

Essential Services Commission of South Australia

Financial report
for the year ended
30 June 2018



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To the Chairperson Essential Services Commission of South Australia

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 24(2) of the *Essential Services Commission Act 2002*, I have audited the financial report of the Essential Services Commission of South Australia for the financial year ended 30 June 2018.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Essential Services Commission of South Australia as at 30 June 2018, its financial performance and its cash flows for year then ended in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

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

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 Essential Services Commission of South Australia. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 Code of Ethics for Professional Accountants have been met.

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

Responsibilities of the Chief Executive Officer and the Commissioners of the Essential Services Commission of South Australia for the financial report

The Chief Executive Officer is responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and 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 that is free from material misstatement, whether due to fraud or error.

The Commissioners of the Essential Services Commission of South Australia are responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the financial report

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

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

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive Officer
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

I communicate with the Chief Executive Officer and the Commissioners of the Essential Services Commission of South Australia 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.

A handwritten signature in black ink, appearing to read 'Andrew Richardson', with a long horizontal flourish extending to the right.

Andrew Richardson

Auditor-General

27 September 2018

Essential Services Commission

Financial Statements

For the year ended 30 June 2018

Certification of the Financial Statements

We certify that the attached general purpose financial statements for the Essential Services Commission:

- are in accordance with the accounts and records of the Essential Services Commission
- comply with relevant Treasurer's Instructions
- comply with relevant accounting standards
- present a true and fair view of the financial position of the Essential Services Commission at the end of the 30 June 2018 financial year and the results of its operations and cash flows for the financial year

We certify that the internal controls employed by the Essential Services Commission over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the financial year.

Signed in accordance with a resolution of the Essential Services Commission.



Mr Brett Rowse
Chairperson
26 September 2018



Mr Adam Wilson
Chief Executive Officer
26 September 2018



Mr Nick Mahon
Manager, Finance and Information Technology
26 September 2018

Essential Services Commission
Statement of Comprehensive Income
for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Expenses			
Employee benefits expense	3	4 022	3 441
Supplies and services	5	1 403	1 389
Refunds	6	-	58
Depreciation and amortisation	7	146	142
Other expenses	8	30	39
Total expenses		5 601	5 069
Income			
Revenue from licence and administration fees	9	5 098	4 733
Contributions from South Australian Government	10	576	680
Revenue from services	11	110	274
Other income	12	13	8
Total income		5 797	5 695
Net result		196	626
Total comprehensive result		196	626

The net result and total comprehensive result are attributable to the South Australian Government as owner.

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Essential Services Commission
Statement of Financial Position
as at 30 June 2018

	Note	2018 \$'000	2017 \$'000
Current assets			
Cash and cash equivalents		8 819	8 374
Receivables	13	1 046	1 172
Total current assets		9 865	9 546
Non-current assets			
Property, plant and equipment	15	271	331
Intangible assets	16	196	312
Total non-current assets		467	643
Total assets		10 332	10 189
Current liabilities			
Payables	17	175	225
Employee benefits	18	377	315
Provisions	19	4	1
Other liabilities	20	-	22
Total current liabilities		556	563
Non-current liabilities			
Payables	17	61	65
Employee benefits	18	663	708
Provisions	19	6	3
Total non-current liabilities		730	776
Total liabilities		1 286	1 339
Net assets		9 046	8 850
Equity			
Retained earnings		9 046	8 850
Total equity		9 046	8 850

Total equity is attributed to the South Australian Government as owner.

Unrecognised contractual commitments	21
Contingent assets and contingent liabilities	22

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Essential Services Commission
Statement of Changes in Equity
for the year ended 30 June 2018

	Retained earnings	Total equity
	\$'000	\$'000
Balance at 30 June 2016	8 224	8 224
Net result for 2016-17	626	626
Total comprehensive result for 2016-17	626	626
Balance at 30 June 2017	8 850	8 850
Net result for 2017-18	196	196
Total comprehensive result for 2017-18	196	196
Balance at 30 June 2018	9 046	9 046

All changes in equity are attributed to the South Australian Government as owner.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Essential Services Commission
Statement of Cash Flows
for the year ended 30 June 2018

