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To the Chair Local Government Finance Authority of South Australia

Opinion

I have audited the financial report of the Local Government Finance Authority of South Australia for the financial year ended 30 June 2022.

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Local Government Finance Authority of South Australia as at 30 June 2022, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

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

Basis for opinion

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

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

Responsibilities of the Chief Executive Officer and 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 are responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the financial report

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 33(2) of the *Local Government Finance Authority Act 1983*, I have audited the financial report of Local Government Finance Authority of South Australia for the financial year ended 30 June 2022.

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

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

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Local Government Finance Authority of South Australia's internal control

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive Officer
- conclude on the appropriateness of the Chief Executive Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the opinion. My conclusion is based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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



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

16 September 2022

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2022

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

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

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

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2022

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

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

All changes in equity are attributable to the owners.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

STATEMENT OF CASH FLOWS
For the year ended 30 June 2022

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

The accompanying notes form part of these financial statements.

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2022

1. About the Local Government Finance Authority

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

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

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

1.1. Basis of preparation

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

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

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

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

Accounting judgements, estimates and assumptions

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

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

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

Comparative information

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

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

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

Rounding

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

1.2. Objectives and programs

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

The functions of the Authority are as follows:

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

1.3. Impact of COVID-19 pandemic on the Authority

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

In June 2020 the Board of the Authority approved a three year financial assistance package for councils to assist them during the COVID-19 pandemic. The package includes discounts to cash advance debenture loans and higher interest on deposits for councils. This will in turn have the financial effect of reducing the profit of the Authority until the last of the council assistance facilities mature in February 2024.

1.4. Significant transactions with government related entities

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

2. Board, committees and executives

2.1. Key management personnel

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

Total compensation for key management personnel was as follows:

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

Transactions with key management personnel and other related parties

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

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

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

2.2. Board and audit and risk committee members

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

Members during the 2021-22 financial year were:

LGFA governing board

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

LGFA audit and risk committee

Dr Andrew Johnson (Chair)
Mr Terry Buss PSM
Ms Annette Martin

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

2.3. Board and executive remuneration

Board member remuneration

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

	2022 No	2021 No
No remuneration	2	1
\$1 - \$19 999	6	6
\$20 000 - \$39 999	1	-
Total	9	7

The total remuneration received or receivable by governing board members was \$64,400 (\$64,100) which includes salary and superannuation. No additional fees were paid to audit and risk committee members.

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

Executive remuneration

	2022 No	2021 No
The number of employees whose remuneration received or receivable falls within the following bands:		
\$157 001 to \$177 000	1	1
\$217 001 to \$237 000	-	1
\$277 001 to \$297 000	1	1
Total	2	3

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

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

3. Income

3.1. Interest on investments

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

3.2. Interest on loans and advances

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

3.3. Other income

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

4. Expenses

4.1. Interest on deposits from councils and local government bodies

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

4.2. Interest on borrowings

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

4.3. State government guarantee fee

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

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

4.4. Administration expenses

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

Audit fees

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

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

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

Consultants

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

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

Depreciation and amortisation

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

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

Useful life

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

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

4.5. Other expenses

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

4.6. Income tax equivalent expense

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

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

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

5. Assets

5.1. Accrued interest receivable *

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

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

5.2. Investment securities

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

5.3. Other assets

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

5.4 Net loans and advances

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

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

(i) Debentures over council general revenue

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

(ii) Schedule 2 of the Local Government Act 1999

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

(iii) First registered mortgage and specific security deed

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

(iv) Mortgages over freehold properties and specific security deed

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

5.5 Derivatives

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

5.6 Property, plant and equipment

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

Initial Recognition

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

Revaluation

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

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

Building floorspace

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

Impairment

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

Reconciliation 2021-22

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

Reconciliation 2020-21

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

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5.7 Intangible assets

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

Intangible assets are initially measured at cost and are tested for indications of impairment at each reporting date. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

The acquisition of or internal development of software is capitalised only when the expenditure meets the recognition criteria for capital expenditure.

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

Reconciliation 2021-22

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

Reconciliation 2020-21

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

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6. Liabilities

6.1. Deposits from councils and local government bodies

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

Concentrations of deposits

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

6.2. Accrued interest payable

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

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

6.3. Borrowings

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

6.4. Derivatives

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

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6.5. Provisions

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

Employee benefits

A provision is made in respect of the Authority's liability for annual leave and long service leave as at balance date. Long service leave is accrued for all employees from the date of commencement of service. The amount included in the accounts is the undiscounted amount expected to be paid.

