

SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY

**2015-16
ANNUAL REPORT**



**Government of
South Australia**



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Government of
South Australia



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30 September 2016

The Hon Tom Koutsantonis MP
Treasurer of South Australia
Minister for Finance
State Administration Centre
200 Victoria Square
ADELAIDE SA 5000

Dear Mr Koutsantonis

I have pleasure in submitting the Annual Report of the South Australian Government Financing Authority for the year ended 30 June 2016.

Pursuant to Section 26 of the *Government Financing Authority Act 1982*, the Annual Report of the South Australian Government Financing Authority is required to be submitted to the Treasurer by 30 September 2016.

Yours sincerely



David Reynolds
CHIEF EXECUTIVE
UNDER TREASURER

GENERAL MANAGER'S OVERVIEW

SAFA achieved an operating profit before tax totalling \$16.5 million in 2015-16 compared to a budget of \$44 million. The contributions to SAFA's overall operating profit by its treasury, fleet and insurance businesses for 2015-16 were profits of \$18.8 million and \$7.8 million, and a loss of \$10.1 million respectively.

SAFA's gross funding task for the year was \$3700 million. The funding task was met through a 2026 fixed rate bond, an increase in existing Select Line bonds on issue, and other short-term issuances.

As part of its insurance operations, SAFA successfully renewed the government's reinsurance program. In addition, a new network security and privacy reinsurance policy was purchased. SAFA continues to work on options for the longer-term management of building indemnity insurance, with the existing arrangements with private insurers for the delivery of this cover to homeowners further extended until 30 June 2017. SAFA also continued to manage property and civil liability claims from client agencies and large medical malpractice claims from the Department for Health and Ageing.

In addition to its treasury, insurance and vehicle fleet management functions, SAFA continued to provide corporate governance, transaction management and support services to the State's electricity entities.

SAFA also continued to administer industry assistance contracts on behalf of the Treasurer and the Minister for Finance.

This financial year SAFA assumed responsibility from the Department of Treasury and Finance for specialist technical advice on Public Private Partnerships and related financing projects.

During the year SAFA focussed on a number of key projects including: the finalisation and approval of the revised Government Guarantee Fee Pricing policy effective for the coming financial year; the restructuring of several treasury portfolios, managed on behalf of the Treasurer, into a combined portfolio; and the full implementation of its new treasury management system following a lengthy process in recent years to improve all of SAFA's business processes.

I would like to take this opportunity to thank all staff and existing advisory board members for their continued support to SAFA, and welcome its new advisory board members Mr David Reynolds, Mr Paul Holloway and Ms Kathryn Presser. Following his retirement as Under Treasurer during the year, I would like to acknowledge the valuable contribution made by the former presiding board member, Mr Brett Rowse.

Furthermore, I would like to also acknowledge the out-going General Manager, SAFA, Mr Kevin Cantley for his professional dedication during the expanse of his significant tenure of service in SAFA. His experience and wealth of knowledge across all sectors of SAFA has been instrumental in SAFA's excellent standing amongst its financial peers.



Mr Andrew Blaskett,
General Manager, SAFA

A handwritten signature in black ink, which appears to read "Andrew Blaskett". The signature is stylized with a large, looping initial 'A'.

Andrew Blaskett
GENERAL MANAGER, SAFA

SAFA'S ROLE

SAFA functions as the central financing authority, captive insurer and manager of the passenger and light commercial vehicle fleet operations for the Government of South Australia.

It plays an integral role in the overall management of the State's finances and risks, harnessing economies of scale and relevant expertise to provide a range of treasury, insurance and fleet services to public sector clients.

Treasury services provided by SAFA include raising funds from domestic and international financial markets and on-lending the proceeds to clients, as well as providing clients with investment, portfolio management and financial and risk advisory services.

Insurance services are provided to clients through SAFA's insurance division which uses the trading name SAICORP. Insurance services include the provision of across government catastrophe reinsurance, claims management, insurance cover and building indemnity insurance.

Vehicle fleet services are provided to clients through SAFA's fleet division which uses the trading name Fleet SA. Services provided by Fleet SA include policy advice, vehicle leasing and disposal, short-term hire, and accident management.

In addition to these roles, SAFA is also responsible for corporate governance, transaction management and support services for the electricity entities; administration on behalf of the Treasurer and the Minister for Finance of contracts associated with a number of industry assistance schemes; and administration on behalf of the Treasurer for the State's Public Private Partnership program.

The Treasurer guarantees SAFA's borrowings and general financial obligations.

A more detailed description of the services provided by SAFA is contained in the body of the report.

MISSION AND VALUES

SAFA's mission is to deliver quality, cost effective financial, insurance and fleet management services to the clients within the South Australian public sector. Its core values comprise excellence, ownership, collaboration, recognition and integrity.



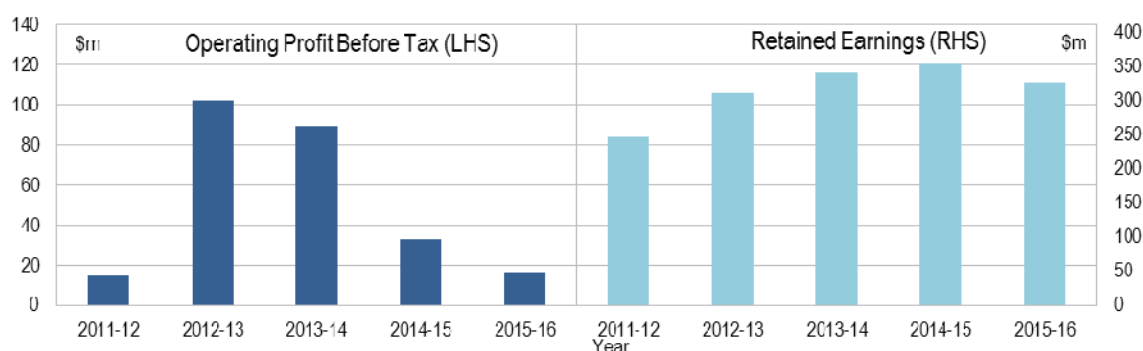
FINANCIAL PERFORMANCE SUMMARY

SAFA recorded an operating profit before tax of \$16.5 million (\$33.1 million in 2014-15), comprising:

- \$18.8 million profit from its treasury activities;
- \$7.8 million profit from its fleet activities; and
- \$10.1 million loss from its insurance activities.

This compared to a budget of \$44 million, the variance to budget primarily attributed to a claim liability increase from insurance operations. Figure A below shows a five year summary of SAFA's financial performance.

Figure A: Five-year summary of SAFA's Operating Profit Before Tax and Retained Earnings



SAFA's balance sheet was approximately \$24 000 million as at 30 June 2016. This is an increase of approximately \$1000 million from 30 June 2015. The increase largely reflects higher loans to clients, notably the Treasurer and SA Water.

Total equity decreased from \$354 million to \$327 million reflecting SAFA's operating result after tax for the year, offset by a dividend distribution of \$38.9 million to the Treasurer.

The dividend was paid to the Treasurer on 29 June 2016. SAFA also made an interim tax payment of \$3.9 million effective 30 June 2016. Table 1 below shows a five-year summary of key SAFA financial information.

Table 1: SAFA's five-year financial summary as at 30 June

	2015-16	2014-15	2013-14	2012-13	2011-12
Total Assets \$m*	24 009	23 096	22 012	20 306	20 078
Total Liabilities \$m*	23 683	22 742	21 672	19 996	19 831
Retained Earnings \$m*	327	354	340	310	247
Operating Profit Before Tax \$m	16.5	33.1	89.5	102.1	14.9
Average Number of Employees (FTE)	71.3	70.7	74.0	84.3	96.3

* Amounts reported at market value.

The financial performance of SAFA's treasury, insurance and fleet activities are shown separately in this report.

TREASURY SERVICES

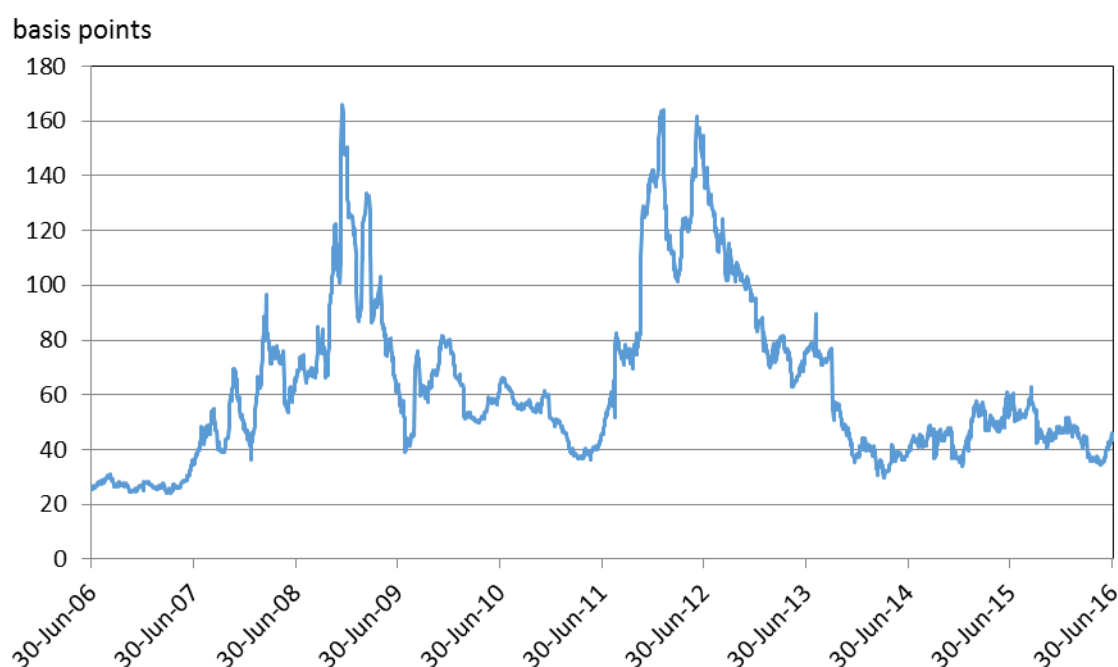
SAFA provides a number of treasury services to South Australian public sector clients contributing to the responsible management of the State's finances including: fundraising, client lending, investment products and services, client portfolio management services, foreign exchange and hedging services, and financial advisory services.

During the 2015-16 financial year, SAFA and its peer issuers in the Australian semi-government bond market saw a continued stable funding environment as a reduction in supply and stable credit markets ensued.

South Australia's credit rating continued to remain at AA throughout 2015-16 with a stable outlook, having been reaffirmed by Standard & Poor's in March 2016, and with SAFA's Aa1 credit rating being similarly reviewed and affirmed by Moody's also in March 2016.

Margins between Commonwealth and state government bonds widened during the credit events of 2008-09 and 2011-12 and are now tracking back to historical low levels. When coupled with reductions in the Reserve Bank of Australia (RBA) cash rate, SAFA's borrowing clients were able to borrow at record low outright levels of interest rates.

Figure B: SAFA vs Commonwealth Government 5 year Generic Curve (10 year horizon)



Liquidity in bond markets has stabilized as bank balance sheets have expanded their holdings to meet prudential capital standards. Investor appetite for SAFA bonds continues to grow, with increased demand from both domestic and overseas investors. SAFA maintains regular contact with its investor base, both directly and via the SAFA Dealer Panel.

FUNDRAISING

Over 2015-16, SAFA issued a total of \$1500 million of Select Line bonds. SAFA issued a new \$500 million Fixed Rate 2026 Select Line to meet client demand for longer-term fixed rate funding.

SAFA also increased its 2025 Select Line bond by \$750 million in November, and \$250 million of its 2023 Select Line bond in December to meet client demand and build liquidity in these lines. The issues were well received by domestic and international investors. SAFA has committed to markets that it will seek to build each Select Line bond to at least \$2000 million on issue to ensure sufficient secondary market liquidity. SAFA's May 2016 Select Line Floating Rate Note matured in the financial year.

SAFA's actual gross funding requirement for 2015-16 was \$3700 million.

SAFA also maintained the issuance of Promissory Notes (PNs) through the year. SAFA's issuance of Euro Commercial Paper (ECP) remained sporadic during 2015-16 due to unattractive funding levels relative to domestic issuance. A mix of PNs and ECP was used to fund SAFA's short-term reinvestment program, up to a limit of \$1000 million.

As at 30 June 2016, the volume of PNs outstanding was \$2277 million. The volume of ECP outstanding was US\$50 million.

The volume of SAFA's Select Lines outstanding as at 30 June 2016 was as follows:

Coupon	Maturity	\$M
5.75%	20 September 2017	2 403
BBSW+0.075%	10 December 2018	2 000
4.75%	6 August 2019	2 000
BBSW+0.20%	24 February 2020	2 000
5.00%	20 May 2021	2 045
4.25%	20 November 2023	1 520
2.75%	16 April 2025	1 250
3.00%	20 July 2026	500
Total		13 718

BBSW = Bank Bill Swap Reference Rate

In January 2016 SAFA undertook an investor marketing trip to Malaysia, Korea, Japan and Singapore, and the UK. Meetings were held with investors in SAFA's Euro Commercial Paper and Select Line bonds. Investors in Asia are increasing their holdings of Australian semi-government debt and this trip reconfirmed that there is strong interest in SAFA debt, especially longer-dated fixed rate debt. SAFA visited the UK for the first time as the region has been a good investor in SAFA longer term debt and this trip confirmed its increased appetite for SAFA's name. SAFA also regularly meets investors, banks and Dealer Panel members in Sydney and Melbourne as well as attending and presenting at various forums and conferences.

A list of financial institutions who act as dealers on SAFA's borrowing program is provided at Appendix C.

CLIENT LENDING

SAFA partners with clients to provide the financial products and solutions needed to manage their financial risks. It lends funds it raises from financial markets to a number of South Australian public sector clients including the Treasurer. Appendix A includes a list of SAFA's clients.

SAFA's clients are classified into three major sectors within the South Australian public sector namely, the General Government sector, Public Non-Financial Corporations sector, and Public Financial Corporations sector.

As at 30 June 2016, the total of loans to clients was \$19 102 million (face value) an overall increase of \$1145 million from the previous year. The majority of SAFA loans were to the General Government sector via the Treasurer.

INVESTMENT PRODUCTS AND SERVICES

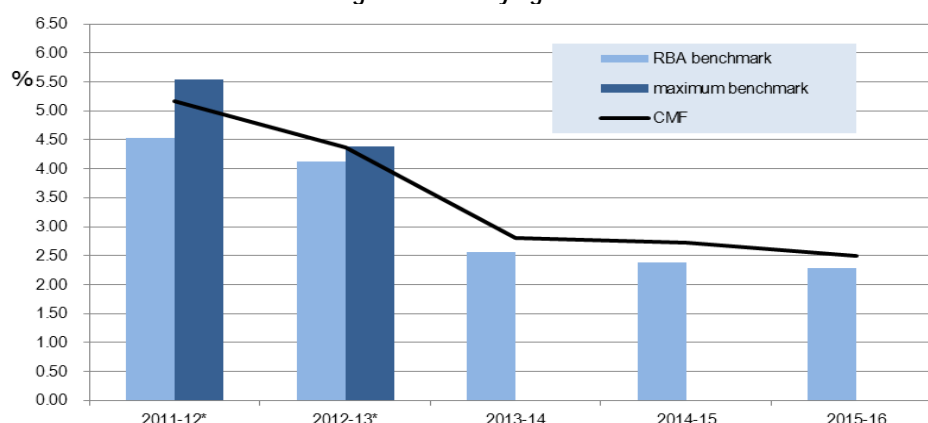
SAFA provides a centralised cash management service to the Treasurer and other public sector entities. SAFA manages the Treasurer's daily cash position with any surplus funds pooled and centrally placed with SAFA. The Treasurer's cash balance consists of his own daily operating balance and deposits held on behalf of the majority of government agencies and authorities. The Treasurer's cash balance with SAFA as at 30 June 2016 was \$5208 million. The average interest rate earned on the Treasurer's cash balance with SAFA during the year was 2.26% pa.

Agencies that do not place their funds centrally with the Treasurer can utilise SAFA's suite of investment products.

At 30 June 2016, SAFA's Cash Management Facility (CMF) had \$607 million (market value) of funds under management. SAFA holds its CMF investments in the form of cash, Negotiable Certificates of Deposits (NCDs), floating rate notes (FRNs) issued by Authorised Deposit-taking Institutions (ADIs), and short dated fixed rate bonds issued by other state governments and ADIs.

The return on the funds under management during the year was stable as a spread over the RBA official cash rate despite a volatile global credit environment. Over the 2015-16 financial year, the CMF returned 2.49% pa against the average RBA cash rate benchmark return of 2.28% pa.

Figure C: Return on SAFA's Cash Management Facility against the RBA Cash Rate Benchmark



* benchmark operated within minimum and maximum bands.

CLIENT PORTFOLIO MANAGEMENT SERVICES

During 2015-16, SAFA provided a portfolio management service to a number of clients notably the Treasurer and the South Australian Water Corporation (SA Water).

Treasurer

The Treasurer has appointed SAFA to manage the general government sector net debt. This debt is now managed within a combined portfolio, and includes:

- liquid nominal rate liabilities and hedge instruments managed against a benchmark comprising SAFA's core funding lines;
- certain non-liquid nominal long-term borrowings (for example, housing agreement borrowings from the Commonwealth); and
- inflation indexed borrowings.

The combined portfolio is referred to as the Treasurer's Cost of Funds portfolio. The liquid nominal rate liabilities and hedge instruments within the portfolio are managed to a benchmark duration range (1.0 to 5.0 years) within risk limits set relative to the benchmark with a target benchmark of 3.25 years. Value-at-Risk (VaR) limits have also been established for the management of the portfolio. The cost of funds for the Treasurer's Cost of Funds portfolio is measured on a market value basis relative to that of the policy benchmark range.

While SAFA manages the Treasurer's Cost of Funds portfolio on a mark-to-market basis against a policy benchmark, its charge-out rate to the Treasurer is based upon the average historical accounting yield of the Treasurer's portfolio. This interest cost charging mechanism, which is referred to as the Cost of Funds (COF), reduces the volatility that would otherwise arise from applying a market value based charge to general government sector clients.

For 2015-16, the average annual COF charged to the Treasurer was 3.24% pa.

The Treasurer also has a cash loan from SAFA to meet working capital needs. Interest rate on the working capital loan is linked to the RBA cash rate. The average annual interest rate charged on the working capital loan was 2.36% pa.

SA Water

SAFA provides a comprehensive treasury management service to SA Water including management of its \$6732 million debt portfolio (excluding working capital). The services provided included portfolio management, risk advisory and treasury administration support services. During 2015-16, SAFA's management of SA Water's debt portfolio was in accordance with SA Water's policy benchmark portfolio and operating guidelines determined by SA Water.

FOREIGN EXCHANGE HEDGING SERVICES

SAFA provides a foreign exchange hedging service to public sector clients. Through this service, SAFA centralises the hedging of foreign exchange risks associated with the purchase and sale of goods and services by public sector clients. The hedging of these transactions allows clients to manage the impact of currency exchange exposures on their budgets. This service also includes providing advice to public sector clients relating to foreign exchange risks. The outstanding total (face value) of foreign exchange hedging services transactions was \$56.7 million as at 30 June 2016.

FINANCIAL ADVISORY SERVICES

SAFA provides a comprehensive range of financial and advisory services, and debt restructuring advice to public sector clients, including:

- advice on financial aspects of procurement, including leasing and other structured finance solutions;
- advice on optimum asset and liability management arrangements;
- strategic risk management advice and analysis;
- financial risk management reviews; and
- development of models and reports for implementing financial and risk management solutions.