	2018	2017
	\$'000	\$'000
Cash flows from operating activities		
Cash outflows		
Employee benefits payments	(3 993)	(3 500)
Payments for supplies and services	(1 488)	(1 280)
Payments for refunds	-	(58)
Payments for paid parental leave scheme	-	(4)
Cash used in operations	<u>(5 481)</u>	<u>(4 842)</u>
Cash inflows		
Receipts from licence and administration fees	5 233	4 410
Receipts from South Australian Government	576	680
Receipts from other services	110	274
Receipts from paid parental leave scheme	-	1
Other receipts	13	8
Cash generated from operations	<u>5 932</u>	<u>5 373</u>
Net cash provided by / (used in) operating activities	<u>451</u>	<u>531</u>
Cash flows from investing activities		
Purchase of intangible assets	(6)	(38)
Cash used in investing activities	<u>(6)</u>	<u>(38)</u>
Net cash provided by / (used in) investing activities	<u>(6)</u>	<u>(38)</u>
Net increase / (decrease) in cash and cash equivalents	445	493
Cash and cash equivalents at 1 July	<u>8 374</u>	<u>7 881</u>
Cash and cash equivalents at 30 June	<u><u>8 819</u></u>	<u><u>8 374</u></u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Essential Services Commission
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for the year ended 30 June 2018

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Essential Services Commission

Notes to and forming part of the financial statements

for the year ended 30 June 2018

1 Basis of financial statements

1.1 Reporting entity

The financial statements and accompanying notes cover the Essential Services Commission (Commission) as an individual reporting entity. The Commission is a statutory authority of the state of South Australia, established pursuant to the Essential Services Commission Act 2002 (ESC Act).

The Commission uses the banking arrangements of the Department of Treasury and Finance under a Service Level Agreement. A non-interest bearing Special Deposit Account (SDA) entitled 'Essential Services Commission Operating Account', established by the Treasurer under the Public Finance and Audit Act 1987 (PFAA), is used for the purpose of recording all of the financial transactions of the Commission, including the collection of licence and administration fees.

1.2 Statement of compliance

These financial statements have been prepared in compliance with section 23 of the PFAA. The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian Accounting Standards (Reduced Disclosure Requirements) and comply with Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the PFAA.

The Commission has applied Australian Accounting Standards for not-for-profit entities, as the Commission is a not-for-profit entity. Australian Accounting Standards and Interpretations that have recently been issued or amended, but are not yet effective, have not been adopted by the Commission for the period ending 30 June 2018.

1.3 Basis of preparation

The financial statements have been prepared based on a twelve-month period and are 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 on a different basis.

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

Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle, even when they are not expected to be realised within twelve months after the reporting date, 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 in the notes.

1.4 Administered items

Section 22 of the ESC Act requires that, except as otherwise directed by the Treasurer, fees or other amounts received by the Commission under this or any other Act will be paid into the Consolidated Account. All revenues from licence and administration fees are held in the SDA, except for amounts approved by the Treasurer for transfer to the Consolidated Account.

The amounts transferred to the Consolidated Account are administered items held on behalf of the South Australian Government. The Commission is accountable for the collection and banking of those administered items, but does not have the discretion to deploy the resources for the achievement of the Commission's objectives. The receipt of these administered items is not recognised as revenue. Instead, the subsequent transfer of these items to the Consolidated Account is disclosed in notes 9 and 26. The accrual basis of accounting has been used in accounting for administered items.

1.5 Comparative Information

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

The Commission has not applied any accounting policy changes retrospectively for the financial year 2018.

Essential Services Commission

Notes to and forming part of the financial statements

for the year ended 30 June 2018

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

1.6 Taxation

The Commission is not subject to Income Tax. The Commission is liable for Payroll Tax, Fringe Benefits Tax (FBT) and Goods and Services Tax (GST).

Income, expenses, assets and liabilities 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.

Goods and Services Tax amounts payable and recoverable from the ATO are managed via Department of Treasury and Finance under the Commission's existing Service Level Agreement and are not reported in these statements for the year ended 30 June 2018.

2 Objectives and activities

2.1 Objectives

The Commission is a statutory authority established as an independent economic regulator and advisory body under the ESC Act.

The Commission has economic regulatory responsibility in the water and sewerage, electricity, gas, maritime and rail industries, conducts formal public inquiries and provides advice to the South Australian Government on economic and regulatory matters. The ESC Act and various industry Acts together provide the Commission with those regulatory and advisory powers and functions.

Under the ESC Act the Commission has the primary objective of the '...protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services'.