No provision is made in the accounts for sick leave entitlements.

Special distribution payment

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

Income tax equivalents

A provision is made for income tax equivalents payable as at 30 June 2022.

Movement in provisions during the year

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

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6.6. Other liabilities

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

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

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

Superannuation commitments

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

7. Other disclosures

7.1. Equity

General reserve

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

Revaluation reserve

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

7.2. Cash flow

Cash flows presented on a net basis

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

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

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Cash flow reconciliation

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

8. Outlook

8.1. Unrecognised contractual commitments

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

Loan commitments

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

8.2. Contingent assets and liabilities

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

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

Contingent assets

(a) Guarantee of the Treasurer of SA on liabilities

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

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As at 30 June 2022 the total liabilities guaranteed was \$692.710 million.

(b) Security for loan agreements

(i) Debentures over council general revenue

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

As at 30 June 2022 the total loans secured by debenture was \$691.873 million.

(ii) Schedule 2 of the Local Government Act 1999

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

As at 30 June 2022 the total loans secured by Schedule 2 of the *Local Government Act 1999* was \$20.378 million.

(iii) First registered mortgage and specific security deed

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

As at 30 June 2022 the total loans secured by first registered mortgage and specific security deed was \$15.412 million.

(iv) Mortgages over freehold properties and specific security deed

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

As at 30 June 2022 the value of the properties secured by mortgages and the specific security deed assets were not available.

Contingent liabilities

(a) Financial guarantee

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

As at 30 June 2022 the amount guaranteed was \$26.495 million.

(b) Performance bond/guarantees

(i) Northern Adelaide Waste Management Authority

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

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As at 30 June 2022 the amount guaranteed was \$1.350 million.

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

8.3. Impact of standards not yet effective

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

8.4. COVID-19 pandemic outlook for the Authority

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

In June 2020 the Board of the Authority approved a three year financial assistance package for councils to assist them during the COVID-19 pandemic. The package includes discounts to cash advance debenture loans and higher interest on deposits for councils. This will in turn have the financial effect of reducing the profit of the Authority until the last of the council assistance facilities mature in February 2024.

9. Measurement and risk

9.1. Fair value

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

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

Fair value of financial assets and financial liabilities

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

Cash at bank

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

Investment securities

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

Other assets

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

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Net loans and advances

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

Deposits from councils and prescribed local government bodies

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

Borrowings

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

Derivatives

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

Other liabilities

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

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

Fair value hierarchy

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

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

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

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

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All financial assets and liabilities are classified as level 2.

During 2022 and 2021 there were no transfers of assets between fair value hierarchy levels and no changes in valuation techniques.

9.2. Financial instruments

Classification of financial instruments

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

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

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

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

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

The Authority has determined the following classifications for financial instruments:

Classification of financial assets

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

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

Classification of financial liabilities

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

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

9.3. Risk management policies and procedures

The Treasurer issued a revised consent dated 9 June 2021, for the Authority to enter into a range of financial instruments as part of its normal operations of providing borrowing and investment services to local government in South Australia and for managing the associated risks.

All financial instrument transactions and internal control activities are conducted within a board approved risk policy document. A treasury management system is in place which provides comprehensive accounting and

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reporting of financial instrument transactions which in turn allows for compliance with the risk policy to be monitored closely.

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

a) Market risk

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

Interest rate risk

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

(i) Fair value sensitivity analysis for fixed rate instruments

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

(ii) Sensitivity analysis for variable rate instruments

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

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

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b) Credit risk

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

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

(i) Investments and derivatives

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

(ii) Loans and advances

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

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

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

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

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

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

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

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

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

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

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

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

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

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c) Liquidity risk

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

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

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

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

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

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

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9.4. Fair value hedges

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

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

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

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

No other sources of ineffectiveness emerged from these hedging relationships.

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

Fair Value Hedges

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

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

LOCAL GOVERNMENT FINANCE AUTHORITY OF SOUTH AUSTRALIA

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
	2022 \$'000	2021 \$'000	
Fixed rate loans	(782)	57	Other income/expenses

Certification of the financial statements

We certify that the:

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



DJ Lambert
Chief Executive Officer



GC Hollitt
Financial Controller



M Sedgman
Chairman

12 September 2022