



**Government of
South Australia**

Guarantee Fee Pricing Policy

MARCH 2019

Approved by the Treasurer on 25 April 2019

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1. Background

- Relevant agencies pay guarantee fees to the Treasurer consistent with the competitive neutrality principles contained in the April 1995 Competition Principles Inter-Governmental Agreement between the State and Commonwealth Governments.
- The charging of a guarantee fee supports transparency and accountability by ensuring relevant agency decisions are made reflecting true borrowing costs, and in particular, the removal of competitive advantage arising from agencies' access to cheap government financing.
- A guarantee fee represents a price for the funding cost advantage the Government guarantee gives to an agency and should encompass other advantages afforded by the Government's financing frameworks and mechanisms (e.g. to reflect the cost advantages of centralised funding arrangements).
- A Government guarantee is an undertaking by the Government to cover the liabilities of a public sector business or agency ("agency") in the event it is unable to meet its debt servicing or repayment obligations.
- As an agency is explicitly or implicitly guaranteed by Government, or may obtain funding raised by another agency that has the benefit of a Government guarantee, it may receive cheaper finance than it would as a "stand-alone" borrower, which has its credit risk assessed independently of the Government guarantee.
- The fee for the guarantee should be appropriately priced, to avoid a competitive advantage over a private sector firm.

2. Authority to Provide and Charge a Fee for Government Guarantee

- Section 19 of the *Public Finance and Audit Act 1987* enables the Treasurer to provide explicit guarantees for actual and contingent liabilities of semi-government authorities. That Act also provides for the Treasurer to apply a fee for guarantees.
- Section 28 of the *Public Corporations Act 1993* also guarantees the liabilities (including contingent liabilities) of public corporations.
- Enabling legislation of individual agencies may provide a statutory (or “automatic”) Government guarantee of the borrowings and other obligations of those agencies.
- The *Industries Development Act 1941* and the *Public Corporations Act 1993* enable the Treasurer to give a guarantee and to charge guarantee fees.

3. Agencies that are required to Pay a Guarantee Fee

- Guarantee fees apply to agencies that fall within the following categories:-
 - All agencies within the Public Non-Financial Corporations (PNFC) sector of government with borrowings from the Treasurer or SAFA.
 - All agencies within the Public Financial Corporations (PFC) sector of government with borrowings from the Treasurer or SAFA. (Although SAFA is a PFC, it is noted that it is not subject to guarantee fee payments).
 - Agencies within the General Government (GG) sector of government with borrowings from the Treasurer or SAFA where there exists a clear element of competitive neutrality associated with their debt, or operations, or where it is appropriate that a guarantee fee be charged. The *List of Category 1 and 2 Significant Business Activities* as contained in Appendix A and Appendix B of the State Competitive Neutrality Policy Statement (and updated by the Department of Premier and Cabinet) identifies agencies falling within this category. This list is included at Appendix 2 of this document.
 - Other government entities with borrowings from the Treasurer or SAFA or entities that benefit from the government's guarantee.
- A guarantee fee may also apply to entities in the non-government sector through the *Industries Development Act 1941*.
- The Department of Treasury and Finance (DTF) may impose a guarantee fee on an agency where it believes there to be a clear element of competitive neutrality associated with the agency's debt, or where it is appropriate that a guarantee fee be charged.
- DTF maintains a list of agencies subject to the payment of guarantee fees and agencies that have been exempted.
- Exemptions from the payment of guarantee fees are permitted where an agency is explicitly exempted by legislation or by an administrative determination (e.g. Cabinet or Treasurer's approval).

4. Liabilities Subject to a Guarantee Fee

- Guarantee fees are paid by agencies according to their aggregate level of debt (working capital, short-term and long-term borrowings). Guarantee fees do not apply to an agency's liability provisions, other contingent liabilities or derivative transactions.

5. Determination of an Agency's Stand-Alone Creditworthiness

- The guarantee fee aims to reflect both the benefit to the agency of the Government's backing of its obligations and an appropriate level of return to the Government for accepting the risk of agency default.
- Agencies are charged a guarantee fee rate which DTF deems to be a reasonable rate to adequately reflect the general cost differential between an agency borrowing with the benefit of the government guarantee, versus an agency borrowing on a 'stand-alone' basis.
- The guarantee fee rate is calculated using the spread between SAFA's credit rating and an agency's stand-alone position utilising reference points from the 4 year term to maturity rating curve within the following Standard & Poor's (S&P) investment grade credit rating bands ('BBB', 'A', 'AA').
- If an agency believes its allocated rating band does not adequately reflect its stand-alone risk position, then it can apply to DTF for an assessment of its risk position and the possible assignment of a stand-alone credit rating. Such a request is expected to be the exception rather than normal practice, with the Chief Executive DTF having sole discretion to grant a request, having regard to the cost of undertaking such an assessment versus the possible reduction in guarantee fees payable by the agency due to a higher credit rating.
- DTF may determine an appropriate stand-alone credit rating for the agency following a review of the agency's financial position, with reference to any relevant credit ratings of other entities in the industry in which the agency operates.
- Where agreement on a stand-alone credit rating cannot be reached between DTF and the agency concerned, consideration may be given to using the services of an independent credit rating agency (e.g. S&P).

6. Guarantee Fee Calculation Methodology

- Agencies are charged a guarantee fee rate that is referenced to the 4 year term to maturity rating curve consistent with their stand-alone creditworthiness. The information is based on observable data from Bloomberg Fair Value Corporate curves within the 'BBB', 'A', and 'AA' rating bands.
- Guarantee fee rates on new debt are calculated annually and are based on observable data over the preceding calendar year (1 January to 31 December each year) and once approved by the Treasurer are applicable to new borrowings over the next financial year.
- The approved guarantee fee rates are fixed for the term to maturity of the underlying individual borrowings undertaken by the agencies within the relevant financial year.
- Agencies are notified of the relevant guarantee fee rates applicable for the financial year and the rates are also published on SAFA's internet site.
- The Treasurer has discretion to set manual guarantee fee rates for agencies depending on prevailing circumstances such as severe dislocation in financial market conditions.