The ESC Act sets out seven further factors which the Commission must have regard to in performing its functions, being:

- promoting competitive and fair market conduct
- preventing misuse of monopoly or market power
- facilitating entry into relevant markets
- promoting economic efficiency
- ensuring consumers benefit from competition and efficiency
- facilitating maintenance of the financial viability of regulated industries and the incentive for long term investment, and
- promoting consistency in regulation with other jurisdictions.

The Commission has two broad advisory functions. The first is to provide advice to the Treasurer, on request, in relation to any matter (section 5(f) of the ESC Act). In that capacity the Commission acts as an adviser to the South Australian Government, providing independent advice on economic and regulatory matters.

The second is to conduct formal public inquiries (Part 7 of the ESC Act). Such inquiries can be initiated by the Commission (into any matters within its regulatory scope), by the Treasurer (into any matter) or by an industry Minister (into any matter concerning a regulated industry).

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

2.2 Activities

The ESC Act specifies a general set of functions for the Commission. However, the specific roles of the Commission are assigned to it under industry legislation. The following table summarises such roles in financial year 2018.

Legislation	Regulatory functions
Water Industry Act 2012	Water and sewerage retail service providers: <ul style="list-style-type: none"> • Licensing • Retail price regulation • Consumer protection • Service / reliability standard setting • Performance monitoring and reporting Third Party Access Regime regulator
Electricity Act 1996	Electricity retail operations: <ul style="list-style-type: none"> • Monitoring and, if necessary, determination of the retailer Solar Photovoltaic Feed-in Tariff • Preparation and publication of Ministerial Energy Retail Pricing reports • Retailer Energy Efficiency Scheme administration Electricity generation, transmission, distribution and off-grid retailers: <ul style="list-style-type: none"> • Licensing • Network service / reliability standard setting • Performance monitoring and reporting
Gas Act 1997	Gas retail operations: <ul style="list-style-type: none"> • Preparation and publication of Ministerial Energy Retail Pricing reports • Retailer Energy Efficiency Scheme administration Licensing of retail and distribution LPG gas operations Licensing of natural gas operations, standard setting, performance monitoring and reporting
AustralAsia Railway (Third Party Access) Act 1999; Railway (Operations and Access) Act 1997	Tarcoola–Darwin railway regulator under the AustralAsia (Third Party Access) Code Intrastate rail lines access regulator
Maritime Services (Access) Act 2000	Ports services pricing and access regulator

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

3 Employee benefits

3.1 Employee benefits expense

	2018	2017
	\$'000	\$'000
Salaries and wages	2 827	2 450
Long service leave	106	35
Annual leave	254	218
Employment on-costs - superannuation	329	283
Employment on-costs - other	160	133
Board and committee fees*	272	273
Other employee related expenses	74	49
Total employee benefit expenses	4 022	3 441

* Commission and committee fees only include direct payment to members. Superannuation payments including salary sacrifice payments are included under Employment on costs - superannuation. See note 4 for details of remuneration for Commission and committee members.

3.2 Targeted voluntary separation packages

No employees received a targeted voluntary separation package during the reporting period.

3.3 Key management personnel

Key management personnel of the Commission include the Commissioners, the Chief Executive Officer and the members of the executive team who have responsibility for the strategic direction and management of the Commission.

Total compensation for the Commission's key management personnel was \$1 383 295 (2017: \$1 186 871).

3.4 Remuneration of employees

Remuneration of employees

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

	2018	2017
	Number	Number
\$147 000 - \$149 000*	na	-
\$149 001 - \$159 000	3	2
\$159 001 - \$169 000	1	-
\$209 001 - \$219 000	-	2
\$219 001 - \$229 000	2	-
\$319 001 - \$329 000	-	1
\$349 001 - \$359 000	1	-
Total	7	5

* This band has been included for the purposes of reporting comparative figures based on the executive base level remuneration rate for 2016-17.

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year, of which 5 (2017: 4) are executive and 2 (2017: 1) are non-executive staff. Remuneration of employees reflects all costs of employment including salaries and wages, payment in lieu of leave, superannuation contributions, fringe benefits tax and salary sacrifice benefits paid or payable in respect of these benefits. The total remuneration received by these employees for the year was \$1 422 249 (2017: \$1 057 100).