OTHER TREASURY SERVICES

Treasurer's Loan and Guarantee Arrangements

SAFA is responsible for the management of loan and guarantee arrangements between the Treasurer and general government sector agencies and other bodies. This involves monitoring and ensuring compliance with the terms and conditions of the loan arrangements and establishing and monitoring any guarantee requirements of the Treasurer.

SAFA also manages the guarantee fee policy applicable to the debt of public sector entities on behalf of the Treasurer. During 2015-16, the Treasurer approved a revised Government Guarantee Fee Pricing policy effective from 1 July 2016, following a comprehensive review conducted by SAFA.

FINANCIAL PERFORMANCE

SAFA's treasury activities generated an operating profit before tax of \$18.8 million. The profit is largely as a result of a return on its retained earnings (equity) and margins charged to clients.

SAFA's treasury related balance sheet increased from \$22 648 million to \$23 501 million and its net assets decreased by \$11 million. SAFA paid a dividend of \$23.9 million to the Treasurer from its treasury activities. Table 2 below shows a summary of SAFA's financial performance in relation to its treasury function.

Table 2: SAFA's five-year treasury financial summary as at 30 June

	2015-16	2014-15	2013-14	2012-13	2011-12
Assets \$m	23 501	22 648	21 629	19 954	19 638
Liabilities \$m	23 370	22 507	21 498	19 829	19 520
Equity \$m	130	141	131	125	118
Net interest income (NII) \$m	30.5	31.6	27.4	27.6	20.9
Other income \$m *	0.3	3.4	6.5	0	2.0
Administration expense \$m	8.0	7.2	6.8	6.4	7.4
Net profit before tax \$m*	18.8	27.8	27.1	21.2	15.5
Tax \$m	5.6	8.3	8.1	6.4	4.7
Net profit after tax \$m	13.2	19.5	19.0	14.8	10.8
Dividends paid \$m	23.9	8.8	12.9	8.2	12.8
Return on equity %	2.46	2.77	2.75	3.28	4.96
Margin on assets % (NII)	0.13	0.14	0.13	0.12	0.08
Return on equity \$m	3.2	3.9	3.6	4.1	5.9
Net interest income * (excluding return on equity) \$m	27.3	28.2	23.8	21.9	15.0

* 2014-15 includes dividend income of \$2.9 million from Equiticorp Tasman Pty Ltd and \$0.5 million final Playford Capital dividend.

INSURANCE SERVICES

Insurance activities undertaken by SAFA include:

- insurance cover and claims management to government portfolio groups, agencies and authorities;
- across government catastrophe reinsurance; and
- insurance related advice.

As the captive insurer for the Government of South Australia, SAFA's activities include:

- undertaking and carrying on in South Australia and elsewhere the business of insurers, re-insurers and co-insurers of all or any risks of the Crown. This involves insuring and reinsuring the government's risks in the Australian and international insurance markets;
- providing advice to the Crown on issues relating to the insurance and management of risks of the Crown; and
- engaging in such other insurance-related activities as are determined by the Treasurer to be in the interests of the State.

All of SAFA's insurance activities are carried out by the Insurance division of SAFA, using the name SAICORP.

SAFA reports to the Minister for Finance on insurance issues.

INSURANCE COVER TO GOVERNMENT PORTFOLIO GROUPS, AGENCIES AND AUTHORITIES

Under the government's insurance and risk management arrangements, SAFA provides insurance cover to all government portfolio groups and agencies and to all statutory authorities except those specifically exempted by the Treasurer.

In addition to the cover provided to client agencies under their agency agreements, SAFA facilitated the placement of direct insurances in the commercial insurance market as required for agencies with special risks. It also managed several across government policies including government travel insurance, motor fleet insurance (for non-Fleet SA vehicles) and fine arts insurance in respect of exhibitions and artworks on loan to clients.

Throughout the year, SAFA continued to manage property and civil liability claims from client agencies and large medical malpractice claims from the Department for Health and Ageing. SAFA also continued to manage below deductible liability claims on behalf of the Department for Health and Ageing.

Significant claim matters handled during the year included:

- misdiagnosing of breast screening;
- drug under-dosing of chemotherapy patients; and
- claims relating to medical malpractice, particularly those relating to injuries sustained at birth.

A total of 599 claims were open as at 30 June 2016, comprising 148 medical malpractice claims, 363 general liability claims, 84 property claims and four volunteer claims.

221 new claims were received during the year and 167 claims were finalised.

ACROSS GOVERNMENT CATASTROPHE REINSURANCE

Catastrophe Reinsurance Program

Although the Government of South Australia is fundamentally a self-insurer of most of its own risks, it has been considered appropriate and desirable that the State's finances be protected against the financial consequences of a catastrophic event, a very large property loss or civil liability claim, or a series of large losses or claims in a particular year.

This protection has been obtained through the placement of a commercial catastrophe reinsurance program in the Australian and international insurance markets. The program was successfully renewed at 31 October 2015.

SAFA insures \$68 billion of government assets, an increase of \$7.3 billion (or 12.1%) on the previous year. For the 2015-16 reinsurance renewal the premium for the property reinsurance program decreased by 13.6%, despite a 12.1% increase in declared values of insured assets. The program deductibles remained unchanged from the 2014-15 program.

Liability reinsurers continue to maintain a cautious approach to bushfire risk in Australia and so detailed presentations were again provided to reinsurers in London on the State's bushfire risk. For the 2015-16 reinsurance renewal the combined liability premium decreased by 5.1%.

The terrorism (property) cover was renewed with a 13.3% decrease in premiums, despite asset values increasing by 12.1%, while the aviation liability cover was renewed with a 7.5% saving in premiums.

Following a review of the State's potential exposure to network security and privacy risks and the development of product insurance markets for this risk, a new network security and privacy reinsurance policy was purchased for the first time with an aggregate limit of \$30 million.

Overall, the catastrophe reinsurance program was renewed with a total decrease in premiums for renewed policies of 9.6%.

Details on the Government of South Australia's catastrophe reinsurance program for 2015-16 are provided in Appendix D.

Local Government Association Mutual Liability Scheme

The reinsurance program also covers risks assumed by the government under the indemnity provided by the Treasurer to the Local Government Association Mutual Liability Scheme (the Scheme). The Scheme program is noted on the government's catastrophe reinsurance program.

The Treasurer's indemnity requires the Scheme to purchase higher limits of cover under its commercial reinsurance program and also limits the amount of automatic cover available under the indemnity for uninsured risks.

Building Indemnity Insurance

Building indemnity insurance covers homeowners from loss or damage resulting from non-completion of building work, loss of deposit or breach of statutory warranty if the homeowner cannot recover compensation from the builder because of their death, disappearance or insolvency.

In order to facilitate the availability and affordability of building indemnity insurance to homeowners, SAFA in the past provided catastrophe reinsurance protection to Vero, Calliden and QBE Insurance Group Limited (QBE), who have all since withdrawn from the market.

As this insurance is required by legislation, SAFA signed a one year 100% quota share agreement with QBE in June 2013 (with a one year optional extension) to enable QBE to continue to provide building indemnity insurance services until a longer term solution is developed. A similar agreement was executed with Calliden (now known as RBUA) effective from 1 October 2013. Both agreements have been extended to 30 June 2017. SAFA is working with Consumer and Business Services on possible enhancements to the current scheme.

INSURANCE FUNDS

SAFA's insurance function operates through three funds specifically established to quarantine SAFA's insurance activities from its other funding and investment activities.

SAICORP Insurance Fund 1

The normal commercial insurance operations of SAFA are transacted through SAICORP Insurance Fund 1 (Fund 1). This fund is funded by premiums charged to client agencies and investment earnings.

The method of calculation of the level of free reserves uses assets over liabilities, expressed as a percentage. SAFA's target range for solvency reserves is 125% to 165% of total liabilities.

SAFA's actual solvency margin as at 30 June 2016 was 141% which is within the target range. This equates to a surplus of assets over liabilities of \$63.6 million.

SAFA's insurance investments for Fund 1 are invested in Funds SA's Growth product.

SAICORP Insurance Fund 2

SAICORP Insurance Fund 2 (Fund 2) now only funds liabilities arising from insurable incidents that occurred prior to 1 July 1994 that survive the *Limitations of Actions Act*, claims under the previous building indemnity reinsurance arrangements with Vero and QBE, SGIC residual claims and claims against RESI Corporation. Non-insurance type liabilities previously met from Fund 2 are now managed by the relevant government department and funded separately.

On an annual basis the liabilities of Fund 2 are revalued and any deficiency arising from the valuation is offset by a receivable from the Treasurer. Conversely any surplus is offset by a payable to the Treasurer. This ensures that Fund 2 records a break-even result as at 30 June each year.

SAFA's insurance investments for Fund 2 are invested in Funds SA's Conservative product.

SAICORP Insurance Fund 3

SAICORP Insurance Fund 3 (Fund 3) was established on 1 July 2013 to fund the cost of the new building indemnity insurance arrangements. Fund 3 receives premium income from QBE and Calliden and pays commissions, claims and other costs payable under the new reinsurance arrangements. Fund 3 is supported by an indemnity from the Treasurer and has been established to quarantine the costs arising from building indemnity insurance from SAFA's normal insurance activities.

FINANCIAL PERFORMANCE

Fund 1

For the year ended 30 June 2016, Fund 1 recorded an underwriting loss of \$26.2 million and an overall operating loss of \$10 million. The underwriting loss was attributable to increased claims liabilities and the impact of actuarial assumptions such as lower discount rates and higher prudential margins. The underwriting loss was almost entirely absorbed through higher than expected returns on insurance investments, resulting in a near break-even result for the year.

As at 30 June 2016, Fund 1 had total investments of \$495 million and total assets of \$547 million. It had outstanding claim liabilities of \$349 million and total liabilities of \$386 million. Its net assets were \$168 million.

The return on funds invested in Funds SA's tax exempt multi-sector growth product was 3.36% pa. The fund has earned 9.3% pa over the past five years and 5.8% pa over the past ten years.

Funds SA's Growth (tax exempt) product has a target rate of return of 4% pa in excess of the rate of inflation (CPI). There is a reasonable likelihood of a negative return between three and four years in 20.

Table 3 below shows the financial performance of Fund 1.

Table 3: SAFA's five-year insurance financial summary for Fund 1 as at 30 June

	2015-16 \$m	2014-15 \$m	2013-14 \$m	2012-13 \$m	2011-12 \$m
Total Assets	547	491	430	403	383
Total Liabilities	386	322	261	273	300
Net Assets	168	168	169	130	83
Outstanding Claim Liabilities	349	322	261	273	300
Total Investments	495	475	413	377	358
Premium Revenue	40.5	41.5	39.8	39.1	34.8
Reinsurance Expense	(8.4)	(8.7)	(9.1)	(9.2)	(8.1)
Net Claims (Expense)/Gain	(58.9)	(74.5)	(30.0)	(19.0)	(51.7)
Underwriting Result	(26.2)	(41.8)	1.1	11.4	(24.4)
Investment Revenue	17.6	41.9	56.3	57.4	7.7
Profit/(Loss) Before Tax	(10.0)	(1.3)	55.9	67.8	(18.0)

Fund 2

For the year ended 30 June 2016, Fund 2 recorded a profit of \$4.5 million prior to the recognition of a matching but offsetting payable to the Treasurer.

Table 4 below gives details of the financial performance of Fund 2.

Table 4: SAFA's five-year insurance financial summary for Fund 2 as at 30 June

	2015-16 \$m	2014-15 \$m	2013-14 \$m	2012-13 \$m	2011-12 \$m
Total Assets	33	50	55	63	65
Total Liabilities	33	50	55	63	65
Outstanding Claim Liabilities	18.7	40.6	41.6	54.7	64.8
Total Investments	27.9	44.9	46.7	53.3	56.5
Net Claims (Expense)/Gain	1.7	(7.5)	(0.4)	4.5	(2.5)
Receivable/(Payable) to Treasurer	(4.5)	3.5	(5.0)	(9.4)	(1.0)
Profit/(Loss) Before Tax	-	-	-	-	-

Fund 3

For the year ended 30 June 2016, Fund 3 recorded a loss of \$0.4 million prior to the recognition of a matching but offsetting receivable from the Treasurer. Income and expenditure for this Fund has been deferred and amortised over the expected pattern of risk.

Table 5 below gives details of the financial performance of Fund 3.

Table 5: SAFA's five-year insurance financial summary for Fund 3 as at 30 June

	2015-16	2014-15	2013-14	2012-13	2011-12
	\$m	\$m	\$m	\$m	\$m
Total Assets	23	15	9	-	-
Total Liabilities	23	15	9	-	-
Outstanding Claim Liabilities	7.4	3.5	0.8	-	-
Total Investments	16.0	9.1	2.5	-	-
Net Claims (Expense)/Gain	(5.8)	(4.2)	(1.2)	-	-
Receivable/(Payable) to Treasurer	0.4	3.8	1.0	-	-
Profit/(Loss) Before Tax	-	-	-	-	-

FLEET SERVICES

The Government of South Australia's passenger and light commercial motor vehicle fleet is owned and managed by SAFA.

SAFA funds the Government of South Australia fleet vehicles, accessing lower borrowing costs and therefore providing lower lease costs to agencies.

In addition through its Fleet division, SAFA is responsible for:

- procurement, contract management and performance monitoring;
- accident management (repairs and claims);
- short-term hire pool; and
- management and updating of government fleet policies.

SAFA reports to the Minister for Finance on fleet issues, and to the Treasurer on Members of Parliament fleet issues.

SAFA provides policy advice on issues pertaining to fleet management. This advice generally relates to current motor vehicle industry standards and issues relating to safety, environment, and strategies for an appropriate fleet mix.

The purchase of motor vehicles is outside the scope of the *State Procurement Act 2004*. However, where practicable, the Government of South Australia supports Australian based manufacturers, purchasing Australian made passenger vehicles where possible.

SAFA continues to strengthen its safety policies and works closely with the Office of Road Safety. The fleet division is a stakeholder on the 2013-16 Road Safety Action Plan.

SAFA works towards continually improving the safety of the government fleet where possible by:

- Extending the Government of South Australia's vehicle purchasing policy with regard to the Australasian New Car Assessment Program (ANCAP) so that:
 - all passenger vehicles must be 5 star ANCAP;
 - all AWD vehicles (small and medium SUV's) to be 5 star ANCAP; and
 - all light commercial and traditional 4WD's to be 5 star ANCAP where available cognisant of operational needs.
- Embracing safety assist technology, and working with vehicle manufacturers to make these features available on base model cars 'unbundled' (i.e. available individually and not packaged with other features that would otherwise incur additional costs).
- Fitting vehicle integrated reversing aids such as cameras and sensors to help drivers be aware of what is directly behind a car.

- Working with other jurisdictions and national fleet buyers to include more safety features in vehicles purchased and used in South Australia.

This safety policy continues to provide safer vehicles for government employees and as a result flows to safer vehicles being provided for the community when they are sold at the end of their fleet life.

A Fleet Management Handbook is provided to all agencies to provide a clear understanding of the framework of responsibility in the management of the fleet.

SAFA is a strong advocate of reducing the emissions from the government fleet. Imported low emission passenger vehicles have been introduced to replace Australian made vehicles as the vehicle manufacturers cease local production.

VEHICLE LEASING

Under the government's fleet management arrangements, SAFA leases vehicles to eligible clients. Fleet SA's eligible clients are those organisations that meet the following criteria:

- Government of South Australia agency; or
- Hospitals and health units incorporated under the *SA Health Commission Act*; or
- Statutory Authorities (excluding universities); or
- any other organisation (including Boards), which is approved by the appropriate agency chief executive or their delegates, where the organisation complies with the following:
 - receives a substantial portion of their funds from the Government of South Australia; and
 - there is a direct line of accountability between the organisation and a state government Minister.

The leasing of vehicles to clients includes the costs associated with depreciation, borrowing, maintenance, servicing, registration and comprehensive third party insurance, and accident management. Fleet SA is a self-insurer of the Government of South Australia's vehicles.

LeasePlan Australia Limited (LeasePlan) is SAFA's appointed agent. As agent for SAFA, LeasePlan provide fleet management services including:

- fleet distribution (vehicle ordering and acquisition);
- fleet services (vehicle service, maintenance, repair and breakdown assistance); and
- fuel management (fuel card management).

LeasePlan has a local office in Adelaide with a network of account managers that liaise with agencies on a regular basis.

Additionally, LeasePlan provides access to an extensive online web based fleet management system to assist agencies to manage their fleets. The LeasePlan system provides access to online vehicle ordering and includes a comprehensive suite of reports.

VEHICLE DISPOSAL

Pickles Auctions Pty Ltd (Pickles) is SAFA's appointed Vehicle Disposal Management agent. As agent for SAFA, Pickles provide vehicle disposal management services including:

- preparing the vehicle for sale;
- vehicle rectification; and
- vehicle sale.

FLEET STATISTICS

As at 30 June 2016 the size of the fleet was 7391 vehicles which represents a decrease of 7% from 7881 in 2014-15. For the 2015-16 year 2607 vehicles were purchased for lease at a total capital cost of \$80.5 million (ex GST).

The long-term hire vehicle fleet travelled a total of 107.4 million kilometres (excluding SA Police) in 2015-16 at an average of 17 502 kilometres per vehicle. This is a decrease of 1.17% per vehicle from the average of 17 709 kilometres per vehicle in 2014-15.

The total fuel used by the fleet in 2015-16 was 10.4 million litres (excluding bulk fuel and SA Police).

The bulk of the fleet was manufactured by General Motors Holden (47%), Toyota (25%) and Ford (13%).

For 2015-16 the total vehicles sold was 3070 representing a total value of \$ 53.3 million (ex GST).

LeasePlan and Pickles, as agents, continue to utilise the established SAFA supplier network that includes motor vehicle dealers and service and repairers including the across government Crash Repairer Panel Arrangement.

FINANCIAL PERFORMANCE

SAFA's fleet activities generated an operating profit before tax of \$7.8 million. Its fleet related assets and liabilities totalled \$212 million and \$177 million respectively, and its net assets decreased from \$44.8 million to \$35.3 million in 2015-16.

SAFA's fleet activities paid a dividend of \$15.0 million to the Treasurer in 2015-16. Table 6 overleaf shows a summary of SAFA's financial performance in relation to its fleet activities.

Table 6: SAFA's Fleet SA financial summary as at 30 June

	2015-16	2014-15	2013-14	2012-13	2011-12
	\$m	\$m	\$m	\$m	\$m
Assets	212.0	229.9	232.1	268.4	263.3
Liabilities	176.7	185.1	191.9	213.1	216.9
Equity	35.3	44.8	40.2	55.3	47.2
Leasing hire revenue	60.6	63.1	67.2	73.2	79.9
Recoveries revenue	19.8	23.5	26.8	27.5	32.3
Motor vehicle expense	28.8	30.9	35.8	32.8	36.9
Depreciation and impairment	39.0	39.1	40.3	43.5	47.6
Net gain/(loss) on sale of PPE*	1.4	(0.9)	0.9	1.7	6.8
Administration expense	6.0	6.2	5.1	5.8	6.1
Net profit before tax	7.8	6.6	6.5	13.2	17.4
Tax	2.3	2.0	2.0	3.9	5.2
Net profit after tax	5.5	4.6	4.5	9.3	12.2

*PPE – Plant, Property and Equipment.