7. Payment of Guarantee Fees

- The guarantee fee rate will either be captured in the marginal borrowing rate at the time of the initial borrowing or separately charged.

Appendix 1:

Maintenance and Approval History

Policy	Date
March 2019	<p>Approved by Treasurer on 25 April 2019</p> <p>Updated by the Corporate Governance section of the South Australian Government Financing Authority, DTF for Machinery of Government Changes to the Significant Business Activities listing in Appendix 2.</p>
April 2018	<p>Approved by Treasurer on 20 April 2018</p> <p>Updated by the Corporate Governance section of the South Australian Government Financing Authority, DTF for the removal of \$1m threshold (sections 3 and 4).</p>
March 2016	<p>Approved by Treasurer on 29 April 2016</p> <p>Updated by Governance and Planning Section of the South Australian Government Financing Authority, DTF.</p>
November 2005	<p>Approved by Treasurer on 22 November 2005.</p> <p>Updated by Governance and Planning Section of the South Australian Government Financing Authority, DTF.</p>

APPENDIX 2:

Competitive Neutrality: List of Category 1 and 2 Significant Business Activities

The list* can be sourced via the following internet link:

<https://dpc.sa.gov.au/documents/rendition/List-Signifiant-Business-Activities.pdf>

**Please note that DPC is responsible for maintaining this list and the list included in this attachment overleaf was last updated in 2018.*

Category 1 Significant Business Activities

Business activities with an annual revenue in excess of \$2 million, or employing assets with a value in excess of \$20 million.

Category 1 Significant Business Activity	Competitive Neutrality Measure Adopted	Responsible Minister
Department of the Premier and Cabinet		
<ul style="list-style-type: none"> Adelaide Festival Centre Trust* Bass ticketing service Set building workshops Theatre hire services 	Cost Reflective Pricing	Premier
Attorney-General's Department		
<ul style="list-style-type: none"> Public Trustee* - Personal Trusteeship Services 	Commercialisation	Attorney- General
Department of Human Services		
<ul style="list-style-type: none"> Interpreting and Translating Services 	Cost Reflective Pricing	Minister for Human Services
<ul style="list-style-type: none"> Department for Health and Wellbeing 		
<ul style="list-style-type: none"> Medvet Science Pty Ltd 	Corporatisation	Minister for Health and Wellbeing
<ul style="list-style-type: none"> Statewide Clinical Support Flinders Medical Centre – car parking Royal Adelaide Hospital – car parking 	Cost Reflective Pricing	Minister for Health and Wellbeing
Department for Education and TAFESA		
<ul style="list-style-type: none"> TAFE SA 	Corporatisation	Minister for Education
<ul style="list-style-type: none"> International program <i>recruitment of full-fee paying overseas students</i> <i>Provision of study tours to overseas students and educators</i> 	Cost Reflective Pricing	Minister for Education

Department for Environment and Water		
<ul style="list-style-type: none"> • Cleland Wildlife Park • Seal Bay 	Cost Reflective Pricing	Minister for Environment and Water
Department of Primary Industries and Regions South Australia		
<ul style="list-style-type: none"> • Rural Solutions SA (includes Seed Services Australia) 	Cost Reflective Pricing	Minister for Primary Industries and Regional Development
Adelaide Venue Management Corporation*	Corporatisation	Minister for Trade, Tourism and Investment
Adelaide Cemeteries Authority*	Corporatisation	Minister for Planning
HomeStart Finance*	Commercialisation	Minister for Planning
Forestry SA*	Corporatisation	Minister for Primary Industries and Regional Development
Renewal SA	Corporatisation	Minister for Planning
SA Water Corporation*	Corporatisation	Minister for Environment and Water
West Beach Trust*	Corporatisation	Minister for Planning

* Falls within the A.B.S.'s classification of a Public Trading Enterprise (P.T.E.) or a Public Financial Enterprise (P.F.E.)

Category 2 Significant Business Activities

All other significant business activities

Category 2 Significant Business Activity	Competitive Neutrality Measure Adopted	Responsible Minister
Department of the Premier and Cabinet		
<ul style="list-style-type: none"> • Artlab Australia 	Cost Reflective Pricing	Premier
Department of Education and TAFE SA		
<ul style="list-style-type: none"> • Services • Distribution Centre Services • “Bookmark” library software sales and support • Education Development Centre 	Cost Reflective Pricing	Minister for Education
Department for Environment and Water		
<ul style="list-style-type: none"> • State Flora • Naracoorte Caves 	Cost Reflective Pricing	Minister for Environment and Water
Department for Health and Wellbeing		
<ul style="list-style-type: none"> • Modbury Hospital rental accommodation 	Cost Reflective Pricing	Minister for Health and Wellbeing
Attorney-General’s Department		
<ul style="list-style-type: none"> • Contestable Legal Services 	Cost Reflective Pricing	Attorney-General
Department of Primary Industries and Regions South Australia		
<ul style="list-style-type: none"> • Annual Ryegrass Toxicity Testing for Export Hay (SA Research & Development Institute) • Predicta B and other soil testing for cereal plant pathogens (SA Research & Development Institute) 	Cost Reflective Pricing	Minister for Primary Industries and Regional Development
Department for Human Services		
<ul style="list-style-type: none"> • Domiciliary Equipment Service • Supported Community Accommodation Services 	Cost Reflective Pricing	Minister for Human Services