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

4 Remuneration of Commission and committee members

Members that were entitled to receive remuneration (directly and indirectly) for membership during the 2018 financial year were:

Essential Services Commission

Mr Brett Rowse (Chairperson)
 Mr Geoff Knight
 Ms June Roache (Appointment concluded 28 May 2018, new appointment commenced 31 May 2018)
 Mr David Round
 Dr Lynne Williams

Consumer Advisory Committee

Mr Brett Rowse (Chairperson)**
 Ms Elaine Attwood
 Mr Sandy Canale
 Mr Graham Davies (Appointment commenced 24 August 2017, concluded 2 November 2017)
 Mr Mark Henley
 Mr Andrew McKenna
 Ms Jane Mussared
 Ms Heather Smith (Appointment commenced 20 November 2017, concluded 30 June 2018)
 Mr Ross Womersley

Power Line Environment Committee

Mr Kevin Hamilton (Chairperson)
 Ms Pam Andritsakis
 Ms Angela Crimes*
 Ms Jo Davidson*
 Mr Amit Dua*
 Mr Alex Duerden* (Appointment concluded 22 April 2018)
 Ms Margaret Lee
 Mr Mike Magin
 Mr Kim Steinle

The number of members whose remuneration received or receivable falls within the following bands:	2018	2017
	Number	Number
\$0 - \$9 999	17	20
\$40 000 - \$49 999	1	-
\$50 000 - \$59 999	2	3
\$60 000 - \$69 999	1	2
\$70 000 - \$79 999	1	-
Total number of Commission and committee members	22	25

* In accordance with the Department of the Premier and Cabinet Circular No. 016, South Australian Government employees did not receive any remuneration for South Australian Government board / committee duties during the financial year.

** No remuneration was received by Mr Brett Rowse in the role of Chair of the Consumer Advisory Committee.

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

Remuneration of members reflects all costs of performing duties including fees, superannuation contributions and salary sacrifice arrangements. The total remuneration received or receivable by members was \$296 529 (2017: \$297 762).

5 Supplies and services

	2018	2017
	\$'000	\$'000
Accommodation	431	458
General administration	526	617
Information technology charges	179	174
Consultants	224	125
Contractors	15	12
Other supplies and services	28	3
Total supplies and services	1 403	1 389

Total Supplies and services includes GST where the amount of GST incurred by the Commission as a purchaser is not recoverable from the Australian Taxation Office.

5.1 Operating leases

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. The straight-line basis is representative of the pattern of benefits derived from the leased assets.

5.2 Consultants

The number and dollar amount of consultancies paid or payable (included in Consultants expense shown above) fell within the following bands:

	2018		2017	
	No	\$'000	No	\$'000
Below \$10 000	3	18	2	17
\$10 000 or above	6	206	5	108
Total paid / payable to the consultants engaged	9	224	7	125

6 Refunds

	2018	2017
	\$'000	\$'000
Refund of administration fees	-	58
Total refunds	-	58

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

7 Depreciation and amortisation

	2018	2017
	\$'000	\$'000
Depreciation		
Building fit-out	60	60
Total depreciation	<u>60</u>	<u>60</u>
Amortisation		
Intangible assets	86	82
Total amortisation	<u>86</u>	<u>82</u>
Total depreciation and amortisation	<u><u>146</u></u>	<u><u>142</u></u>

All non-current assets having limited useful life are systematically depreciated over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is used in relation to intangible assets such as software, while depreciation is applied to tangible assets such as plant and equipment.

7.1 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)
Leasehold improvements	3-10
Furniture and fittings	3-10
Office equipment – IT	3-5
Office equipment - Other	3-5
Intangibles	3-6

7.2 Revision of accounting estimates

Assets residual values, useful lives and amortisation methods are reviewed and adjusted if appropriate, on an annual basis. No adjustments were made during the reporting period.

8 Other expenses

	2018	2017
	\$'000	\$'000
Allowances for doubtful debts	13	(6)
Derecognition of asset	36	-
Total other expenses	<u>30</u>	<u>39</u>

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

9 Revenue from licence and administration fees

		Electricity	Gas	Water	2018	2017
	Note	\$'000	\$'000	\$'000	\$'000	\$'000
Licence fees*		5 331	2 395	9 869	17 595	16 890
Administration fees		646	213	-	859	760
Administered items	26	(5 255)	(2 174)	(5 927)	(13 356)	(12 917)
Total fees		722	434	3 942	5 098	4 733

* Licence fees in 2017-18 include an amount of \$407 400 from Origin Energy Electricity for past licence fees for the Osborne Power Station.