OTHER BUSINESS SERVICES

In addition to SAFA's core activities, SAFA provides services to the Treasurer and the Minister for Finance for the management of industry assistance contracts, and to the Minister for Finance for the management of electricity lessor corporations.

Electricity Lessor Corporations

SAFA is responsible for the management of the electricity lessor corporations that own South Australia's generation, transmission and distribution infrastructure. SAFA's role includes the provision of legal, accounting, financial, corporate governance and transaction management services.

The electricity lessor corporations are: Generation Lessor Corporation, Transmission Lessor Corporation; and Distribution Lessor Corporation.

During 2015-16, SAFA continued to monitor compliance with the contractual obligations of all parties to the transaction documents for the privatisation of the State's electricity infrastructure. Further detailed information on the operations of the above corporations is available from their annual reports.

On 11 June 2015, Alinta Energy (the parent company of the Flinders Power Partnership) announced that it was closing its operations at Port Augusta and Leigh Creek.

In response, the Government established the Upper Spencer Gulf and Outback Taskforce to, amongst other things, engage with Alinta for the return of the Leigh Creek township and railway to government control and to ensure that Alinta complies with its obligations under the leasing arrangements to dismantle the power stations and remediate the underlying land.

Further information on the closure of Alinta's operations at Port Augusta and Leigh Creek is available in Generation Lessor Corporation's 2015-16 annual report.

SAFA is also responsible for the management of asbestos and workers' rehabilitation claims previously undertaken by RESI Corporation (formerly ETSA Corporation).

Industry Assistance Contract Management

As at 30 June 2016, SAFA administered 91 agreements to provide financial assistance to industry within South Australia on behalf of the Treasurer and the Minister for Finance, with a total value of \$175 million. Assistance has been provided from the following funds or through individual submissions:

- the Industry Investment Attraction Fund (IIAF);
- the Structural Adjustment Fund for South Australia (SAFSA);
- the Innovation and Investment Fund for South Australia (IIFSA);
- the Regional Development Infrastructure Fund (RDIF);
- the South Australia Innovation and Investment Fund (SAIIF);

- the Small Business Development Fund (SBDF);
- the Regional Development Fund (RDF);
- the South East Forestry Partnership Program (SEFPP); and
- the Whyalla Small Business Loans Scheme (WSBLS).

The WSBLS was established during the year with \$9.6 million in funds to provide assistance to South Australian businesses (that are creditors of Arrium) in the form of three-year interest free loans.

SAFA worked closely with the Department of State Development, Department of Primary Industries and Regions, the Commonwealth Government, and other relevant departments in managing the industry assistance contracts.

In 2014, Cabinet approved the Unlocking Capital for Jobs Program which aims to accelerate growth and create jobs in South Australia. The program is designed to make it easier for businesses to secure commercial finance by offering bank guarantees to the value of \$50 million in total, which will allow up to \$250 million in borrowings to be leveraged. SAFA advises the Treasurer on the merits and risks attached to applications under the program, and manages the ongoing performance of the parties to guarantees. To date, a total of \$3.5 million guarantees have been issued.

On 27 November 2015 the Treasurer for and on behalf of the State executed the \$291.3 million State Counter-indemnity (guarantee) in support of the Nyrstar Port Pirie Smelter Transformation. As at 30 June 2016 the State's exposure to the guarantee was \$114.7 million. SAFA continues to manage the monthly drawdowns against the guarantee which are forecast to continue through 2016-17.

Public Private Partnership

During the year, SAFA assumed responsibility from the Department of Treasury and Finance for specialist technical advice on the Public Private Partnership (PPP) program and other related financing projects.

SAFA provides policy advice and oversees the State's PPP projects, which includes:

- 5 new regional police stations and 4 new regional magistrates courts (\$40 million capital cost);
- 6 major new schools (\$200 million capital cost); and
- the delivery of major new health infrastructure at the new Royal Adelaide Hospital (RAH) (\$2 billion capital cost).

SAFA is playing a lead role in financing for the new RAH. Approval has been obtained from the Treasurer for an interest rate hedging strategy for the project which will be implemented progressively over the coming months. SAFA will also be closely involved in the consideration and evaluation of refinancing options and strategies for the new RAH.

CORPORATE GOVERNANCE STRUCTURE AND PRACTICES

SAFA's governance practices, in particular, SAFA's governing legislation, matters associated with SAFA's Advisory Board and SAFA's control environment, are all comprehensively documented in SAFA's Policy Manual.

GOVERNING LEGISLATION

SAFA is a statutory authority constituted as the Under Treasurer under the *Government Financing Authority Act 1982* (SAFA's Act) and commenced operations in January 1983.

SAFA is subject to the control and direction of the Treasurer and its borrowings and general financial obligations are guaranteed by the Treasurer.

The Treasurer has delegated responsibility for SAFA's insurance and fleet operations to the Minister for Finance in accordance with Section 9 of the *Administrative Arrangements Act 1994*.

Notwithstanding the transfer of responsibilities to the Minister for Finance of these functions, the Treasurer retains overall responsibility for the functions.

SAFA ADVISORY BOARD

An Advisory Board established in June 1995 advises the Treasurer, the Minister for Finance and the Under Treasurer with regard to SAFA's operations.

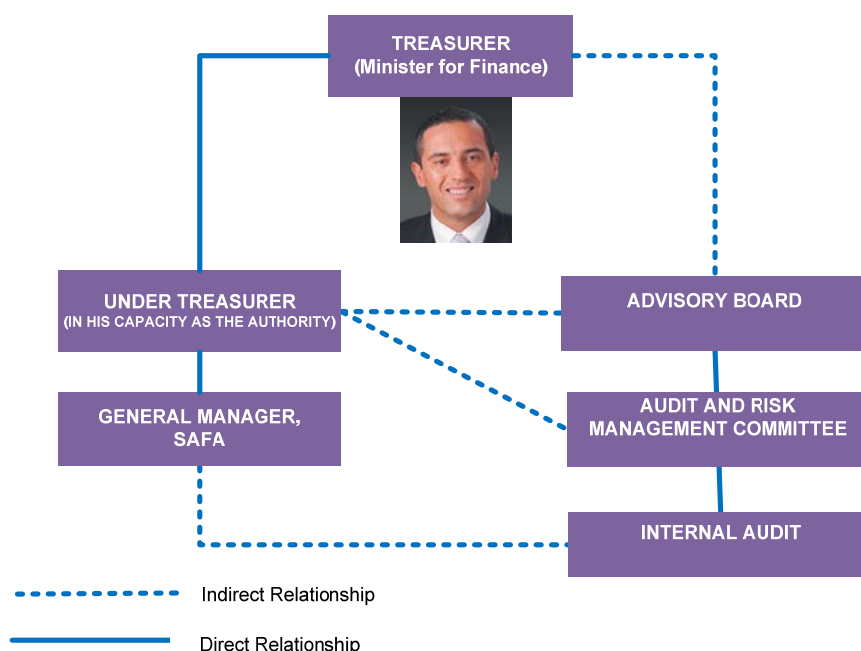
In controlling the operations of SAFA, the Under Treasurer must consider advice given to him by the SAFA Advisory Board (Advisory Board).

The Advisory Board can comprise up to seven members and its composition is determined according to provisions in SAFA's Act.

An Audit and Risk Management Committee has also been established to assist the Advisory Board in monitoring the soundness of operations within SAFA. More detailed information regarding the Audit and Risk Management Committee is provided in the Internal Controls and Audit section later in this report.

Figure D overleaf illustrates the relationship between the key parties associated with the operations of SAFA.

Figure D: Relationship between the Treasurer, Minister for Finance, SAFA and Advisory Board



Role and Responsibility

The Advisory Board has responsibility for providing advice to the Under Treasurer, Minister for Finance, and the Treasurer on issues pertaining to SAFA's operations. The Advisory Board has two functions under SAFA's Act:

- (i) at the request of the Treasurer or the Under Treasurer it will provide advice to the Treasurer (in writing) or the Under Treasurer (orally or in writing) on any question relating to the exercise by SAFA of its powers, functions or duties under SAFA's Act; and
- (ii) if it believes it should provide advice to the Treasurer or the Under Treasurer on any matter relating to the exercise by SAFA of its powers, functions or duties under SAFA's Act, it may provide that advice even though a special request has not been made.

Should any advice given to the Under Treasurer, Minister for Finance, or the Treasurer not be followed, it must be noted in SAFA's Annual Report, together with sufficient reasoning as to why it was not followed.

There were no occurrences of such advice in 2015-16.

Throughout the year, the Advisory Board received and reviewed:

- monthly reports from the General Manager summarising operational and financial matters;
- regular reports on SAFA's debt and asset management activities, portfolio management assignments, financial statements, insurance operations, fleet operations, other business services, progress against its business plan and matters related to credit risk; and
- other policy-related papers.

Membership

SAFA's Act specifies that the Advisory Board must consist of not less than five and not more than seven members, one of which must be employed by a semi-government authority and one of which must have insurance expertise.

SAFA Advisory Board Members

As at 30 June 2016, the Advisory Board comprised the following members:

Mr David Reynolds	Under Treasurer, Presiding Member (member since December 2015)
Ms Juliet Brown	Company Director (member since June 2008)
Mr Mark Day	Company Director (member since June 2012)
Mr Paul Holloway	Company Director (member since July 2015)
Ms Kathryn Presser	Company Director (member since July 2015)
Ms Joan Fitzpatrick	Company Director (member since August 2014)
Mr Jamie Hollamby	General Manager, Business Services, SA Water Corporation (member since August 2014)
Deputy members:	
Ms Nicolle Rantanen	Chief Operations Officer, Department of Treasury and Finance (deputy member to Mr Reynolds since April 2016)
Ms Kelly Rowlands	General Manager, Customer and Community Relations, SA Water Corporation (deputy member to Mr Hollamby since August 2014)



SAFA Advisory Board Members (from left to right): Mr Jamie Hollamby, Ms Joan Fitzpatrick, Ms Kathryn Presser, Mr Mark Day, Ms Juliet Brown, Mr Paul Holloway, Mr David Reynolds.

Appointment and Retirement of Advisory Board Members

Advisory Board members (excluding the Under Treasurer as Presiding Member) are appointed by the Governor of South Australia for a term (of up to three years) as defined in the instrument of appointment. Members are eligible for re-appointment at the end of that term.

Resignations and Retirements

Mr Brett Rowse retired as Under Treasurer and Presiding Member of the SAFA Advisory Board on 30 November 2015. His valuable leadership and contribution to the Advisory Board is acknowledged.

Mr Garry Goddard was appointed as deputy to Mr Rowse in April 2011. Mr Goddard's appointment as deputy member to the Advisory Board expired following the retirement of Mr Rowse.

Appointments

In July 2015, Ms Kathryn Presser and Mr Paul Holloway were appointed as members of the SAFA Advisory Board for a term of three years expiring 15 July 2018.

In July 2015, Mr Mark Day was re-appointed as member of the SAFA Advisory Board for a term of three years expiring 15 July 2018.

In April 2016, Ms Nicolle Rantanen was appointed as deputy to the Presiding Member for a term of three years expiring 20 April 2019.

Details of Advisory Board members' attendance for 2015-16 are as follows:

Advisory Board Member	Meetings Eligible to Attend	Meetings Attended	Term Expiry Date
Mr Brett Rowse	4	4	Ex-officio until 30 November 2015
Mr David Reynolds	2	2	Ex-officio from 1 December 2015
Ms Juliet Brown	6	5	13 August 2017
Mr Mark Day	6	6	15 July 2018
Ms Joan Fitzpatrick	6	5	13 August 2017
Mr Paul Holloway	6	6	15 July 2018
Mr Jamie Hollamby	6	6	13 August 2017
Ms Kathryn Presser	6	3	15 July 2018
Ms Nicolle Rantanen ^{dm}	0	0	20 April 2019
Mr Garry Goddard ^{dm}	0	0	30 November 2015
Ms Kelly Rowlands ^{dm}	0	0	13 August 2017

dm - deputy member

Remuneration

During 2015-16, five appointed members of the Advisory Board were entitled to receive allowances and expenses. Total remuneration paid for the year was \$188 260. Members who are permanently employed under the *Public Sector Act 2009*, or on similar terms, are not entitled to remuneration.

Conflict of Interest

Nil reported.

INTERNAL CONTROLS AND AUDIT

SAFA's Act requires SAFA to conduct its business affairs in accordance with proper principles of financial management, and having regard to the nature of the captive insurance function, with a view to avoiding a loss. With SAFA's continuing commitment to quality, its attitude to risks remains so as to undertake its range of business functions in a risk neutral manner and to protect the interests of its owner and clients.

SAFA is exposed to a range of operational and financial risks in the performance of its responsibilities. These risks include interest rate, credit, liquidity, currency, funding, and insurance. Other risks include fleet, operational and legal risks. Further information on SAFA's financial risks is contained in this annual report in the notes to the financial statements.

The management of these risks is central to the control framework and is enshrined in the form of SAFA's Policy Manual. The Policy Manual defines the roles, responsibilities and obligations of all parties associated with SAFA. SAFA complies with the prudential framework of the Policy Manual as ratified by the Advisory Board, noted by the Minister for Finance, and approved by the Treasurer.

Through a combination of internal and external resources, SAFA's business activities are subject to extensive monitoring through the application of a conservative risk management framework. SAFA is reviewed by a combination of the Auditor-General of South Australia, the Audit and Risk Management Committee, an outsourced internal audit function and an in-house Compliance section.

The Auditor-General undertakes an independent review of SAFA and reports his findings to the Under Treasurer and the South Australian Parliament annually.

The Audit and Risk Management Committee is a sub-committee of the full Advisory Board, and provides assistance to the Under Treasurer and the Advisory Board to determine the soundness of operating practices in SAFA. The Audit and Risk Management Committee consists of four members and meets regularly with SAFA management, Internal Audit, Compliance section and staff from the Auditor-General's Department. The Audit and Risk Management Committee met five times during 2015-16.

PricewaterhouseCoopers provide the internal audit services to SAFA and work closely with SAFA's Compliance section to ensure a robust control system is adhered to.

OUR PEOPLE

OPERATIONAL STRUCTURE

SAFA's operations are managed by the General Manager who reports directly to the Under Treasurer.

A number of committees have also been established to assist the General Manager in fulfilling SAFA's objectives and responsibilities on a day-to-day basis. They include the:

- Asset and Liability Management Committee;
- IT Committee;
- Fleet Executive Governance Group; and
- Across Government Fleet Management Reference Group.

Figure E overleaf illustrates the current organisational structure of SAFA.

STAFFING

SAFA is resourced by staff employed by the Department of Treasury and Finance (DTF) that are assigned to SAFA. Permanent staff are employed by the Government of South Australia under the *Public Sector Act 2009*. Some specialist staff are also employed on an untenured contract basis.

At 30 June 2016, 78 staff (73.2 FTEs) were employed directly in SAFA's operations, of whom 19 worked on a part-time basis. SAFA's FTE average for the year was 71.3 staff. Table 7 below provides details on the composition of staff within SAFA. A staff list is provided at Appendix B.

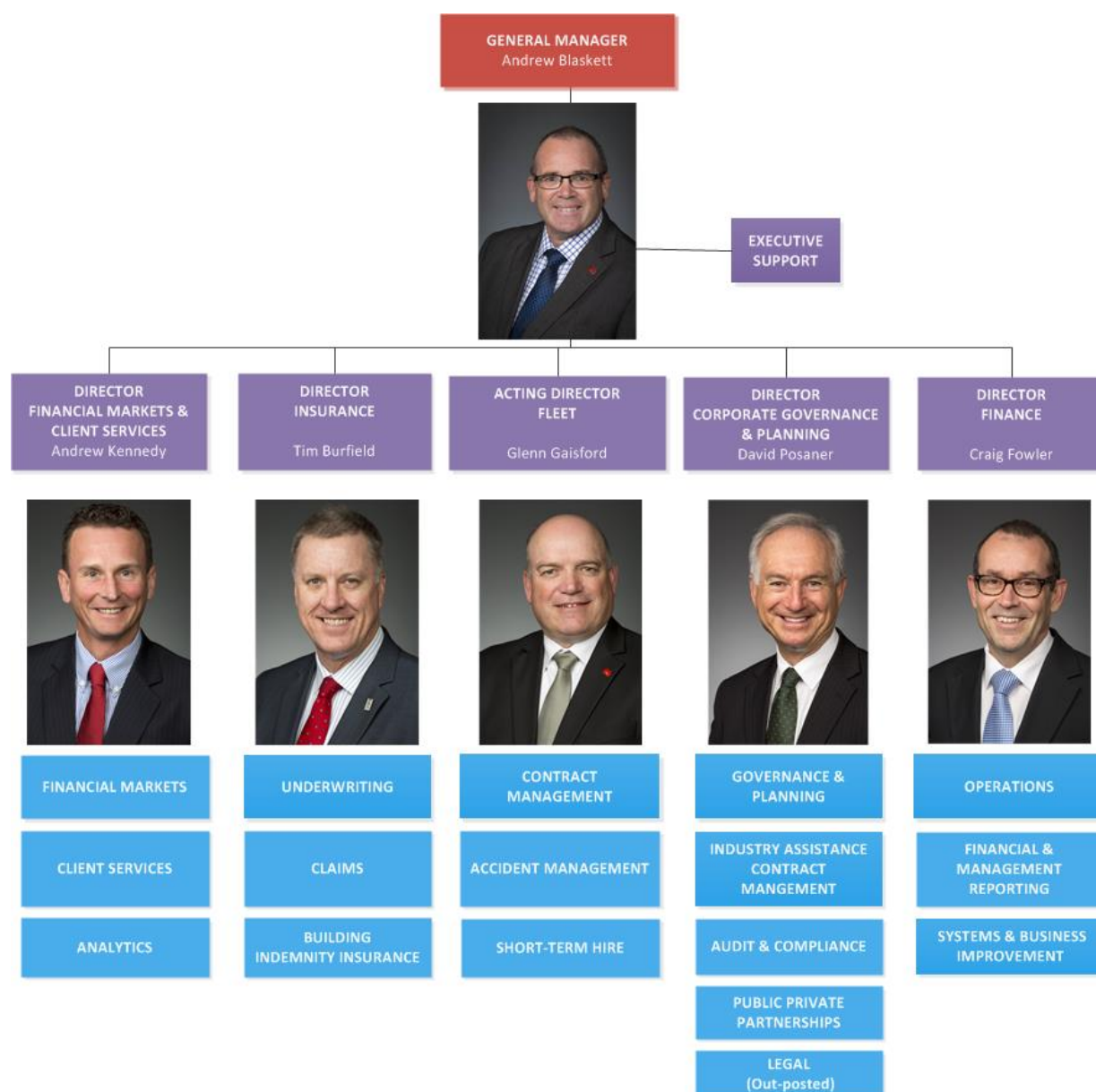
Table 7: SAFA staff profile as at 30 June 2016

	% of Total FTE ⁽¹⁾	Number of Part Time	% of FTE at Executive Level	% of FTE at Senior Level (ASO6) ⁽²⁾
Female	46 %	18	0%	25 %
Male	54 %	1	6 %	29 %
Total	100 %	19	6 %	54 %

(1) FTE – Full-time equivalent.

(2) Includes staff and contractors at levels ASO6 and above excluding executive positions.

Figure E: SAFA's organisational structure as at 30 June 2016



A number of contractors and specialists were also employed to supplement SAFA's expertise in various areas.

SAFA staff are bound by the South Australian public sector's enterprise bargaining framework. It is a party to the across government wages parity enterprise bargaining agreement for the determination of salaries. SAFA supports equal opportunity in employment and selects staff on the basis of merit for all positions within the organisation.

