded principally from the Fund. The MFS works with the Fund to determine the cash flows associated with its government-approved program of work to ensure funding meets the expected cash flows.

Refer to note 7.1 and 7.2 for further information.

Credit risk

The MFS has minimal concentration of credit risk. The MFS has policies and procedures in place to ensure that transactions occur with customers with appropriate credit history. The MFS does not engage in high risk hedging for its financial assets. No collateral is held as security and no credit enhancements relate to financial assets held by the MFS.

Impairment of financial assets

Loss allowances for receivables are measured at an amount equal to lifetime expected credit loss using the simplified approach in AASB 9. The MFS uses an allowance matrix to measure the expected credit loss of receivables from non-government debtors which comprise a large number of small balances.

To measure the expected credit losses, receivables are grouped based on shared risks characteristics and the days past due. When estimating expected credit loss, the MFS considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the MFS's historical experience and informed credit assessment, including forward-looking information.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the MFS is exposed to credit risk.

The expected credit loss of government debtors is considered to be nil based on the external credit ratings and nature of the counterparties.

Loss rates are calculated based on the probability of a receivable progressing through stages to write off based on the common risk characteristics of the transaction and debtor.

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10.2. Financial instruments (continued)

Impairment of financial assets (continued)

The following table provides information about the exposure to credit risk and ECL for non-government debtors.

	Debtor gross carrying amount \$'000	Loss %	Lifetime expected losses \$'000
2023			
Current (not past due)	195	0.14	-
1 - 30 days past due	153	0.24	-
31 - 60 days past due	57	0.66	1
61 - 90 days past due	14	1.37	-
More than 90 days past due	198	2.52	5
Loss allowance	617		6

Loss rates are based on actual history of credit loss, these rates have been adjusted to reflect differences between previous economic conditions, current conditions and the MFS's view of the forecast economic conditions over the expected life of the receivables.

Impairment losses are presented as net impairment losses within net result, subsequent recoveries of amounts previously written off are credited against the same line item.

Receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the failure of a debtor to enter into a payment plan with the MFS and a failure to make contractual payments for a period of greater than 180 days past due.

The allowance was recognised when there was objective evidence that a receivable was impaired. The allowance for impairment was recognised in other expenses for specific debtors and debtors assessed on a collective basis for which such evidence existed.

Cash and debt instruments

The MFS considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and therefore the expected credit loss is nil.

All of the MFS's debt investments at amortised cost are considered to have low credit risk and the consideration of expected credit loss was limited to 12 months expected losses. The expected credit loss is nil.

Market risk

The MFS does not trade in foreign currency, nor enter into transactions for speculative purposes, nor for hedging. The agency does not undertake any hedging in relation to interest or foreign currency risk and manages its risk as per the government's risk management strategy articulated in TI 23 *Management of Foreign Currency Exposures*.

Exposure to interest rate risk may arise through its interest-bearing liabilities, including borrowings. The MFS's interest bearing liabilities are managed through SAFA and any movement in interest rates are monitored on a daily basis. There is no exposure to foreign currency or other price risks.

Categorisation of financial instruments

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect to each class of financial asset, financial liability and equity instrument are disclosed in the respective financial asset/financial liability note.

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Classification of financial assets and liabilities

The MFS measures all financial instruments at amortised cost other than lease liabilities which are measured at the present value of expected future cash payments. All financial assets and liabilities carrying amount equals their fair value as at 30 June 2023 and are expected to be settled within one year excluding financial liabilities. Maturity analysis for financial liabilities is presented in note 7.2.