Income is recognised to the extent that it is probable that the flow of economic benefits to the Commission will occur and can be reliably measured. Income has been aggregated according to its nature, and has not been offset unless required or permitted by a specific standard, or where offsetting reflects the substance of the transaction or other event.

Licence fees are measured at the fair value of consideration received or receivable. Gross licence fee revenue is set by the Minister in accordance with sections under the relevant Acts. Licence fee revenue is recognised when it is received or receivable. Unearned revenue is recognised where cash is received by the Commission for licence fees prior to the date of renewal of the relevant licence.

Administration fees are measured at the fair value of consideration received or receivable. Gross administration fee revenue represents a reasonable contribution towards administration costs and is calculated in accordance with regulations under the relevant Acts. Administration fee revenue is recognised when it is received or receivable.

10 Contributions from South Australian Government

	2018	2017
	\$'000	\$'000
Recurrent contribution from South Australian Government	576	680
Total contributions from South Australian Government	576	680

Contributions are recognised as revenues when the Commission obtains control over the funding. Control over contributions is normally obtained upon receipt.

11 Revenue from services

	2018	2017
	\$'000	\$'000
Contribution to rail regulatory costs by Northern Territory Government	110	145
Contribution by Department of Planning, Transport and Infrastructure	-	129
Total revenue from services	110	274

12 Other income

	2018	2017
	\$'000	\$'000
Other income	13	8
Total other income	13	8

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

13 Receivables

	2018	2017
	\$'000	\$'000
Current		
Receivables	834	978
Less allowance for doubtful debts	(33)	(39)
Total receivables	801	939
Accrued revenue	201	214
Prepayments	44	19
Total current receivables	1 046	1 172
Total receivables	1 046	1 172

13.1 Movement in the allowance for doubtful debts

	2018	2017
	\$'000	\$'000
Carrying amount at the beginning of the period	39	-
Increase / (Decrease) in the allowance	(6)	39
Increase / (Decrease) in allowance recognised in net result	(6)	39
Carrying amount at the end of the period	33	39

An allowance for doubtful debts is raised when there is objective evidence that the Commission will not be able to collect the debt.

13.2 Interest rate and credit risk

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. Receivables, prepayments and accrued revenues are non-interest bearing. Collectability of receivables is reviewed on an ongoing basis.

14 Non-current assets

14.1 Revaluation

All non-current assets are valued at fair value and revaluation of non-current assets or a group of assets is only performed when its fair value at the time of acquisition is greater than \$1 million and estimated useful life is greater than three years.

15 Property, plant and equipment

	2018	2017
	\$'000	\$'000
Buildings fit-outs		
Building fit-outs at cost (deemed fair value)	566	566
Accumulated depreciation	(295)	(235)
Total buildings fit-outs	271	331
Total property, plant and equipment	271	331

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

15.1 Acquisition and recognition

Non-current assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition. Non-current assets are subsequently measured at fair value after allowing for accumulated depreciation.

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

All non-current tangible and intangible assets with a value equal to or in excess of \$10 000 are capitalised.

15.2 Carrying amount of property, plant and equipment

All items of property, plant and equipment had a fair value at the time of acquisition that was less than \$1 million or had an estimated useful life that was less than three years, and have not been revalued in accordance with Accounting Policy Framework III. The carrying value of these items are deemed to approximate fair value.

15.3 Impairment

The Commission holds its property, plant and equipment and intangible assets for their service potential (value in use). All non-current tangible assets are valued at fair value.

There were no indications of impairment on property, plant and equipment at 30 June 2018.

15.4 Reconciliation of property, plant and equipment

The following table shows the movement of property, plant and equipment for the year ended 30 June 2018.

	Building fit-outs	Total
	\$'000	\$'000
Carrying amount at the beginning of the period	331	331
Depreciation	(60)	(60)
Carrying amount at the end of the period	271	271

16 Intangible assets

	2018	2017
	\$'000	\$'000
Internally developed software		
Internally developed computer software at cost (deemed fair value)	240	240
Accumulated amortisation	(140)	(100)
Total internally generated software	100	140
Externally developed software		
Externally developed computer software at cost (deemed fair value)	184	184
Accumulated amortisation	(88)	(42)
Total externally developed software	96	142
Work in progress		
Work in progress at cost	-	30
Total work in progress	-	30
Total intangible assets	196	312

Essential Services Commission
Notes to and forming part of the financial statements
for the year ended 30 June 2018

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are measured at cost and are tested for indications of impairment at each reporting date. Following initial recognition, intangible assets are carried at cost, less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. The Commission only has intangible assets with finite lives. The amortisation period and the amortisation method for intangible assets are reviewed on an annual basis.