Performance reviews, consistent with the DTF's Performance Management Program, are conducted annually and help to provide staff with work performance improvement, personal development and direction in career planning.

Through the DTF's Safety Management Plan, SAFA is committed to the continuous improvement in the health, safety and welfare of its employees. The plan aligns with performance standards for self-insurers and aims to facilitate a standard of excellence in work health and safety (WH&S) issues in the areas of prevention, rehabilitation and claims management.

SAFA has integrated WH&S and Injury Management into its management systems and half yearly safety audits are conducted to highlight any workplace hazards or maintenance work required. There were three incidents reported throughout 2015-16.

SAFA supports the initiatives and activities of DTF's Well-Being program, which includes flexible working arrangements, recognizing the need for balance between work and home life. Other initiatives supported by SAFA include the government's White Ribbon initiative (raising awareness towards the prevention of male violence against women) and Gender Equality in Leadership (targeting equal gender representation in DTF leadership positions by 2020).

SAFA is committed to supporting disability awareness within the work environment and staff are kept up to date with developments in this area by attending regular training seminars. Further information on the Department of Treasury and Finance's commitment to its Disability Access and Inclusion Plan can be found in the Department of Treasury and Finance's 2015-16 annual report.

Staff are required to comply with the government's Code of Ethics for South Australian public sector employees and the codes of ethics relevant to professional associations.

Professional Skills and Expertise

The expertise of SAFA staff is derived from a variety of tertiary and vocational backgrounds. SAFA staff possess qualifications in the following fields:

- Arts;
- Automotive Engineering and Crash Repair Industry;
- Economics, Business, Commerce, Accountancy, Audit, Insurance and Insolvency;
- Finance and Investment, Financial Markets, and Superannuation Management;
- Law and Legal Practice;
- Management and Public Sector Management;
- Contract Management and Procurement;
- Records Information, Office Management and Commercial Studies; and
- Science (mathematics), Computing, and Information Technology.

SAFA encourages the ongoing commitment to education with support being provided through paid study leave and the reimbursement of tuition fees following successful completion of work related subjects.

Professional Development

A number of staff continue their professional development through affiliations with various professional associations through memberships, fellowships and accreditations. These associations include:

- Australian and New Zealand Institute of Insurance and Finance;
- Australian Financial Markets Association;
- Australasian Fleet Management Association;
- Australia Insurance Law Association;
- CPA Australia Limited;
- Finance and Treasury Association Limited;
- Financial Services Institute of Australia;
- Institute of Automotive and Mechanical Engineers;
- Institute of Chartered Accountants;
- Institute of Internal Auditors;
- Records and Information Management Professionals Australasia;
- Risk Management Institution of Australasia; and
- University of Adelaide.

Training

SAFA maintained a strong commitment to staff training and development during the year sustained by an appropriate budget allocation. Staff training needs are assessed regularly and all personnel are encouraged to attend work-related courses, seminars, and in-house or offsite workshops.

SAFA continued to focus on communication, records management and systems training throughout the year.

Financial Statements

For the year ended 30 June 2016

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Statement of Financial Position

as at 30 June 2016

	Note	2016 \$m	2015 \$m
Assets			
Cash and Short Term Assets	4	1,927.9	1,855.0
Assets Held for Sale	5	2.9	5.4
Investments	6	1,736.3	2,391.8
Loans	7	19,857.6	18,447.5
Property, Plant and Equipment	8	169.4	177.6
Intangible Assets	9	3.4	2.6
Derivatives Receivable	10	254.9	191.3
Receivables and Other Assets	11	57.0	25.3
Total Assets		24,009.4	23,096.5
Liabilities			
Deposits and Short-Term Borrowings	12	8,048.9	6,698.6
Bonds, Notes and Debentures	13	15,068.9	15,606.2
Outstanding Claims	14	375.0	366.3
Derivatives Payable	15	115.7	42.5
Payables and Other Liabilities	16	74.0	28.7
Total Liabilities		23,682.5	22,742.3
NET ASSETS		326.9	354.2
Equity			
Retained Earnings		326.9	354.2
TOTAL EQUITY		326.9	354.2
Total equity is attributable to the SA Government as owner			
Contingent Assets and Liabilities	21		
Unrecognised Contractual Commitments	27		

Statement of Comprehensive Income

for the year ended 30 June 2016

	Note	2016 \$m	2015 \$m
Income			
Revenue			
Interest Revenue	17	971.5	1,065.4
Less Interest Expense	17	970.3	1,063.2
Net Interest Revenue		1.2	2.2
Insurance Premium	17	48.4	47.6
Leasing and Hire	17	60.6	63.1
Recoveries	17	22.8	24.7
Other	17	3.7	5.6
Total Revenue		136.7	143.2
Other Gains/(Losses)			
Net Gain on Financial Instruments and Derivatives	18	39.8	69.4
Net Gain/(Loss) on Sale of Property, Plant and Equipment	18	1.4	(0.8)
Total Other Gains		41.2	68.6
Total Income		177.9	211.8
Expenses			
Depreciation and Impairment	19	39.4	39.2
Insurance Claims	19	64.7	88.6
Motor Vehicle	19	28.8	30.9
Outward Reinsurance	19	8.4	8.7
Operating	19	20.1	11.3
Total Expense		161.4	178.7
Profit before income tax equivalents		16.5	33.1
Income Tax Equivalent Expense with SA Government	2 (s)	4.9	9.9
Profit after income tax equivalents		11.6	23.2
Other Comprehensive Income		-	-
Total comprehensive result		11.6	23.2

The profit after income tax equivalent and total comprehensive result are attributable to the SA Government as owner

Statement of Changes in Equity

for the year ended 30 June 2016

	Note	Retained Earnings \$m
Balance at 30 June 2014		339.8
Profit after income tax for 2014-15	2(s)	23.2
Total comprehensive result for 2014-15		23.2
Transactions with SA Government as owner		
Dividends paid		(8.8)
Balance at 30 June 2015		354.2
Profit after income tax for 2015-16	2(s)	11.6
Total comprehensive result for 2015-16		11.6
Transactions with SA Government as owner		
Dividends paid		(38.9)
Balance at 30 June 2016		326.9

All changes in equity are attributable to the SA Government as owner

Statement of Cash Flows

for the year ended 30 June 2016

Note	2016 \$m	2015 \$m
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from:		
Interest received on loans and investments	941.1	964.8
Dividends received	-	3.4
Derivatives net interest received	5.7	97.0
Insurance Premiums received	63.9	59.0
Leasing and Motor Vehicle receipts	68.3	71.7
Recoveries	24.3	28.6
Direct Insurance Placement	4.7	6.8
Stamp duty received from agencies	5.6	5.0
Other receipts	9.0	47.5
Commissions	0.4	0.5
Indemnity from Treasurer	3.8	1.0
Payments for:		
Interest paid on borrowings and deposits	(929.9)	(1,025.9)
Insurance Claims paid	(57.2)	(25.1)
Motor Vehicle costs	(32.2)	(37.4)
Outwards reinsurance premium paid	(8.6)	(9.0)
Direct Insurance Placement	(5.3)	(6.6)
Stamp duty paid to RevenueSA	(4.9)	(5.0)
Operating expenses paid	(20.7)	(19.3)
Net GST paid to the ATO	(6.6)	(5.9)
Income Tax Equivalent (TER) paid	(3.9)	(19.1)
Net GST relating to Investing/Financing activities	(2.9)	(3.3)
NET CASH PROVIDED BY OPERATING ACTIVITIES	54.6	128.7
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from Client Loans	(129.6)	(929.9)
Purchase of Investments	(9,627.8)	(19,916.7)
Proceeds from Investments	10,369.0	19,708.2
Purchase of Property, Plant and Equipment	(81.8)	(86.8)
Purchase of Intangible Assets	(0.8)	(1.7)
Proceeds from the Sale of Property, Plant and Equipment	53.3	52.5
NET CASH USED IN INVESTING ACTIVITIES	582.3	(1,174.4)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from Borrowings	(723.5)	1,202.0
Dividends paid to Government	(38.9)	(8.8)
NET CASH PROVIDED BY FINANCING ACTIVITIES	(762.4)	1,193.2
NET INCREASE/(DECREASE) IN CASH HELD	(125.5)	147.5
Cash at the beginning of the financial year	444.2	296.3
Net effect of exchange rate changes	0.3	0.4
CASH AT THE END OF THE FINANCIAL YEAR	319.0	444.2

Notes to the Financial Statements

for the year ended 30 June 2016

1 Objectives

The South Australian Government Financing Authority (SAFA) is a statutory authority constituted as the Under Treasurer under the *Government Financing Authority Act 1982*. The registered address of SAFA is Level 5, State Administration Centre, 200 Victoria Square, Adelaide, South Australia 5000.

SAFA's business objectives are:

- to develop and implement borrowing and investment programs for the benefit of semi-government authorities;
- to engage in such other financial and insurance related activities as are determined by the Treasurer of South Australia (the Treasurer) to be in the interest of the State;
- administer the Government's insurance and risk management arrangements;
- insure, co-insure and reinsure the risks of the Crown;
- provide advice on the management of risks of the Crown; and
- provide fleet management services to all Government agencies.

2 Summary of Significant Accounting Policies

a. Statement of Compliance

The Financial Statements have been prepared in compliance with section 23 of the *Public Finance and Audit Act 1987*.

The Financial Statements are general purpose financial statements and comply with Australian Accounting Standards, as issued by the Australian Accounting Standards Board. The statements also comply with the requirements of the Treasurer's Instructions relating to financial statements by statutory authorities that are issued pursuant to the *Public Finance and Audit Act 1987*.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted by SAFA for the reporting period ending 30 June 2016 are detailed in Note 2(v).

b. Basis of Preparation

SAFA is a for-profit entity for financial reporting purposes.

These Financial Statements have been prepared in accordance with accounting policy statements issued pursuant to section 41 of the *Public Finance and Audit Act 1987*, by authority of Treasurer's Instruction 19 *Financial Reporting*. In the interest of public accountability and transparency the accounting policy statements require the following note disclosures, which have been included in these Financial Statements:

- i) revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, are classified according to their nature. A threshold of \$100,000 for separate identification of these items applies;
- ii) expenses incurred as a result of engaging consultants (as reported in the Statement of Comprehensive Income);
- iii) the Statement of Cash Flows has been prepared on a cash basis.

The Financial Statements have been prepared in accordance with the historic cost convention, except for financial assets and liabilities which are reported at fair value.

The presentation currency is Australian dollars and all values are rounded to the nearest hundred thousand unless otherwise stated. Zero represents amounts less than fifty thousand dollars, whilst a dash represents a nil balance.

c. Principles of Consolidation

The Financial Statements for SAFA are not consolidated with its controlled entities. The exclusion of these entities does not have a material impact on the financial results presented. Note 32 includes details of the entities.

2 Summary of Significant Accounting Policies (continued)

d. Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Financial Statements to conform with Accounting Standards requires the use of critical accounting estimates. It also requires Management to exercise its judgement in the process of applying SAFA's accounting policies. Management has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

(i) Measurement of Outstanding Claims

Outstanding insurance claims liabilities are calculated using statistical and/or mathematical methods. The calculations are made by an actuary on the basis of recognised actuarial methods, with due regard to relevant actuarial principles (refer Note 31).

(ii) Measurement of Fair Value

When measuring fair values of financial assets and liabilities, SAFA maximises the use of relevant market-based data. The fair values of financial assets and liabilities that are traded in active markets are determined with reference to quoted market prices or quotations. For financial assets and liabilities where market-based data are not readily available (or transparent) SAFA determines fair values using standard valuation techniques incorporating discounted cash flows on appropriate yield curves of similar traded securities, taking into account their risk characteristics.

e. Income and Expense Recognition

SAFA recognises income and expenses when the amounts can be reliably measured, it is probable that the future economic benefits will flow to or from SAFA and when specific recognition criteria have been met for each of the activities described below.

(i) Interest

Interest income and expense is accrued in accordance with the terms and conditions of the underlying financial instrument and premiums and discounts are amortised over the life of the associated borrowings and investments.

Net realised gains or losses and unrealised gains or losses are included in the Statement of Comprehensive Income (refer Note 18).

(ii) Insurance Premium Revenue

Premium revenue includes amounts charged to policy holders but excludes stamp duty and Goods and Services Tax. Premium revenue is recognised in the Statement of Comprehensive Income as earned from the date of attachment of risk and is recognised evenly over the policy or indemnity period, which is considered to closely approximate the pattern of risks underwritten.

All South Australian Government agencies are required to insure with SAFA unless exempted by the Treasurer. In those circumstances where SAFA considers it more appropriate for some of the risks of a government agency to be placed with other insurers, SAFA will arrange for such insurance and will recover the insurance premium from the agency concerned. For the purposes of the Financial Statements, these arrangements are referred to as Direct Insurance Placements.

The *Building Work Contractors Act 1995 (SA)* and Regulations is compulsory in South Australia and requires builders to hold building indemnity insurance (BII) to protect home owners against losses arising from the insolvency, death or disappearance of their builder up to a maximum sum insured of \$80,000 per building project or such other amount prescribed under the *Building Work Contractors Act 1995 (SA)*. From 1 July 2013 SAFA began offering BII cover to builders in South Australia. The premium for BII provides insurance cover for periods of up to five years, commencing from the date of the insurance contract.

2 Summary of Significant Accounting Policies (continued)

e. Income and Expense Recognition (continued)

(iii) Leasing and Hire Revenue

SAFA leases motor vehicles to South Australian Government agencies for a standard lease period of three years or 60,000 kilometres, whichever occurs first. By arrangement, some vehicle leases can be extended to five years or 100,000 kilometres, due to the nature of the lessee's business requirements. The lease to agencies covers registration, compulsory third party and property damage insurance, property insurance, scheduled servicing, depreciation, interest costs and a management fee. Leasing and Hire revenue is recognised on a straight line basis over the term of the lease. The property insurance component of the lease is recognised under insurance premium in the Statement of Comprehensive Income (refer Note 17).

(iv) Revenue Recoveries

Vehicle recoveries include fuel and any unscheduled maintenance of the vehicle over the period of the lease. Any excessive wear and tear costs are recovered from agencies at the end of the lease. Other vehicle recoveries include parking costs, miscellaneous charges and commission on disposal of vehicles.

Insurance recoveries comprise any recoveries from third parties. Recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not reported and unexpired risk liabilities are recognised as revenue.

(v) Other Revenue

Fee income in respect of services provided is recognised in the period in which the service is provided.

(vi) Insurance Claims Expense

Insurance claims expense includes the direct and indirect costs of settling claims, claim payments, deductible receipts and movements in underlying claim estimates.

(vii) Motor Vehicle Expenses

Direct costs associated with the ownership of the motor vehicle fleet including registration, compulsory third party insurance, all maintenance and repair costs, fuel and disposal costs.

(viii) Outwards Reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance services received. Accordingly, a portion of the outwards reinsurance premiums may be treated at the end of the reporting period as a prepayment. This program includes the catastrophe reinsurance program which has been effected to safeguard the State's finances against very large losses or claims, or a series of large losses or claims in any year under the Government's insurance and risk management arrangements.

(ix) Indemnity from/(to) the Treasurer

Insurance activities are segregated into three Funds. The Treasurer has indemnified SAFA for any operating profit or loss before tax for any activities relating to Fund 2 and Fund 3 (refer Note 21(c)). Under these arrangements any profit/loss on these Funds are recognised as payables to/receivables from the Treasurer. Any payables to the Treasurer are carried forward to offset future operating losses.

2 Summary of Significant Accounting Policies (continued)

f. Cash and Short Term Assets

Cash and short term assets in the Statement of Financial Position include Cash, Short-Term Money Market Deposits, Working Capital Facilities and Negotiable Certificates of Deposit that are held for liquidity and short-term investment purposes (refer Note 4).

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of Cash and Deposits from Financial Institutions and Short-Term Money Market Deposits as defined above, but exclude Negotiable Certificates of Deposit and the Working Capital Facility where the securities are for investment purposes and not for the purpose of meeting short-term cash commitments.

g. Assets Held for Sale

Assets are classified as held for sale, and stated at the lower of their carrying amount or fair value less costs to sell, if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset's sale is expected to be completed within one year from the date of classification (refer Note 5).

h. Financial Instruments

Financial assets and liabilities designated at fair value through profit or loss

All financial assets and liabilities, on recognition, are designated at fair value through profit or loss. This designation is determined on the basis that SAFA manages and evaluates the performance of its financial assets and liabilities on a fair value basis in accordance with documented risk management strategies.

Financial assets and liabilities (including derivatives) are recorded at fair value in the Statement of Financial Position. All financial assets and liabilities are revalued to reflect market movements with gains or losses, whether realised or unrealised, being recognised immediately in the Statement of Comprehensive Income (refer Note 18). Financial assets and liabilities are revalued regularly either at their quoted market price, or their cash flows are discounted against the relevant yield curve.

(i) Investments

Investments are assets which are purchased as part of SAFA's cash management products, for liquidity and interest rate risk management and may be sold prior to maturity in response to various factors including changes in interest rates and funding requirements of the South Australian public sector. Additionally, SAFA may hold investments it has purchased at the direction of the South Australian Government and/or as may be determined by the Treasurer to be in the interests of the State of South Australia (refer Note 6).

(ii) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market (refer Note 7).

(iii) Deposits and Short-Term Borrowings

Deposits and Short-Term Borrowings include At Call Deposits, Deposits from Financial Institutions, Cash Management Facility and Term Deposits. SAFA also raises short-term funds through the issue of Commercial Paper both in the domestic and overseas markets (refer Note 12).

(iv) Repurchase Agreements

Securities sold under an agreement to repurchase remain as an investment whilst the obligation to repurchase is recorded as a liability in Deposits and Short-Term Borrowings (refer Note 12). At 30 June 2016 SAFA had no repurchase agreements.

(v) Bonds, Notes and Debentures

Funds are raised through various instruments including bonds, notes and debentures. All borrowings are raised on an unsecured basis (refer Note 13).

2 Summary of Significant Accounting Policies (continued)

(vi) Derivative Instruments

SAFA utilises derivative instruments (including futures, foreign exchange contracts, forward rate arrangements, foreign exchange swaps and interest rate swaps) in fundraising, debt management and client activities. Derivative instruments are used to convert funding costs, facilitate diversification of funding sources, reconfigure interest rate risk profiles and manage foreign currency exposures. Interest receipts and interest payments are accrued on a gross basis and classified as interest revenue and interest expense in the Statement of Comprehensive Income (refer Notes 10 and 15).

i. Assets backing general insurance liabilities

Assets which back SAFA's insurance liabilities are those generated through premium revenue. These assets are invested to reflect the nature of the policy liabilities, and are comprised of operating cash, cash held on deposit and units invested with Funds SA (refer Notes 4 and 6). In accordance with AASB 1023 *General Insurance Contracts*, SAFA's longer-term insurance investments with Funds SA are measured at fair value, based on quoted market prices as advised by the fund manager. Subsequent measurement is at fair value with any resultant unrealised gains or losses recognised in the Statement of Comprehensive Income (refer Note 18).

j. Reinsurance and Other Recoveries

Recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not reported and unexpired risk liabilities are recognised as revenue. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. The details of inflation and discount rates used are set out in Note 31.

Collectability of recoveries is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount.

k. Property, Plant and Equipment

Property, Plant and Equipment is stated at cost less accumulated depreciation.

(i) Depreciation

Depreciation of Property, Plant and Equipment is calculated on a straight line basis using rates designated to allocate the depreciable cost over the expected useful life of the asset. Motor Vehicles are depreciated on a straight line basis for a period of up to five years (refer Note 8).

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, during each financial year. Changes in the residual value or expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate, which is a change in accounting estimate.

(ii) Impairment

The carrying values of Property, Plant and Equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount.

l. Intangible Assets

Intangible assets represent purchased software, which are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on software assets is capitalised when it is probable that future economic benefits attributable to the assets will flow to SAFA, and if the cost of the asset can be measured reliably.

2 Summary of Significant Accounting Policies (continued)

I. Intangible Assets (continued)

(i) Amortisation

Amortisation of intangible assets is calculated on a straight line basis using rates designated to allocate the cost over the expected useful life of the asset. Software costs are amortised on a straight line basis for a period of five to ten years (refer Note 9).

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, each financial year. Where a change to the residual value or useful life of an asset has been identified any impact that may result from this change is recognised in the Statement of Comprehensive Income in the year in which it arises.

(ii) Impairment

The carrying values of intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount.

m. Outstanding Claims Liability

Insurance activities are segregated into three Funds. Liabilities for outstanding claims for Fund 1 are measured as the central estimate of the present value of the expected future payments for claims incurred, plus an additional risk margin to allow for inherent uncertainty in the central estimate.

The liability for outstanding claims at balance date comprises:

- claims that have been incurred but not paid;
- claims incurred but not reported (IBNR);
- claims incurred but not enough reported (IBNER);
- risk margins; and
- claims handling costs, which includes anticipated direct and indirect costs of settling those claims.

Liabilities for outstanding claims for Fund 2 are recognised in respect of reported incidents including the anticipated costs of settling these claims and a risk margin. Details of risk margin rates are disclosed in Note 31.

Liabilities for outstanding claims for Fund 3 are determined by applying an earning pattern to the written premium and then combining a loss ratio to the development pattern of emerging claims costs. Details of risk margin rates are disclosed in Note 31.

The expected future payments are discounted to present value using a risk-free rate, derived from the interest rates on Commonwealth Government fixed interest securities with terms to maturity that match, as close as possible, the estimated future claim payments. Details of the inflation and discount rates and other actuarial assumptions are disclosed in Note 31.

n. Receivables and Other Assets/Payables and Other Liabilities

Receivables include amounts receivable from goods and services, GST input tax credits recoverable, other assets including debtors and fee accruals. Payables include accounts payable representing amounts owing for goods and services received prior to the end of the reporting period that are unpaid, GST payable, other liabilities including interest paid in advance, creditors, expense accruals and provisions. They are all stated at book value, which is the best estimate of fair value as they are typically settled within a short period of time (refer Notes 11 and 16).

Collectability of receivables is reviewed on an ongoing basis. An allowance for impairment loss (doubtful debt) is raised when there is objective evidence that SAFA will not be able to collect the debt. Bad debts are written off when identified.

o. Deferred Acquisition Costs

Costs directly attributable to the acquisition of the BII premium revenue (Fund 3) are deferred by recognising these costs as an asset in the Statement of Financial Position when they can be reliably measured. Deferred acquisition costs are amortised systematically over the life of the insurance policy in line with the expected pattern of the incidence of risk.

2 Summary of Significant Accounting Policies (continued)

p. Unearned Premium Liability

The Liability Adequacy Test (LAT) is performed on the BII liabilities less deferred acquisition costs to ensure the carrying value of the unearned premium liability is adequate, using current estimates of the present value of future cash flows relating to future claims.

The need for an additional risk margin is assessed, taking into account the inherent uncertainty in the central claims estimate. If the assessment shows the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense in the Statement of Comprehensive Income by firstly writing down the deferred acquisition cost. If an additional liability is required, this is recognised in the Statement of Financial Position as an unexpired risk liability.

q. Foreign Currency Translation

Foreign currency assets and liabilities are recognised in the Financial Statements at the prevailing exchange rate at the reporting date. Revenue and expense items are translated at the exchange rate current at the date at which those items were recognised in the Financial Statements.

r. Employee Benefits

SAFA does not employ any direct staff, but is assigned staff resources by the Department of Treasury and Finance (DTF) through a Service Level Agreement pursuant to Section 20 of the *Government Financing Authority Act 1982*. The responsibility to provide for employer contributions to superannuation benefits rests with DTF, and for this reason SAFA is not required to establish a provision. DTF meets long service leave liabilities as they fall due.

s. Taxation

Accounting Profits Tax Model

In accordance with Treasurer's Instruction 22 Tax Equivalent Payments, SAFA is required to pay the Treasurer an income tax equivalent amount. The income tax liability is based on the Taxation Equivalent Regime (TER) which applies the accounting profit method. This requires SAFA to apply the corporate income tax rate to the net profit. The current income tax equivalent liability relates to the income tax expense outstanding for the current period.

Goods and Services Tax (GST)

SAFA is grouped with DTF for GST purposes. Income, expenses and assets are recognised net of the amount of GST, except:

- where the GST is not recoverable, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables, which are recognised inclusive of GST.

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

Stamp Duty

Stamp duty collected as part of insurance premiums are excluded from premium revenue and paid monthly to RevenueSA.

t. Supplementary Information by Line of Business

SAFA is an individual reporting entity which operates in business segments including Treasury, Insurance and Fleet Management (refer to Note 3).

u. Comparatives

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.

Where presentation or classification of items in the Financial Statements have been amended, comparative figures have been adjusted to conform to changes in presentation or classification in these financial statements unless impractical.

2 Summary of Significant Accounting Policies (continued)

v. Changes in Accounting Policies

SAFA has adopted the following relevant new accounting standards and amendments to standards, applicable to annual periods commencing on or after 1 January 2015:

(i) AASB 1054 Australian Additional Disclosures

AASB 1054 Australian Additional Disclosures includes disclosure requirements and definitions which are additional to International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). The amending standard was assessed and its impact did not result in any material changes to SAFA's financial reports.

The following accounting standards have been issued but are not yet effective. These accounting standards have not been early adopted by SAFA, but will be relevant upon application:

(i) AASB 9 Financial Instruments – Classification and Measurement AASB 2012-6 Mandatory Effective Date of AASB 9 and Transition Disclosures (Amendments to AASB 9) AASB 2013-9 (Part A) Conceptual Framework (Amendments to AASB 9)

AASB 9 supersedes AASB 139 *Financial Instruments: Recognition and Measurement*. The new standard requires material changes to the way *financial instruments* are classified and disclosed. This includes new categories for financial instrument classification (amortised cost and fair value) as well as additional requirements in relation to hedge accounting. While SAFA is currently assessing the potential effects of this standard, it should be noted that SAFA's financial assets and liabilities are already carried at fair value and that SAFA does not currently engage in hedge accounting. Mandatory application of AASB 9 is required for annual periods commencing on or after 1 January 2018. SAFA will apply this standard for the first time in its 2018-19 Financial Statements.

(ii) AASB 15 Revenue from Contracts with Customers

AASB 15 has been developed to address a number of deficiencies with existing accounting standards relating to revenue. For SAFA, the impact of the new standard is not likely to be as extensive as would be the case for some reporting entities in other industries. Many of SAFA's core activities are not within the scope of the standard, which specifically excludes: lease contracts; insurance contracts; financial instruments; and some guarantees. Revenue arising from these activities are likely to continue being reported in line with other existing standards specific to leases, insurance and financial instruments. Mandatory application of AASB 15 is required for annual periods commencing on or after 1 January 2018. SAFA will apply this standard for the first time in its 2018-19 financial statements.

(iii) AASB 2014-4 Clarification of Acceptable Method of Depreciation and Amortisation

This Standard makes amendments to AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets. These amendments arise from the issuance of International Financial Reporting Standard Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) by the International Accounting Standards Board in May 2014. This Standard is applicable to annual reporting periods beginning on or after 1 January 2016, SAFA has reviewed the standard and will not be early adopting.

(iv) AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses

This Standard makes amendments to AASB 112 Income Taxes (July 2004) and AASB 112 Income Taxes (August 2015). These amendments arise from the issuance of International Financial Reporting Standard Recognition of Deferred Tax Assets for Unrealised Losses by the International Accounting Standards Board (IASB) in January 2016. This Standard is applicable to annual reporting periods beginning on or after 1 January 2017, SAFA has reviewed the standard and will not be early adopting.

(v) AASB 16 Leases

The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. This Standard is applicable to annual reporting periods beginning on or after 1 January 2019, SAFA has reviewed the standard and will not be early adopting.

Note 3 Supplementary Information by Line of Business

SAFA operates in the following lines of business:

- **Treasury** - provides funds and financial advice to the South Australian Government, Semi-Government Authorities, South Australian Public Sector Financial Institutions and Government agencies.
- **Insurance** - underwriting several types of general insurance for South Australian Government agencies.
- **Fleet** - provides comprehensive fleet management services to South Australian Government agencies for its passenger and light commercial motor vehicle fleet.

The Insurance activities are designated into three Funds. Fund 1 reflects the normal commercial activities of SAFA while Fund 2 includes all the activities previously conducted through Section 2 of the South Australian Government Insurance and Risk Management Fund. This Fund is used to fund liabilities arising from insurable incidents that occurred prior to 1 July 1994, claims under the building warranty indemnity reinsurance arrangement with QBE Insurance (Australia) Limited (QBE) until 30 June 2013, SGIC residual claims and workers compensation claims previously managed by South Australian Asset Management Corporation. Fund 3 is used to fund liabilities arising from claims under the building indemnity insurance scheme effective from 1 July 2013.

2016	Treasury \$m	Insurance \$m	Fleet \$m	Eliminations \$m	Total \$m
Income	30.8	67.6	83.7	(4.2)	177.9
Expenses	12.0	77.7	75.9	(4.2)	161.4
Profit before tax	18.8	(10.1)	7.8	-	16.5
Income tax equivalent expense	5.6	(3.0)	2.3	-	4.9
Comprehensive result	13.2	(7.1)	5.5	-	11.6
Business Line assets	23,500.7	603.1	212.0	(306.4)	24,009.4
Business Line liabilities	(23,370.3)	(441.9)	(176.7)	306.4	(23,682.5)
Net Assets	130.4	161.2	35.3	-	326.9

2015	Treasury \$m	Insurance \$m	Fleet \$m	Eliminations \$m	Total \$m
Income	38.2	92.3	84.7	(3.4)	211.8
Expenses	10.4	93.6	78.1	(3.4)	178.7
Profit before tax	27.8	(1.3)	6.6	-	33.1
Income tax equivalent expense	8.3	(0.4)	2.0	-	9.9
Comprehensive result	19.5	(0.9)	4.6	-	23.2
Business Line assets	22,648.2	556.3	229.9	(337.9)	23,096.5
Business Line liabilities	(22,507.1)	(388.0)	(185.1)	337.9	(22,742.3)
Net Assets	141.1	168.3	44.8	-	354.2

Note 4 Cash and Short Term Assets

	2016 \$m	2015 \$m
Cash at Bank	17.6	7.6
Deposits with the Treasurer	45.9	91.7
Short-Term Money Market Deposits	325.5	345.7
Negotiable Certificates of Deposit	1,339.2	1,385.8
Working Capital Facility	199.7	24.2
Total Cash and Short Term Assets	1,927.9	1,855.0

Note 5 Assets Held for Sale

	2016 \$m	2015 \$m
Motor Vehicles	2.9	5.4
Total Assets Held for Sale	2.9	5.4

The Fleet segment of SAFA leases motor vehicles to agencies of the South Australian government. At the end of each lease the motor vehicles are classified as held for sale as preparations are made for their sale. Pickles Auctions Pty. Ltd provide the motor vehicle disposal management services for SAFA. As at 30 June 2016, no impairment losses on assets sold or held for sale have been recorded in the Statement of Comprehensive Income (2014-15: Nil).

Note 6 Investments

	2016 \$m	2015 \$m
Semi-Government Securities	283.6	1,017.8
Local Government Securities	1.3	2.8
Bank and Corporate Securities	912.0	841.9
Funds SA	539.2	529.1
Paragon Capital Equity Fund No 1	-	0.0
Listed Shares	0.2	0.2
Equity Investments	0.0	0.0
Total Investments	1,736.3	2,391.8

Note 7 Loans

	2016 \$m	2015 \$m
Loans to the Treasurer at Market Rates	15.5	18.8
Loans to the Treasurer at Non Market Rates	20.5	20.5
Loans to the Treasurer at Cost of Funds (COF)	5,392.7	5,881.5
Loans to the Treasurer at Cash	5,101.3	3,347.2
Loans to Public Non Financial Corporations	7,586.1	7,326.6
Loans to Public Financial Corporations	1,712.8	1,667.0
Loans to Local Government	28.7	185.9
Total Loans	19,857.6	18,447.5

The COF loan to the Treasurer is funded through a range of financial assets and liabilities within the Treasurer's Portfolio. Any gains or losses, whether realised or unrealised, on the assets and liabilities in the Treasurer's Portfolio that fund the loan are equally offset by a gain or loss on the COF loan to the Treasurer.

Note 8 Property, Plant and Equipment

Motor Vehicles

	2016 \$m	2015 \$m
At cost	227.8	237.4
Accumulated depreciation	(58.4)	(59.8)
Impairment	(0.0)	(0.0)
Total Property, Plant and Equipment	169.4	177.6

Reconciliation of Property, Plant and Equipment

Motor Vehicles

	2016 \$m	2015 \$m
Carrying amount at the beginning of the period	177.6	182.3
Additions	80.3	86.2
Assets classified as held for sale	(2.9)	(5.4)
Disposals	(46.5)	(46.4)
Depreciation expense	(39.1)	(39.1)
Carrying Amounts at the end of the period	169.4	177.6

Note 9 Intangible Assets

Information Technology

	2016 \$m	2015 \$m
At cost	4.0	0.9
Work in Progress	-	2.0
Accumulated amortisation	(0.6)	(0.3)
Total Intangible Assets	3.4	2.6

Reconciliation of Information Technology

	2016 \$m	2015 \$m
Carrying amount at the beginning of the period	2.6	1.0
Additions	1.1	1.7
Amortisation expense	(0.3)	(0.1)
Carrying Amounts at the end of the period	3.4	2.6

Note 10 Derivatives Receivable

	2016 \$m	2015 \$m
Foreign Currency Swaps	66.7	-
Interest Rate Swaps - South Australian Government	7.1	6.7
Interest Rate Swaps	181.1	184.6

Total Derivatives Receivable

	2016 \$m	2015 \$m
Total Derivatives Receivable	254.9	191.3

Note 11 Receivables and Other Assets

	2016 \$m	2015 \$m
Receivables	4.7	0.4
Receivables - South Australian Government	36.1	8.8
Recoveries	2.8	1.1
Less: Allowance for Impairment loss	(0.1)	(0.1)
Receivables from the Treasurer	2.3	3.8
Prepayments - South Australian Government	2.1	2.1
Prepayments	3.1	3.2
Sundry Debtors - South Australian Government	0.1	0.0
Deferred Acquisition Costs	2.8	1.8
Income Tax Equivalent	3.1	4.2
Total Receivables and Other Assets	57.0	25.3

Movement in the allowance for Impairment loss

The allowance for impairment loss is recognised when there is objective evidence that a receivable is impaired. An allowance for impairment loss has been recognised in the Statement of Comprehensive Income.

	2016 \$m	2015 \$m
Carrying amount at the beginning of the period	0.1	0.8
Allowance for impairment loss recognised during the year	-	(0.7)
Carrying amount at the end of the period	0.1	0.1

Note 12 Deposits and Short-Term Borrowings

	2016 \$m	2015 \$m
At Call Deposits	26.2	13.9
Deposits from Financial Institutions	69.5	-
Deposits from the Treasurer	5,169.6	4,283.2
Deposits from South Australian Government agencies	448.9	264.1
Commercial Paper	2,334.7	2,137.4
Total Deposits and Short-Term Borrowings	8,048.9	6,698.6

Note 13 Bonds, Notes and Debentures

	2016 \$m	2015 \$m
Floating Rate Notes	4,014.1	6,022.7
Select Lines	10,674.6	8,937.1
Retail Stock	94.3	75.2
Zero Coupon Bonds	-	207.8
Inflation Linked Bonds and Securities	3.1	95.1
Obligation to the Commonwealth Government	282.8	268.3
Total Bonds, Notes and Debentures	15,068.9	15,606.2

Note 14 Outstanding Claims

Outstanding Claims - South Australian Government
Outstanding Claims

Total Outstanding Claims

2016 \$m	2015 \$m
10.4	11.6
364.6	354.7
375.0	366.3

Reconciliation of Movements in Outstanding Claims

2015 Balance

Paid
Reported Claims
IBNR /IBNER Reserve
Risk Margin
Indirect Claims Settlement Reserve

2016 Balance

30 June 2016 Outstanding Claims balance by:

Fund 1
Fund 2
Fund 3

Property \$m	Liability \$m	Medical Malpractice \$m
11.6	72.7	282.0
(3.8)	(21.1)	(29.4)
2.6	17.4	13.2
0.4	6.6	22.2
(0.4)	(2.4)	3.2
-	-	0.2
10.4	73.2	291.4
9.4	53.2	286.2
1.0	12.6	5.2
-	7.4	-
10.4	73.2	291.4

Note 15 Derivatives Payable

Foreign Currency Swaps
Interest Rate Swaps - South Australian Government
Interest Rate Swaps

Total Derivatives Payable

2016 \$m	2015 \$m
66.4	-
0.1	0.1
49.2	42.4
115.7	42.5

Note 16 Payables and Other Liabilities

Sundry Creditors - South Australian Government
Sundry Creditors
Payables
Payables - South Australian Government
Payables to the Treasurer
Unearned Premium

Total Payables and Other Liabilities

2016 \$m	2015 \$m
0.3	0.1
2.6	1.2
7.6	6.1
4.0	0.1
14.2	9.7
45.3	11.5
74.0	28.7

Note 17 Revenue

Interest Revenue

External to South Australian Government:

Cash and Short Term Assets

Investments

Loans

Receivables and Other Assets

Internal to South Australian Government:

Cash and Short Term Assets

Loans

Receivables and Other Assets

Less Interest Expense

External to South Australian Government:

Deposits and Short-Term Borrowings

Bonds, Notes and Debentures

Payables and Other Liabilities

Internal to South Australian Government:

Deposits and Short-Term Borrowings

Payables and Other Liabilities

Net Interest Revenue

Insurance Premium

External to South Australian Government

Internal to South Australian Government

Leasing and Hire

Internal to South Australian Government

Recoveries

External to South Australian Government

Internal to South Australian Government

Other

External to South Australian Government:

Other Revenue

Commissions

Dividend

Internal to South Australian Government:

Dividend

Other Revenue

Management Fees

Note

	2016 \$m	2015 \$m
Interest Revenue		
External to South Australian Government:		
Cash and Short Term Assets	45.2	65.6
Investments	52.8	55.2
Loans	0.5	5.5
Receivables and Other Assets	311.3	319.2
Internal to South Australian Government:		
Cash and Short Term Assets	0.9	1.2
Loans	555.9	612.4
Receivables and Other Assets	4.9	6.3
	971.5	1,065.4
Less Interest Expense		
External to South Australian Government:		
Deposits and Short-Term Borrowings	49.7	56.3
Bonds, Notes and Debentures	560.5	648.8
Payables and Other Liabilities	281.0	269.7
Internal to South Australian Government:		
Deposits and Short-Term Borrowings	76.6	84.6
Payables and Other Liabilities	2.5	3.8
	970.3	1,063.2
Net Interest Revenue	1.2	2.2
Insurance Premium		
External to South Australian Government	6.6	5.1
Internal to South Australian Government	41.8	42.5
	48.4	47.6
Leasing and Hire		
Internal to South Australian Government	60.6	63.1
	60.6	63.1
Recoveries		
External to South Australian Government	2.9	1.7
Internal to South Australian Government	19.9	23.0
	22.8	24.7
Other		
External to South Australian Government:		
Other Revenue	1.8	0.2
Commissions	1.2	1.3
Dividend	0.0	2.9
Internal to South Australian Government:		
Dividend	-	0.5
Other Revenue	0.0	0.0
Management Fees	0.7	0.7
	3.7	5.6
Total Revenue	136.7	143.2

Note 18 Other Gains/(Losses)

Net Gain/(Loss) on Financial Instruments and Derivatives

External to South Australian Government:

Realised

Unrealised

Internal to South Australian Government:

Realised

Unrealised

Net Gain/(Loss) on Sale of Property, Plant and Equipment

External to South Australian Government

Total Other Gains

Note	2016 \$m	2015 \$m
	14.0	(45.2)
	(303.1)	(18.6)
	1.8	48.4
	327.1	84.8
	39.8	69.4
	1.4	(0.8)
	1.4	(0.8)
	41.2	68.6

Note 19 Expenses

Insurance Claims

External to South Australian Government

Internal to South Australian Government

Motor Vehicle

External to South Australian Government

Internal to South Australian Government

Reinsurance

External to South Australian Government

Depreciation and Impairment

Internal to South Australian Government

Operating

External to South Australian Government:

Program and Debt Management fees

Direct Insurance Placement costs

Bad Debts written off

Management Fees

Consultants/Contractors

Rent

Systems

Other

Internal to South Australian Government:

Indemnity to the Treasurer

Service Level Agreement

Total Expenses

	2016 \$m	2015 \$m
	62.5	85.3
	2.2	3.3
20	64.7	88.6
	23.6	25.8
	5.2	5.1
	28.8	30.9
	8.4	8.7
20	8.4	8.7
	39.4	39.2
	39.4	39.2
	1.1	1.2
	0.0	0.0
	0.1	(0.1)
	3.9	5.0
26	0.0	0.0
	0.6	0.9
	0.5	0.4
	0.1	0.1
	2.2	(7.3)
	11.6	11.1
	20.1	11.3
	161.4	178.7

A Service Level Agreement operates between SAFA and DTF. DTF provides services to SAFA to enable SAFA to undertake its business activities in a manner so that SAFA may achieve its key outcomes. DTF provides SAFA with appropriately trained and skilled staff along with infrastructure support. The majority of the fee covers staffing, accommodation, audit and network systems expenditure.