The acquisition or internal development of software is capitalised only when the expenditure meets the definition criteria (identifiability, control and the existence of future economic benefits) and recognition criteria (probability of future economic benefits and cost can be reliably measured) and when the amount of expenditure is greater than or equal to \$10 000.

The internally developed computer software relates to the Commission's Retailer Energy Efficiency Scheme reporting system with a remaining useful life of 2.5 years and carrying amount of \$100 000 (2017: \$140 000).

16.1 Impairment

There were no indications of impairment of intangible assets at 30 June 2018.

16.2 Reconciliation of intangible assets

The following table shows the movement of intangible assets for the year ended 30 June 2018.

	Internally developed software	Externally developed software	Work in progress	Total
	\$'000	\$'000	\$'000	\$'000
Carrying amount at the beginning of the period	140	142	30	312
Additions	-	-	6	6
Transfers out	-	-	(36)	(36)
Amortisation	(40)	(46)	-	(86)
Carrying amount at the end of the period	100	96	-	196

17 Payables

	2018	2017
	\$'000	\$'000
Current		
Creditors and accrued expenses	124	180
Employment on-costs*	51	45
Total current payables	175	225
Non-current		
Employment on-costs	61	65
Total non-current payables	61	65
Total payables	236	290

* Employment on-costs include payroll tax and superannuation contributions. The Commission makes contributions to the South Australia Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur.

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Based on an actuarial assessment performed by Department of Treasury and Finance, the percentage of the proportion of long service leave taken as leave has increased from the 30 June 2017 percentage rate of 40% to 41%. The average factor for the calculation of the employer superannuation on-costs has decreased from the 2017 rate of 10.1% to 9.9%. These rates are used in the employment on-cost calculation. The net financial effect of the change on employment on-costs and employee benefit expense is immaterial.

Under the Payroll Tax Act 2009, the payroll tax rate remained at 4.95% in 2018. The rate is used in the payroll tax calculation for long service leave and annual leave.

17.1 Interest rate and credit risk

Payables are measured at nominal amounts. Creditor and accruals are raised for all amounts owing but unpaid. Sundry creditors are normally settled within 30 days from the date the invoice is first received.

18 Employee benefits

	2018	2017
	\$'000	\$'000
Current		
Accrued salaries and wages	62	59
Annual leave	226	204
Long service leave	89	52
Total current employee benefits	377	315
Non-current		
Long service leave	663	708
Total non-current employee benefits	663	708
Total employee benefits	1 040	1 023

Employee benefits accrue for employees 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 their nominal amounts.

18.1 Salaries and wages, annual leave, skills and experience retention leave 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 skills and experience retention leave liability are expected to be payable within twelve months and are measured at the undiscounted amount expected to be paid.

No provision has been made for sick leave, as all sick leave is non-vesting and it is assumed that the average sick leave to be taken in future years will be less than the annual entitlement.

18.2 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 projected unit credit method.

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

The actuarial assessment performed by the Department of Treasury and Finance 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 across government.

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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 remains at 2.5% in 2018. As a result, there is no net financial effect resulting from changes in the yields on long-term Commonwealth Government bonds.

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 Department of Treasury and Finance left the salary inflation rate at 4% for long service leave liability and 3% for annual leave and skills and experience and retention leave liability. As a result, there is no net financial effect resulting from changes in the salary inflation rate.

The unconditional portion of the long service leave provision is classified as current as the Commission does not have an unconditional right to defer settlement of the liability for at least 12 months after reporting date. The unconditional portion of long service leave relates to an unconditional legal entitlement to payment arising after 10 years of service.