Service Level Agreement costs of \$1,318,978 (2014-15: \$1,181,062) relating to SAFA's insurance business activities have been allocated directly to claims expense.

Note 20 Net Claims Incurred and Underwriting Result

The following table provides detail in relation to the net claims incurred cost. Current year claims relate to risks borne in the current reporting period. Prior period claims relate to a reassessment of the risks borne in previous reporting periods.

	In respect of Current Year \$000	In respect of Prior Years \$000	Total \$000
2016			
Gross Claims Incurred and Related Expenses Undiscounted	58,949	(5,633)	53,316
Other Recoveries Undiscounted	(1,079)	(1,278)	(2,357)
<i>Net Claims Incurred - Undiscounted</i>	<i>57,870</i>	<i>(6,911)</i>	<i>50,959</i>
Discount and Discount Movement - Gross Claims Incurred	(7,323)	16,962	9,639
Discount and Discount Movement - Other Recoveries	76	(24)	52
<i>Net Discount Movement</i>	<i>(7,247)</i>	<i>16,938</i>	<i>9,691</i>
Net Claims Incurred	50,623	10,027	60,650

Net claims incurred during 2015-16 in respect of claims incurred prior to 30 June 2015 was \$10.1 million, resulting from:

	\$m
Interest on the 30 June 2015 provision, less payments during 2015-16	9.8
Release of administration allowance and risk margin in respect of payments during 2015-16	(20.3)
Changes in actuarial assumptions and experience deviation from expected	20.6
	10.1

	In respect of Current Year \$000	In respect of Prior Years \$000	Total \$000
2015			
Gross Claims Incurred and Related Expenses Undiscounted	53,652	35,738	89,390
Other Recoveries Undiscounted	(461)	(665)	(1,126)
<i>Net Claims Incurred - Undiscounted</i>	<i>53,191</i>	<i>35,073</i>	<i>88,264</i>
Discount and Discount Movement - Gross Claims Incurred	(8,439)	4,215	(4,224)
Discount and Discount Movement - Other Recoveries	85	154	239
<i>Net Discount Movement</i>	<i>(8,354)</i>	<i>4,369</i>	<i>(3,985)</i>
Net Claims Incurred	44,837	39,442	84,279

Net claims incurred during 2014-15 in respect of claims incurred prior to 30 June 2014 was \$39.4 million, resulting from:

	\$m
Interest on the 30 June 2014 provision, less payments during 2014-15	9.8
Release of administration allowance and risk margin in respect of payments during 2014-15	(7.9)
Changes in actuarial assumptions and experience deviation from expected	37.5
	39.4

Note 20 Net Claims Incurred and Underwriting Result (continued)

	2016 \$m	2015 \$m
Net Earned Premium		
Insurance Premium Revenue	48.4	47.6
Outwards Reinsurance Expense	(8.4)	(8.7)
	40.0	38.9
Net Claims Incurred		
Claims Expense	(64.7)	(88.6)
Recoveries Income	3.0	1.9
	(61.7)	(86.7)
Net Underwriting Result	(21.7)	(47.8)

Note 21 Contingent Assets and Liabilities

Contingent Assets

Under Section 15 of the *Government Financing Authority Act, 1982*, all financial obligations incurred or assumed by SAFA are guaranteed by the Treasurer on behalf of the State of South Australia.

Origin Energy has indemnified SAFA if SAFA's guarantee to Osborne Cogeneration Pty Ltd in respect of the obligations of two subsidiaries of Origin Energy Ltd is called upon by Osborne Cogeneration Pty Ltd under arrangements for the generation of electricity at the Osborne Generation Plant. The exposure of the guarantee is estimated at \$150 million to \$200 million until December 2018.

Contingent Liabilities

(a) General

Indemnities provided by SAFA have been primarily issued to third parties involved in financing arrangements with SAFA either directly or indirectly, other statutory authorities and financial institutions of the State, and relate to financial advantages which are expected to be available to those parties or to preserve existing financial advantages.

By its nature insurance underwriting has liabilities contingent upon certain events occurring that give rise to a claim under the policy of insurance. All known and expected claims in respect of events that have occurred up to the end of the reporting period have been accounted for in the preparation of these Financial Statements plus an allowance for claims incurred but not reported and incurred but not enough reported using IBNR and IBNER calculations. Many claims require legal input to negotiate suitable settlements. The results of such negotiations may result in liabilities different to those recognised in the Financial Statements.

(b) Guarantees

Under arrangements for the generation of electricity at the Osborne Generation Plant, SAFA has provided a guarantee to Osborne Cogeneration Pty Ltd in respect of the obligations of two subsidiaries of Origin Energy Ltd. The exposure of the guarantee is estimated at \$150 million to \$200 million until December 2018.

(c) Treasurer's Indemnity

The Treasurer has indemnified SAFA against any profit or loss as a result of activities in the Insurance Funds 2 and 3. Given the nature of activities in these Funds, the Treasurer has approved that any operating profit before tax will be nil. This is achieved by negating the operating profit or loss with either a payable to or receivable from the Treasurer. This policy resulted in a payable to the Treasurer of \$11.9 million as at 30 June 2016 (payable to the Treasurer of \$5.9 million as at 30 June 2015).

Note 21 Contingent Assets and Liabilities (continued)

(d) Unused Loan Facilities

As at 30 June 2016, SAFA had extended loan facilities that were unutilised totalling \$1,220.0 million (2014-15: \$1,335.2 million), this is reviewed annually.

(e) Security Transfer and Managing Out Deed

SAFA has executed a security transfer and managing out deed with the Commonwealth of Australia for the transfer of securities held by Playford Capital Pty Ltd as trustee for the PC IFF Trust to SAFA for nil consideration. SAFA will use reasonable endeavours to liquidate the securities by 30 June 2017 with all proceeds from liquidation payable to the Commonwealth of Australia.

Note 22 Cash Flow Information

	Note	2016 \$m	2015 \$m
1. Reconciliation of Cash:			
Cash disclosed in the Statement of Financial Position	4	389.0	445.0
Deposits from Financial Institutions in the Statement of Financial Position	12	(69.5)	-
Less Accrued Income		(0.5)	(0.8)
Balance per Statement of Cash Flows		319.0	444.2
2. Reconciliation of Comprehensive Result to net cash provided by operating activities:			
Comprehensive result		11.6	23.2
Non-cash items			
Change in net market value of financial instruments		(11.8)	(61.4)
Amortisation of financial instruments		(13.3)	46.5
Depreciation and Impairment		39.5	39.1
Loss on Sale of Property, Plant and Equipment		(1.4)	0.8
Bad Debt written off		(0.1)	0.1
Movement in assets and liabilities			
(Increase)/Decrease in accrued interest receivable		(7.4)	10.8
(Increase)/Decrease in recoveries receivable		(1.7)	0.2
(Increase)/Decrease in sundry debtors and other assets		(30.0)	40.7
Increase/(Decrease) in accrued interest payable		14.1	(25.4)
Increase/(Decrease) in outstanding claims		8.7	63.3
Increase/(Decrease) in sundry creditors and other liabilities		46.4	(9.2)
Foreign Currency movement		(0.0)	0.0
Net cash provided by operating activities		54.6	128.7

3. Non Cash Financing and Investing Activities

During 2015-16, \$1.3 million was adjusted against the Treasurer's debt for book gains arising from debt management activity.

Note 23 Auditor's Remuneration

Audit fees payable to the Auditor-General's Department relating to the audit of the financial statements

2016 \$000	2015 \$000
220	224
220	224

No other services were provided by the Auditor-General's Department. All fees are paid through SAFA's SLA with DTF.

Note 24 Related Parties

(a) Board and Committee members

	2016 Members	2015 Members
\$0	6	4
Between \$20,001 - \$30,000	-	2
Between \$30,001 - \$40,000	3	3
Between \$40,001 - \$50,000	2	-
Total Number of Members	11	9
Total Remuneration	\$ 188,260	\$ 171,982

Remuneration of members reflects all costs of performing board/committee member duties including sitting fees, superannuation contributions, fringe benefits tax and any other salary sacrifice arrangements. Amounts paid to a superannuation plan for board/committee members in 2015-16 were \$16,333 (2014-15: \$14,334). All amounts paid to members are paid through SAFA's SLA with DTF.

SAFA Advisory Board and committee members during the 2015-16 financial year were:

Advisory Board

Mr D Reynolds* (Presiding Member - appointed 1 Dec 2015)
Mr B Rowse* (Presiding Member - retired 30 Nov 2015)
Mr G Goddard* (Deputy Member - expired 30 Nov 2015)
Ms N Rantanen* (Deputy Member - appointed 21 April 2016)
Ms J Brown

Ms J Fitzpatrick
Mr J Hollamby*
Ms K Presser (appointed 16 July 2015)
Ms K Rowlands (Deputy Member)*
Mr P Holloway (appointed 16 July 2015)
Mr M Day (appointed 16 July 2015)

Audit and Risk Management Committee

Ms J Brown (Chair)
Mr J Hollamby*

Ms J Fitzpatrick
Mr M Day

* Those members who are permanently employed under the *Public Sector Act, 2009*, or on similar terms, are not entitled to fees.

Unless otherwise disclosed, transactions with members are on conditions no more favourable than those that it is reasonable to expect the entity would have adopted if dealing with the related party at arm's length in the same circumstances.

(b) Other Key Management Personnel

The following persons held authority and responsibility for planning, directing and controlling the activities of SAFA, directly or indirectly during the financial year:

Mr A Blaskett	General Manager
Mr K Cantley (transferred 14 March 2016)	General Manager
Mr T Burfield	Director Insurance
Mr C Fowler	Director Finance
Mr G Gaisford	Acting Director Fleet
Mr A Kennedy	Director Financial Markets and Client Services
Mr D Posaner	Director Corporate Governance and Planning

The above are employed by DTF and provided to SAFA through an SLA. Further details of their remuneration are included in the DTF Financial Statements, as DTF employees.

Note 24 Related Parties (continued)

(c) Related party transactions

SAFA is a statutory authority constituted as the Under Treasurer under the *Government Financing Authority Act 1982*. SAFA is subject to the control and direction of the Treasurer of South Australia who in turn, is responsible to the Parliament of South Australia for the proper administration of the Act.

Related parties include the Government of South Australia and South Australian state public sector organisations, as well as the Treasurer of South Australia, SAFA board and committee members, and SAFA key management personnel and their close family members.

Transactions and balances between SAFA and related parties are disclosed in the various notes to the Financial Statements.

SAFA Advisory Board member, Jamie Hollamby holds the position of General Manager, Business Services SA Water Corporation (SAW). SAFA provides loans to, and accepts deposits from SAW. All transactions with SAW are priced in accordance with SAFA's policies.

(i) Individually significant transactions

SAFA provides a number of loans to, and accepts deposits from, the Treasurer of South Australia. This is one of the primary functions of SAFA. The amount of loans to the Treasurer are disclosed in Note 7; deposits are disclosed in Note 12.

Receipt of the final dividend from SAFA's subsidiary, Playford Capital Pty Ltd totalled \$548,905 (2014-15).

(ii) Collectively significant transactions

SAFA functions as the central financing authority, captive insurer and manager of the passenger and light commercial vehicle fleet operations for the Government of South Australia. Balances and transactions related to these services are reported in various notes to the financial statements, as amounts "internal to the South Australian Government".

Note 25 Fiduciary Activities

SAFA provides asset and liability management services to clients and these financial assets and liabilities are not recognised on SAFA's Statement of Financial Position, unless the financial transactions have been undertaken with SAFA as the provider. SAFA manages these assets and liabilities within prescribed risk limits as directed by, or agreed with clients. SAFA is responsible for providing regular financial and management information with respect to its management of client assets and liabilities.

	2016 \$m	2015 \$m
Liabilities under management	6,732.4	6,546.5

SAFA provides a pooled investment portfolio to its clients that meet their investment needs. The Cash Management Facility comprises cash and short-term money market securities. The assets and liabilities of this portfolio is reported within SAFA's Statement of Financial Position.

	2016 \$m	2015 \$m
Total market value of pooled investments	606.6	275.1

Note 26 Consultants and Contractors

Between \$1 - \$50,000

2016 Consultants	2015 Consultants
1	3
1	3
\$ 25,480	\$ 29,247

Total Consultants expense

In addition to the amounts shown in the table above, \$297,175 (2014-15: \$416,210) in consultants fees were paid through SAFA's SLA with DTF. These consultants are disclosed in DTF's Financial Statements.

Between \$1 - \$50,000

2016 Contractors	2015 Contractors
1	-
1	-
\$ 5,064	\$ -

Total Contractors expense

In addition to the amounts shown in the table above, \$465,307 (2014-15: \$323,843) in contractor fees were paid through SAFA's SLA with DTF. These contractors are disclosed in DTF's Financial Statements.

Note 27 Unrecognised Contractual Commitments

a) Operating Lease Commitments Receivable

SAFA as a Lessor

Leases in which SAFA retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Agencies have entered into commercial leases on motor vehicles owned by SAFA. These leases are for terms up to three years, with an option, subject to approval, to extend in six monthly intervals to a maximum term of four years for passenger vehicles and a maximum term of five years for light commercial vehicles.

Future minimum rentals receivable (excluding GST) under non-cancellable operating leases are as follows:

	2016 \$m	2015 \$m
Motor Vehicle Hire:		
Not later than one year	49.5	48.3
Later than one year but not later than five years	37.2	35.9
Total Non-Cancellable Operating Lease Receivables	86.7	84.2

b) Other Commitments

SAFA's other commitments relate to software licences and maintenance. These amounts relate to vendors which are external to the South Australian Government.

	2016 \$m	2015 \$m
Software:		
Not later than one year	0.5	0.7
Later than one year but not later than five years	0.3	0.8
Total Software Commitments	0.8	1.5

(c) Unrecognised Investment Commitment

In August 2005 the South Australian Government through SAFA committed to invest \$10 million in Paragon Private Equity No 1 Fund over a period of 10 Years. SAFA's investment was \$7,652,501 out of a total commitment from all investors of \$33,262,505. The fund was closed on 30 November 2015 with no funds received by SAFA from its investment. Due to the closure of the fund no further financial commitment exists.

Note 28 Capital Management

SAFA's objective is to maintain capital that allows it to continue as a going concern while exposing its stakeholders to an acceptable level of risk. SAFA's capital comprises Retained Earnings (\$326.9m in 2015-16; \$354.2m in 2014-15). The capital position is reviewed periodically by management to ensure its adequacy is commensurate with the level of risk. Among others, management considers the following factors when managing capital requirements:

- The overall risk position of the business;
- Dividend policy;
- The requirements of the *Government Financing Authority Act 1982*; and
- The guarantee provided to SAFA by the Treasurer on behalf of the State of South Australia (refer Note 21).

Note 29 Financial Risk Management

SAFA's activities expose it to a variety of financial risks: market risk (including interest rate risk, price risk and currency risk), credit risk, liquidity risk and insurance risk. SAFA's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of SAFA. SAFA uses derivative financial instruments such as futures, foreign exchange contracts, forward rate agreements and interest rate swaps to reduce certain risk exposures.

The guidelines within which these risks are undertaken and managed are established under policies approved by the Advisory Board, Treasurer and Management guidelines. SAFA monitors compliance with these policies and constraints by appropriately segregating the monitoring from the operating business unit. Information is summarised and reported daily to Management and reported monthly to the Advisory Board.

(a) Credit Risk

Credit risk is the risk of financial loss and associated costs resulting from the failure of a counterparty to meet its financial obligations as and when they fall due. SAFA incurs credit risk through undertaking its core functions of fundraising, debt management, liquidity management and the Government's reinsurance program.

SAFA's dealings in physical securities and other financial contracts, including derivatives, are transacted only with counterparties possessing strong to extremely strong safety characteristics regarding timely payment of principal and interest.

Should a participant in the Government's reinsurance program become insolvent or cease trading, the recoveries to which SAFA may be entitled could be jeopardised in full or in part, or the timing of any recovery may be subject to an insolvency action.

To minimise the potential for credit loss, SAFA complies with stringent credit guidelines. The guidelines are designed to promote diversification of credit risk amongst counterparties while limiting exposure only to highly rated institutions worldwide. The credit guidelines do not apply to loans to South Australian Government entities.

AASB 7 *Financial Instruments: Disclosures*, requires the disclosure of the amount of change in fair value that is attributable to the change in SAFA's credit risk. The following table shows the amount of change in fair value of Liabilities and Loans as at the end of the reporting period that is considered to be contributed to SAFA's credit risk for the period and cumulative.

	2016		2015	
	Period	Cumulative	Period	Cumulative
	\$m	\$m	\$m	\$m
Loans change in fair value profit/(loss)	67.6	16.6	(58.5)	(15.5)
Liabilities change in fair value profit/(loss)	(76.7)	(18.8)	67.8	17.9

The change in fair values attributable to credit risk have been calculated by determining the change in the spread between SAFA and Swap yield curves at the issue date and period end dates. This spread movement is then applied to the delta of each transaction to calculate the considered credit component. Spreads for the period ending 30 June 2016 have moved by between 1-40 basis points (2014-15: 10-40 basis points).