19 Provisions

	2018 \$'000	2017 \$'000
Current		
Workers' compensation	4	1
Total current provisions	<u>4</u>	<u>1</u>
Non-current		
Workers' compensation	6	3
Total non-current provisions	<u>6</u>	<u>3</u>
Total provisions	<u><u>10</u></u>	<u><u>4</u></u>

20 Other liabilities

	2018 \$'000	2017 \$'000
Current		
Unearned revenue	-	22
Total current other liabilities	<u>-</u>	<u>22</u>
Total other liabilities	<u><u>-</u></u>	<u><u>22</u></u>

Unearned revenue is recognised where cash is received by the Commission for licence and administration fees prior to the date of renewal.

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21 Unrecognised contractual commitments

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

Unrecognised contractual commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the Australian Taxation Office. If GST is not payable to, or recoverable from, the Australian Taxation Office, the commitments and contingencies are disclosed on a gross basis.

21.1 Operating lease commitments

The Commission's operating leases are for office accommodation and motor vehicles. The accommodation lease is non-cancellable with the option to renew.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2018	2017
	\$'000	\$'000
No later than one year	405	373
Later than one year but not later than five years	1 494	1 591
Later than five years	-	192
Total operating lease commitments	1 899	2 156

21.2 Expenditure commitments

Commitments for the payment of consultant contracts in existence at the reporting date but not recognised as liabilities are payable as follows:

	2018	2017
	\$'000	\$'000
No later than one year	15	40
Total other commitments	15	40

22 Contingent assets and contingent 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.

22.1 Contingent assets

The Commission is not aware of any material contingent assets in existence as at 30 June 2018.

22.2 Contingent liabilities

The Commission is not aware of any material contingent liabilities in existence as at 30 June 2018.

23 Related party transactions

23.1 Transactions with key management personnel and other related parties

Related parties of the Commission include all key management personnel and their close family members as defined in AASB 124 Related Party Disclosures.

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24 Financial risk management / financial instruments

24.1 Financial risk management

Risk management is managed by the Commission's executive team. The Risk Management Framework set by the Commission is in accordance with the Risk Management Policy Statement issued by the Premier and Treasurer and the principles established in the Australian Standard Risk Management Principles and Guidelines.

The Commission's exposure to financial risk (liquidity, credit and market) is low due to the nature of the financial instruments held.

There have been no changes in risk exposure since the last reporting period.

24.2 Categorisation of financial instruments

The carrying amount of each of the following categories of financial assets and liabilities are detailed below.

Categorisation of financial asset and financial liability	Note	Carrying amount / fair value 2018 \$'000	Carrying amount / fair value 2017 \$'000
Financial assets			
Cash and cash equivalents		8 819	8 374
Total financial assets		8 819	8 374
Financial liabilities			
Payables*	17	89	151
Total financial liabilities		89	151

* Amount of receivables and payables disclosed excludes statutory receivables and payables (amounts owing from / to South Australian Government and GST input tax credit payable and recoverable). They are carried at cost.

25 Events after the reporting period

Adjustments are made to amounts recognised in the financial statements, where an event occurs after 30 June 2018 and before the date the financial statements are authorised for issue, where those events provide information about conditions that existed at 30 June 2018.

Note disclosure is made about events between 30 June 2018 and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June 2018 and which may have a material impact on the results of subsequent years.

There were no events occurring after the end of the reporting period that had a material financial implication on these financial statements.

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26 Administered items

Australian Energy Market Commission

An amount approved by the Treasurer is transferred to the Consolidated Account from the electricity and gas licence fees received by the Commission for the Australian Energy Market Commission. In 2018 \$2 045 000 (2017: \$1 876 000) was transferred.

Consumer Advocacy and Research Fund

An amount approved by the Treasurer is transferred to the Consolidated Account from the water licence fees received by the Commission for the Consumer Advocacy and Research Fund. In 2018 \$ 277 268 (2017: \$275 739) was transferred.

Technical Regulator

An amount approved by the Treasurer is transferred to the Consolidated Account from the electricity, gas and water licence fees received by the Commission for the Technical Regulator. In 2018 \$10 148 013 (2017: \$9 900 500) was transferred.

Department for Environment and Water

An amount approved by the Treasurer is transferred to the Consolidated Account from the water licence fees received by the Commission for the Department for Environment and Water. In 2018 \$529 720 (2017: \$516 800) was transferred.

Department of Treasury and Finance

An amount approved by the Treasurer is transferred to the Consolidated Account from the water licence fees received by the Commission for the Department of Treasury and Finance. In 2018 \$356 495 (2017: \$347 800) was transferred.