Note 29 Financial Risk Management (continued)

(i) Credit Quality

The following table sets out the credit quality of financial assets. The ratings have been presented based on credit ratings from Standard and Poors.

The below disclosure measures credit risk for physical securities at face value, and the credit risk of derivative transactions using a mark-to-market methodology that includes an additional factor to cover potential future adverse market movements.

The majority of SAFA's lending is to agencies and corporations of the South Australian Government. In respect to the repayment of loans by authorities (which are fully guaranteed by the Treasurer) the ultimate credit risk is to the Treasurer. The principal focus for SAFA is therefore with risk that arises through investment of funds in financial assets and through derivative transactions with market counterparties.

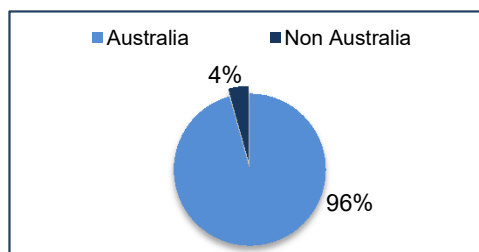
Concentration of Credit Risk by credit rating:

2016 Asset Class	Rating								Total \$m
	AAA \$m	AA+ \$m	AA- \$m	A+ \$m	A \$m	A- \$m	BBB+ \$m	NR* \$m	
Loans/Investments	250.7	197.0	1,157.0	289.7	595.9	325.0	89.0	19,263.6	22,167.9
Interest Rate Swaps	-	-	420.3	47.6	1.6	-	15.7	10.3	495.5
Foreign Exchange	-	-	0.1	-	-	-	-	0.8	0.9
Total	250.7	197.0	1,577.4	337.3	597.5	325.0	104.7	19,274.7	22,664.3

2015 Asset Class	Rating								Total \$m
	AAA \$m	AA+ \$m	AA- \$m	A+ \$m	A \$m	A- \$m	BBB+ \$m	NR* \$m	
Loans/Investments	582.1	395.0	766.0	840.5	677.8	410.0	-	17,983.2	21,654.6
Interest Rate Swaps	-	-	366.5	30.0	33.3	-	24.7	9.6	464.1
Foreign Exchange	-	-	0.6	-	-	-	-	0.4	1.0
Total	582.1	395.0	1,133.1	870.5	711.1	410.0	24.7	17,993.2	22,119.7

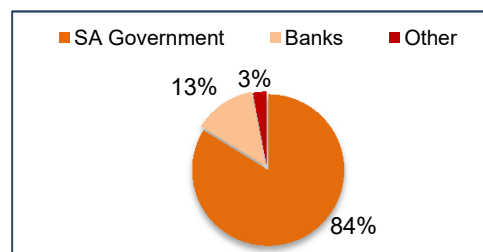
* NR - not classified under particular ratings. Includes loans to SA Government of \$19,264 million (2014-15: \$17,805 million).

2015-16 Credit Risk: Country



2014-15 (Aust 93% Non Aus 7%)

2015-16 Credit Risk: Counterparty



2014-15 (SAG 80% Bank 14% other 6%)

Note 29 Financial Risk Management (continued)

(ii) Offsetting Financial Assets and Financial Liabilities

Financial assets and liabilities subject to offsetting and/or master netting agreements:

SAFA enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. Derivative asset and liability positions are accounted for at the transaction level, and are not offset at the counterparty level in the Statement of Financial Position. SAFA does not currently have a legally enforceable right to offset these positions in the usual course of business; the right to offset is enforceable only on the occurrence of future credit events, such as default. Furthermore, SAFA does not intend to settle these transactions on a net basis. In April 2016 SAFA entered into collateral agreements with the major Australian Banks.

The analysis presented below sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

2016	Gross Amounts of Financial Assets and Liabilities	Gross amounts offset in the Statement of Financial Position	Net amounts presented in the Statement of Financial Position	Related amounts not offset		Net
				Subject to master netting or other agreements	Financial collateral (incl. cash collateral)	
	\$m	\$m	\$m	\$m	\$m	\$m
Assets						
Interest Rate Swaps	188.2	0.0	188.2	(19.8)	(98.4)	70.0
Foreign Currency Swaps	66.7	0.0	66.7	0.0	0.0	66.7
Total	254.9	0.0	254.9	(19.8)	(98.4)	136.7
Liabilities						
Interest Rate Swaps	(49.3)	0.0	(49.3)	19.8	28.9	(0.6)
Foreign Currency Swaps	(66.4)	0.0	(66.4)	0.0	0.0	(66.4)
Total	(115.7)	0.0	(115.7)	19.8	28.9	(67.0)

2015	Gross Amounts of Financial Assets and Liabilities	Gross amounts offset in the Statement of Financial Position	Net amounts presented in the Statement of Financial Position	Related amounts not offset		Net
				Subject to master netting or other agreements	Financial collateral (incl. cash collateral)	
	\$m	\$m	\$m	\$m	\$m	\$m
Assets						
Interest Rate Swaps	191.3	0.0	191.3	(31.0)	0.0	160.3
Foreign Currency Swaps	0.0	0.0	0.0	0.0	0.0	0.0
Total	191.3	0.0	191.3	(31.0)	0.0	160.3
Liabilities						
Interest Rate Swaps	(42.5)	0.0	(42.5)	31.0	0.0	(11.5)
Foreign Currency Swaps	0.0	0.0	0.0	0.0	0.0	0.0
Total	(42.5)	0.0	(42.5)	31.0	0.0	(11.5)

Note 29 Financial Risk Management (continued)

Reconciliation to the Statement of Financial Position

The 'Net amounts presented in the Statement of Financial Position', as set out above, are reflected in the Statement of Financial Position as such (refer Note 10 and 15):

(iii) Ageing Analysis

As at 30 June 2016 the amount of Receivables including Impaired Assets that were past due was \$1,016,248.

Past due but not impaired receivables are South Australian Government debts considered recoverable regardless of their age. Impaired receivables are long outstanding debts with non South Australian Government entities where funds are deemed irrecoverable.

	Past due by				
	1 - 30 days	31 - 60 days	61 - 90 days	+91 days	Total
	\$m	\$m	\$m	\$m	\$m
2016					
Past due but not impaired					
Receivables	0.8	0.1	0.0	0.0	0.9
Impaired					
Receivables	0.0	0.0	0.0	0.1	0.1
	0.8	0.1	0.0	0.1	1.0
2015					
Past due but not impaired					
Receivables	0.7	0.0	0.0	0.0	0.7
Impaired					
Receivables	0.0	0.0	0.0	0.1	0.1
	0.7	0.0	0.0	0.1	0.8

Note 29 Financial Risk Management (continued)

(b) Liquidity Risk

In order to manage liquidity risk, SAFA has in place liquidity management guidelines, which require SAFA to hold a base level of liquidity comprising highly marketable liquid financial assets. Liquid assets include cash, promissory notes, Commonwealth bonds, floating rate notes and negotiable certificates of deposit. The level of liquid financial asset holdings by SAFA on any given day must be sufficient to cover the higher of a base liquidity buffer of \$350 million or the sum of debt maturities over the next 60 days. Adherence to these guidelines enables SAFA to be in a position to meet the forecasted cash demands and any unanticipated funding requirements of the South Australian public sector.

SAFA has chosen an approach to minimise medium-term refinancing risks, which involves diversification of physical borrowings across the maturity spectrum, diversification of funding sources and the holding of liquid assets to assist in the management of refinancing and liquidity risk. These strategies result in SAFA facing manageable funding demands from financial markets in any given period. This approach assists the maintenance of an orderly market place for SAFA's securities when refinancing maturing debt obligations.

The liquidity analysis below has been presented on a contractual basis, representing the repayment of undiscounted principal and interest amounts for financial assets and liabilities, and the estimated discounted settlement amount for outstanding claims.

2016	< 3 Months	3 to 12 Months	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	Over 5 Years	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Assets								
Cash and Short Term Assets	1,493.4	424.0	-	-	-	-	-	1,917.4
Investments	672.8	188.1	202.0	244.9	216.1	248.3	38.7	1,810.9
Loans	5,577.9	464.8	1,895.8	1,677.3	2,684.9	1,218.5	7,741.7	21,260.9
Receivables and Other Assets	43.9	-	-	-	-	-	-	43.9
Total	7,788.0	1,076.9	2,097.8	1,922.2	2,901.0	1,466.8	7,780.4	25,033.1
Liabilities								
Deposits and Short-Term Borrowings	(6,755.8)	(1,302.3)	-	-	-	-	-	(8,058.1)
Bonds, Notes and Debentures	(148.8)	(415.7)	(2,905.9)	(2,418.7)	(4,345.6)	(2,308.1)	(3,909.0)	(16,451.8)
Outstanding Claims	(10.7)	(32.4)	(38.1)	(36.2)	(34.2)	(31.7)	(191.7)	(375.0)
Payables and Other Liabilities	(28.7)	-	-	-	-	-	-	(28.7)
Total	(6,944.0)	(1,750.4)	(2,944.0)	(2,454.9)	(4,379.8)	(2,339.8)	(4,100.7)	(24,913.6)
Net	844.0	(673.5)	(846.2)	(532.7)	(1,478.8)	(873.0)	3,679.7	119.5
Net Derivatives	19.3	23.2	28.6	19.3	22.1	26.7	5.6	144.8

Note 29 Financial Risk Management (continued)

2015	< 3 Months	3 to 12 Months	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	Over 5 Years	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Assets								
Cash and Cash Equivalents	930.0	910.0	-	-	-	-	-	1,840.0
Investments	678.7	495.1	64.1	212.5	240.9	342.6	539.2	2,573.1
Loans	3,865.5	2,079.8	534.7	1,871.6	1,417.3	2,429.0	8,031.9	20,229.8
Other Assets	13.0	-	-	-	-	-	-	13.0
Total	5,487.2	3,484.9	598.8	2,084.1	1,658.2	2,771.6	8,571.1	24,655.9
Liabilities								
Deposits and Short-Term Borrowings	(5,346.4)	(1,365.0)	-	-	(0.5)	(20.0)	-	(6,731.9)
Bonds, Notes and Debentures	(240.2)	(2,660.5)	(528.3)	(2,859.5)	(2,373.1)	(4,271.4)	(4,465.2)	(17,398.2)
Outstanding Claims	(14.0)	(42.1)	(41.7)	(38.0)	(35.0)	(31.6)	(163.9)	(366.3)
Payables and Other Liabilities	(17.2)	-	-	-	-	-	-	(17.2)
Total	(5,617.8)	(4,067.6)	(570.0)	(2,897.5)	(2,408.6)	(4,323.0)	(4,629.1)	(24,513.6)
Net	(130.6)	(582.7)	28.8	(813.4)	(750.4)	(1,551.4)	3,942.0	142.3
Net Derivatives	19.4	12.9	43.1	35.1	21.1	20.0	21.6	173.2

(c) Market risk

Market risk is the risk that changes in market prices will result in gains or losses on SAFA's financial instruments. SAFA has a range of policies in place to manage market risk, including counterparty exposure limits, risk limits and liquidity and maturity limits. The main tool used to measure and assess market risks within each of SAFA's trading portfolios is Value at Risk (VaR).

(i) Price Risk

Treasury Operations

SAFA manages the sensitivity of its treasury portfolios for changes in market risk variables by calculating VaR daily and monitoring the calculated VaR against pre-determined exposure limits. VaR is the calculation of the potential loss due to interest rate movements for any one day.

SAFA calculates VaR using the Historical Simulation method and a two year interest rate horizon. The daily VaR is assessed at the 95% confidence level.

The following table shows the computed VaR on SAFA's principal portfolios:

	2016 Actual \$000	2016 Working Limit \$000	2015 Actual \$000	2015 Working Limit \$000
Funding Portfolio	559.9	1000.0	583.8	1000.0
Liquidity Portfolio	0.1	250.0	22.6	250.0
Reinvestment Portfolio	0.1	N/A	0.7	N/A
Cash Management Facility	14.0	N/A	10.4	N/A

SAFA's treasury portfolios that reflect SAFA's position with the Treasurer of South Australia are not reported above, as all risk in these portfolios are borne directly by the Treasurer.

As SAFA's VaR model relies on historical data and assumes recent historic market conditions, it may not always accurately predict the size of potential losses. SAFA therefore uses other controls such as limits on exposures based on factor sensitivity measurements covering interest rate, yield curve and basis spread movement scenarios and monitors exposures to plausible extreme market movements through stress testing.

Note 29 Financial Risk Management (continued)

Insurance Operations

The insurance portfolio is exposed to price risk arising from investments held with Funds SA. SAFA maintains policies outlining the strategies for investment of funds and these policies are reviewed every three years.

The table below shows the impact of a positive or negative 10% movement in the value of investment funds held with Funds SA:

2016	Investments \$000	Profit (Post tax)		Equity	
		-10%	10%	-10%	10%
		\$000	\$000	\$000	\$000
Fund 1	495,216	(34,665)	34,665	(34,665)	34,665
Fund 2*	27,944	(1,956)	1,956	(1,956)	1,956
Fund 3*	15,996	(1,120)	1,120	(1,120)	1,120
Total	539,156	(37,741)	37,741	(37,741)	37,741

2015	Investments \$000	Profit (Post tax)		Equity	
		-10%	10%	-10%	10%
		\$000	\$000	\$000	\$000
Fund 1	475,111	(33,258)	33,258	(33,258)	33,258
Fund 2*	44,942	(3,146)	3,146	(3,146)	3,146
Fund 3*	9,074	(635)	635	(635)	635
Total	529,127	(37,039)	37,039	(37,039)	37,039

* Due to the nature of activities undertaken by Fund 2 and Fund 3, the Treasurer has approved that any operating profit or loss before tax will be nil for each of these funds. Therefore, any movement in the value of investments with Funds SA for Fund 2 or Fund 3 would effectively be offset by the Treasurer's Indemnity (Refer Note 21).

(ii) Interest Rate Risk

SAFA uses a variety of methods to measure interest rate risk, including basis point sensitivity, duration and VaR. The Treasurer and Under Treasurer approve interest rate risk limits for SAFA's portfolios.

SAFA uses interest rate derivatives to manage the sensitivity of investment portfolios to interest rate fluctuations to be within strict limits, without requiring transactions in physical securities. SAFA utilises futures contracts, interest rate swaps and forward rate agreements to manage interest rate risk.

The following table shows the computed Price Value per basis point (PV01) of SAFA's principal portfolios, reflecting changes in portfolio value relative to interest rate movements:

	2016	2016		2015	2015
	Actual	Working Limit		Actual	Working Limit
	\$	\$		\$	\$
Funding Portfolio	(584)	± 10,000		(441)	± 10,000
Liquidity Portfolio	(165)	± 10,000		(737)	± 10,000
Reinvestment Portfolio	109	N/A		15	N/A
Cash Management Facility	9,558	N/A		7,892	N/A

SAFA's treasury portfolios that reflect SAFA's position with the Treasurer of South Australia are not reported above, as all risk in these portfolios are borne directly by the Treasurer.

Note 29 Financial Risk Management (continued)

(iii) Foreign Currency Risk

SAFA has a policy of limiting its foreign currency risk, and has limits in place to protect against movements in foreign currency exchange rates. SAFA utilises foreign exchange swaps, foreign exchange and forward exchange contracts to manage the foreign currency exposures associated with foreign currency borrowings.

The following table summarises SAFA's exposure to exchange rate risk. The value to be received under the currency contracts is undertaken to net any foreign currency liabilities:

	USD A\$000	GBP A\$000	EUR A\$000	NZD A\$000	SGD A\$000	CNY A\$000
2016						
Less than 1 year						
Net Foreign Currency Assets	(66,967.7)	-	5.8	8.4	-	-
Net Derivatives	66,998.5	-	-	-	-	-
Total Exposure	30.8	-	5.8	8.4	-	-
Sensitivity						
Profit impact (in AUD) of +1% change in foreign currency	0.3	-	0.1	0.1	-	-
2015						
Less than 1 year						
Net Foreign Currency Assets	33.0	-	9.2	4.3	-	(15.8)
Net Derivatives	-	-	-	-	-	-
Total Exposure	33.0	-	9.2	4.3	-	(15.8)
Sensitivity						
Profit impact (in AUD) of +1% change in foreign currency	0.3	-	0.1	0.0	-	(0.2)

SAFA's total exposure to exchange rate risk (on a net basis) is \$44,876 for the year ended 30 June 2016 (2014-15: \$30,738). Had the Australian Dollar weakened by 10 per cent against the foreign currencies listed above, the direct impact to SAFA would be a gain of approximately \$4,488 (2014-15: \$3,074).

(d) Insurance Risk

SAFA uses a range of policies to manage risk associated with its insurance activities. The most relevant methods include:

- the continual monitoring of the experience and development of claims;
- premium setting methodologies that reflect the latest development in the risks SAFA's Insurance division is insuring;
- placing reinsurance to protect the capital base against a severe adverse event or a series of severe adverse events;
- and
- regular review of the investment strategy for assets backing insurance liabilities.

Note 29 Financial Risk Management (continued)

(i) Claim Development

The following tables show the development of incurred cost on net undiscounted outstanding claims (Medical Malpractice, Liability, Property and Builders Indemnity) relative to the ultimate expected estimate over the ten most recent financial years. Figures provided are net of reinsurance and relate to Fund 1 and Fund 3. This information is not disclosed for Fund 2 as it is not considered appropriate for its activities.

Medical Malpractice

Loss Year	Cumulative Payments Plus Undiscounted Outstanding Liability Measurement as at 30 June										Undiscounted Paid to	Discount Liability	Discount Present
Ending 30-Jun	2007 \$000	2008 \$000	2009 \$000	2010 \$000	2011 \$000	2012 \$000	2013 \$000	2014 \$000	2015 \$000	2016 \$000	Date \$000	Jun-16 \$000	Value \$000
Prior	134,241	223,504	140,058	118,135	118,254	119,443	120,659	129,865	137,690	134,736	84,885	49,852	45,634
2007	21,513	22,589	13,748	7,366	9,966	8,290	6,837	6,386	12,310	14,245	7	14,238	12,698
2008		22,947	20,345	13,923	11,993	16,582	14,848	13,648	13,936	13,474	939	12,535	11,104
2009			49,922	36,167	29,248	27,700	31,564	23,206	26,348	30,193	136	30,057	26,421
2010				24,134	15,725	13,002	11,367	8,197	15,197	14,272	1	14,272	12,430
2011					17,486	15,471	15,742	14,662	13,242	13,819	5,605	8,214	7,074
2012						18,749	17,802	13,584	17,235	15,702	-273	15,975	13,580
2013							21,967	17,274	15,654	14,082	31	14,050	11,764
2014								21,702	22,124	20,434	-9	20,443	16,820
2015									20,569	27,417	25	27,392	22,099
2016										24,613	11	24,602	19,441
Total										322,987	91,358	231,630	199,065

Liability

Loss Year	Cumulative Payments Plus Undiscounted Outstanding Liability Measurement as at 30 June										Undiscounted Paid to	Discount Liability	Discount Present
Ending 30-Jun	2007 \$000	2008 \$000	2009 \$000	2010 \$000	2011 \$000	2012 \$000	2013 \$000	2014 \$000	2015 \$000	2016 \$000	Date \$000	Jun-16 \$000	Value \$000
Prior	41,109	63,464	78,113	81,535	87,537	89,179	89,416	82,017	82,753	82,995	80,454	2,542	2,423
2007	7,366	3,564	2,106	2,182	2,996	2,552	2,325	2,339	2,713	2,914	2,091	823	777
2008		6,359	3,610	2,137	2,114	1,936	2,907	7,741	7,857	6,869	6,403	466	440
2009			5,784	2,766	7,445	5,644	4,907	5,000	5,671	5,760	4,161	1,599	1,512
2010				6,705	4,365	3,663	11,386	10,904	11,640	15,170	10,946	4,224	4,041
2011					7,173	5,982	5,158	5,266	7,309	8,300	4,362	3,938	3,706
2012						8,038	6,749	5,621	5,297	7,088	2,254	4,834	4,539
2013							6,683	5,455	4,336	3,855	603	3,252	3,038
2014								6,478	6,128	5,425	229	5,196	4,810
2015									7,540	6,516	272	6,245	5,705
2016										8,584	59	8,525	7,674
Total										153,476	111,834	41,644	38,665

Property

Loss Year	Cumulative Payments Plus Undiscounted Outstanding Liability Measurement as at 30 June										Undiscounted Paid to	Discount Liability	Discount Present
Ending 30-Jun	2007 \$000	2008 \$000	2009 \$000	2010 \$000	2011 \$000	2012 \$000	2013 \$000	2014 \$000	2015 \$000	2016 \$000	Date \$000	Jun-16 \$000	Value \$000
Prior	22,413	19,448	19,194	20,309	19,390	17,539	17,339	17,339	17,475	16,671	16,671	0	0
2007	3,269	2,907	2,666	2,256	2,285	2,142	2,180	2,180	2,180	2,180	2,180	0	0
2008		2,347	2,265	2,390	1,762	1,555	1,543	1,540	1,547	1,547	1,547	0	0
2009			2,777	2,116	1,599	1,689	1,666	1,672	1,665	1,665	1,665	0	0
2010				3,255	1,779	1,543	1,479	1,577	1,577	1,622	1,606	15	14
2011					4,568	3,270	3,060	2,940	2,893	2,894	2,883	11	11
2012						2,683	2,046	2,314	2,680	2,539	2,506	33	31
2013							1,996	1,989	2,185	2,216	1,023	1,193	1,147
2014								3,223	3,399	3,512	3,114	398	381
2015									3,978	4,500	1,233	3,267	3,144
2016										3,081	221	2,859	2,750
Total										42,427	34,649	7,776	7,478

Note 29 Financial Risk Management (continued)

(i) Claim Development (continued)

Building Indemnity

Loss Year Ending 30-Jun	Cumulative Payments Plus Undiscounted Outstanding Liability Measurement as at 30 June			Paid to Date	Undiscounted Liability Jun-16	Unearned Liabilities Jun-16	Earned Liabilities Jun-16	Discount Present Value
	2014 \$000	2015 \$000	2016 \$000	\$000	\$000	\$000	\$000	\$000
2014	6,755	7,824	7,132	2,236	4,896	(1,860)	3,036	2,917
2015		6,504	7,121	1,495	5,626	(3,762)	1,864	1,775
2016			7,241	0	7,241	(6,448)	794	747
Total			21,494	3,731	17,763	(12,070)	5,694	5,439

(ii) Unexpired Risk Liability

The LAT (Note 2 (p)) was completed by the independent actuary for Building Indemnity Insurance offered by SAFA. The actuary has compared the unearned premium and the expected cost of claims arising from this premium, including associated expenses and a risk margin. The result of the LAT was a \$2.8 million premium deficiency which has been written off against deferred acquisition costs.

(a) Calculation of Premium Deficiencies

2016	\$000
Net unearned premium liability	15,105
Net present value of future policy costs	12,328
Gross deferred acquisition costs recognised	2,936
Gross premium (deficiency)/surplus	(159)
Gross premium deficiency	(159)
Gross deferred acquisition costs written down	159
Net premium deficiency	-
Gross deferred acquisition costs recognised in Balance Sheet (i)	2,777

2015	\$000
Net unearned premium liability	11,522
Net present value of future policy costs	9,751
Gross deferred acquisition costs recognised	3,568
Gross premium (deficiency)/surplus	(1,797)
Gross premium deficiency	(1,797)
Gross deferred acquisition costs written down	1,797
Net premium deficiency	-
Gross deferred acquisition costs recognised in Balance Sheet (i)	1,771

(i) The increase in deferred acquisition costs recognised in the Statement of Comprehensive Income during the financial year amount to \$1,793m (2014-15 \$2,932m).

(b) Reconciliation of Premium Liabilities, Reinsurance Assets and related Deferred Acquisition Costs

	Gross \$000	Reinsurance \$000	Acquisition cost \$000	Net \$000
Unearned premium liability/(asset) at 30 June 2014	7,475.1	(2,831.5)	(2,313.8)	2,329.8
Premium written	48,837.1	(8,617.2)	(2,390.3)	37,829.6
Premium (earned)/incurred	(44,790.0)	8,720.5	2,932.5	(33,137.0)
Unearned premium liability/(asset) at 30 June 2015	11,522.2	(2,728.2)	(1,771.6)	7,022.4
Premium written	79,311.2	(8,229.8)	(2,798.9)	68,282.5
Premium (earned)/incurred	(45,580.3)	8,434.5	1,793.3	(35,352.5)
Unearned premium liability/(asset) at 30 June 2016	45,253.1	(2,523.5)	(2,777.2)	39,952.4

Note 29 Financial Risk Management (continued)

(iii) Concentration Risk

While investments in the Insurance portfolio contain some diversity, by its nature it is geographically concentrated in Adelaide and as such is exposed to the risk of potentially material property catastrophes of the State, being earthquake, bushfires, storms and floods. The reinsurance program is purchased to provide protection in excess of the retention level, which is \$15 million for property, \$15 million for medical malpractice per event and \$20 million for liability classes. The Advisory Board annually reviews the appropriateness of the retention level.

SAFA provides the medical indemnity insurance for all public hospitals in South Australia and as such is exposed to the consequences of any factor which increases the cost of such cover for example, legal precedents.

(iv) Sensitivity Analysis

SAFA has tested the sensitivity of the results to a change in the key assumptions used in the valuation of outstanding claims liabilities. These include changes to the discount and superimposed inflation rates and changes in expected average claim costs and incurred cost development patterns. The following table sets out the tests carried out and the results:

2016 Insurance Fund	Present Value of Outstanding Liability			Change in Liability		
	Fund 1 \$m	Fund 2 \$m	Fund 3 \$m	Fund 1 %	Fund 2 %	Fund 3 %
1. Discount Rate						
(a) Increase by 1%	327.9	18.2	7.2	(6.0)	(2.8)	(2.9)
(b) Decrease by 1%	372.2	19.3	7.6	6.7	3.0	3.1
2. Inflation/Superimposed Inflation Rate						
(a) Increase by 1%	371.5	19.3	7.6	6.5	2.8	3.1
(b) Decrease by 1%	328.1	18.3	7.2	(5.9)	(2.7)	(2.9)
3. Other Assumptions						
(a) Increase Medical Malpractice and Liability expected 'a prior' cost by 10%	366.8	18.8	7.4	5.2	0.0	0.0
(b) Longer Medical Malpractice and Liability tail	355.8	19.9	7.4	2.0	6.1	0.0
(c) Increase Building Indemnity expected 'a prior' cost by 5%	348.8	18.8	7.8	0.0	0.0	5.0

Note 30 Fair Values of Assets and Liabilities

(a) Contractual Obligations and Financial Assets and Liabilities at Fair Value

The difference between financial assets and liabilities carrying amount (fair value) and the amount contractually required to be paid at maturity is detailed below.

	2016			2015		
	Carrying Amount \$m	Principal Outstanding \$m	Diff \$m	Carrying Amount \$m	Principal Outstanding \$m	Diff \$m
Investments	1,736.3	1,558.6	177.7	2,391.8	2,191.9	199.9
Loans	19,857.6	19,062.8	794.8	18,447.5	17,956.3	491.2
Deposits and Short-Term Borrowings	8,048.9	7,983.0	65.9	6,698.6	6,704.4	(5.8)
Bonds, Notes and Debentures	15,068.9	14,061.8	1,007.1	15,606.2	14,853.7	752.5

Notes:

- (1) Fair value is inclusive of interest due at financial year-end.
- (2) Principal owing at maturity is the amount SAFA is contractually required to pay at maturity, to the holder of the obligation, exclusive of interest due.
- (3) Bonds, Notes and Debentures – includes indexed linked securities. For the purposes of this note, the principal owing for indexed linked securities is assumed to equal the principal owing at financial year-end.

Note 30 Fair Values of Assets and Liabilities (continued)

This section explains the judgements and estimates made in determining the fair values of the assets and liabilities that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, SAFA has classified its assets and liabilities into the three levels prescribed under Australian Accounting Standards. An explanation of each level follows below:

(b) Financial Assets and Liabilities

(i) Fair Value Hierarchy

2016	Note	Quoted market price (Level 1) \$m	Market observable inputs (Level 2) \$m	Non-market observable inputs (Level 3) \$m	Total \$m
Financial Assets					
Cash and Short Term Assets	4	588.7	1,339.2	-	1,927.9
Investments	6	283.1	1,453.2	-	1,736.3
Loans	7	5,101.3	9,343.1	5,413.2	19,857.6
Derivatives Receivable	10	-	254.9	-	254.9
Total		5,973.1	12,390.4	5,413.2	23,776.7
Financial Liabilities					
Deposits and Short-Term Borrowings	12	(5,714.2)	(2,334.7)	-	(8,048.9)
Bonds, Notes and Debentures	13	(14,666.1)	(94.4)	(308.4)	(15,068.9)
Derivatives Payable	15	-	(115.7)	-	(115.7)
Total		(20,380.3)	(2,544.8)	(308.4)	(23,233.5)

2015	Note	Quoted market price (Level 1) \$m	Market observable inputs (Level 2) \$m	Non-market observable inputs (Level 3) \$m	Total \$m
Financial Assets					
Cash and Short Term Assets	4	469.2	1,385.8	-	1,855.0
Investments	6	745.3	1,646.5	-	2,391.8
Loans	7	3,550.6	8,994.9	5,902.0	18,447.5
Derivatives Receivable	10	-	191.3	-	191.3
Total		4,765.1	12,218.5	5,902.0	22,885.6
Financial Liabilities					
Deposits and Short-Term Borrowings	12	(4,561.3)	(2,137.3)	-	(6,698.6)
Bonds, Notes and Debentures	13	(14,931.2)	(166.1)	(508.9)	(15,606.2)
Derivatives Payable	15	-	(42.5)	-	(42.5)
Total		(19,492.5)	(2,345.9)	(508.9)	(22,347.3)

Note 30 Fair Values of Assets and Liabilities (continued)

Listed Shares worth \$210,544 were transferred from Level 2 to Level 1 of the fair value hierarchy at the beginning of the financial year, due to these shares being traded on the Australian Stock Exchange with an observable valuation. No other instruments were reclassified between the various levels of the fair value hierarchy in 2015-16. SAFA generally recognises transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period, unless specified otherwise.

Financial Assets and Liabilities are categorised to levels of the fair value hierarchy based on the following:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities that are accessible at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1, which are observable for assets or liabilities, either directly or indirectly.
- Level 3: Inputs to asset or liability valuation that are not based on observable market data (unobservable inputs). This category includes instruments that are valued using quoted prices, but where material adjustments are required as a result of relevant unobservable inputs or assumptions.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments;
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date; and
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

All of the resulting fair value estimates are included in Level 2. All valuation methods remain unchanged compared to the previous reporting period.

(iii) Level 3 Financial Instruments Reconciliation

The following table presents the changes in Level 3 items for the periods 30 June 2016 and 30 June 2015:

2016	Note	<u>Assets</u>		<u>Liabilities</u>	Total
		<u>Investments</u>	<u>Loans</u>	<u>Bonds, Notes and Debentures</u>	
Balance at 30 June 2015		-	5,902.0	(508.9)	5,393.1
Total gain/(loss) included:					
in Profit or Loss		-	288.0	(33.5)	254.5
Purchases		-	20.0	-	20.0
Sales		-	(796.8)	-	(796.8)
Issues		-		(20.0)	(20.0)
Settlements		-		254.0	254.0
Balance at 30 June 2016		-	5,413.2	(308.4)	5,104.8

Total gains or losses in the above table are presented in the Statement of Comprehensive Income as follows:

Interest Revenue	17	-	177.0	(15.1)	161.9
Net Gain/(Loss) on Financial Instruments and Derivatives - Unrealised	18	-	109.7	(18.4)	91.3
Net Gain/(Loss) on Financial Instruments and Derivatives - Realised	18	-	1.3	0.0	1.3
Total		-	288.0	(33.5)	254.5

Note 30 Fair Values of Assets and Liabilities (continued)

2015	Note	<u>Assets</u>		<u>Liabilities</u>	Total
		Investments	Loans	Bonds, Notes and Debentures	
Balance at 30 June 2014		275.3	8,232.4	(528.9)	7,978.8
Total gain/(loss) included:					
in Profit or Loss		3.6	265.1	(70.2)	198.5
Purchases		-	470.0	-	470.0
Sales		(278.9)	(3,065.5)	-	(3,344.4)
Issues		-	-	(20.0)	(20.0)
Settlements		-	-	110.2	110.2
Balance at 30 June 2015		0.0	5,902.0	(508.9)	5,393.1

Total gains or losses in the above table are presented in the Statement of Comprehensive Income as follows:

Interest Revenue	17	3.5	231.9	(23.6)	211.8
Net Gain/(Loss) on Financial Instruments and Derivatives - Unrealised	18	-	(11.5)	18.9	7.4
Net Gain/(Loss) on Financial Instruments and Derivatives - Realised	18	0.1	44.7	(65.5)	(20.7)
Total		3.6	265.1	(70.2)	198.5

(iv) Level 3 Financial Instruments: Unobservable inputs used in measuring fair value

The following table summarises the quantitative information about the significant unobservable inputs used in Level 3 fair value measurement:

Type of Financial Instrument	Fair value at 30 June 2016 (\$m)	Valuation Technique	Significant Unobservable Input	Estimate of Unobservable Input	Fair value measurement sensitivity to unobservable inputs
Loans:					
Loan to Treasurer Cost of Funds	5,392.7	Reflects the market value of borrowings used to fund the loan	Discount rates/market yields	N/A	Market value change is directly proportional to the market value change of instruments used to fund the loan.
Loan to Treasurer Non-Market	20.5	Loan with no applicable interest rate or discount rate	Discount rates/market yields	0% IRR	Instrument value will not change with respect to market/discount rates.

Note 30 Fair Values of Assets and Liabilities (continued)

(iv) Level 3 Financial Instruments: Unobservable inputs used in measuring fair value (continued)

Type of Financial Instrument	Fair value at 30 June 2016 (\$m)	Valuation Technique	Significant Unobservable Input	Estimate of Unobservable Input	Fair value measurement sensitivity to unobservable inputs
Bond, Notes and Debentures:					
Principal and Interest Borrowing	(284.8)	Discounted Cash Flow	Discount rates/market yields	1.50% - 2.50% IRR	Discount rate based on internally-constructed yield curve. A 1 basis point shift in rates results in a \$277,262 change in market value.
Obligation to the Commonwealth Government	(20.5)	Borrowing with no applicable interest rate or discount rate.	Discount rates/market yields	0% IRR	Instrument value will not change with respect to market/discount rates.
Retail Indexed Annuity	(3.1)	Discounted Cash Flow	Real discount rates (annuity rates)	0.75% - 0.85%	Market rates are observed for annuity instruments. A 1 basis point shift in real rates results in a \$501 change in market value.

(v) Valuation processes

Level 3 fair values valuation processes are consistent with all other valuation processes and are reviewed as part of SAFA's valuation techniques review.

SAFA considers that its estimates of fair value are appropriate, and while alternative assumptions in relation to unobservable inputs could be used when determining fair value, these alternative assumptions would not result in any significant changes to measured fair values.

Note 30 Fair Values of Assets and Liabilities (continued)

(c) Non-Financial Assets and Liabilities

(i) Fair Value Hierarchy

2016	Note	Quoted market price (Level 1) \$m	Market observable inputs (Level 2) \$m	Non-market observable inputs (Level 3) \$m	Total \$m
Assets					
Assets Held For Sale	5	-	2.9	-	2.9
Property, Plant and Equipment	8	-	169.4	-	169.4
Total		-	172.3	-	172.3

2015	Note	Quoted market price (Level 1) \$m	Market observable inputs (Level 2) \$m	Non-market observable inputs (Level 3) \$m	Total \$m
Assets					
Assets Held For Sale	5	-	5.4	-	5.4
Property, Plant and Equipment	8	-	177.6	-	177.6
Total		-	183.0	-	183.0

Non-financial assets are valued at cost less accumulated depreciation which is deemed to represent approximate fair value. Valuation techniques used to derive residual value of non-financial assets include:

- the use of quoted market prices or dealer quotes for similar assets;
- the use of RedBook and Glass's valuations for similar assets; and
- the cost less accumulated depreciation over the useful life to a residual value.

SAFA undertook a fair value exercise at the end of the 2015-16 financial year to ensure there were no major differences between the stated residual value and the expected sales value of the fleet for vehicles scheduled to be sold in the 2016-17 year.

All of the resulting fair value estimates are included in Level 2.

All valuation methods remain unchanged compared to the previous reporting period.

Note 31 Actuarial Assumptions and Methods

SAFA writes four broad classes of general insurance: Property, Liability, Medical Malpractice and Other Liability. Products included in these broad classes are detailed below:

Property (Short Tail)	Liability (Long Tail)	Medical Malpractice	Other (Long Tail)
Aviation Property	Aviation Liability	Medical Malpractice	Building Indemnity
Buildings and Contents	General Liability		Volunteers
Consequential Loss	Marine Liability		
Fidelity Guarantee	Professional Indemnity		
General Property	Personal Accident		
Machinery Breakdown			
Marine Property			
Motor Vehicle			

Total Outstanding Claims

2016

	Central Estimate	Risk Margin	Indirect Claims Settlement Margin	Total
	\$m	\$m	\$m	\$m
Expected Future Claims Payments (Inflated/Undiscounted)	302.4	109.8	15.3	427.5
Discount to Present Value	(37.1)	(13.5)	(1.9)	(52.5)
Total Outstanding Claims	265.3	96.3	13.4	375.0

2015

	Central Estimate	Risk Margin	Indirect Claims Settlement Margin	Total
	\$m	\$m	\$m	\$m
Expected Future Claims Payments (Inflated/Undiscounted)	304.8	112.3	15.3	432.4
Discount to Present Value	(46.6)	(17.2)	(2.3)	(66.1)
Total Outstanding Claims	258.2	95.1	13.0	366.3

Assumptions

SAFA used the following assumptions in the measurement of its outstanding claims.

2016

	Property	Liability	Medical Malpractice	Building Indemnity
Average weighted term to settlement - Fund 1	2.37	4.27	7.56	-
Average weighted term to settlement - Fund 2	0.52	3.86	2.25	-
Average weighted term to settlement - Fund 3	-	-	-	3.15
Percentage risk margin adopted - Fund 1	21.0%	32.0%	37.0%	-
Percentage risk margin adopted - Fund 2	18.8%	23.0%	25.0%	-
Percentage risk margin adopted - Fund 3	-	-	-	26.1%
Claims handling expense	5.0%	5.0%	5.0%	8.0%
Inflation rate (includes superimposed inflation)*	-	3.0%	3.0%	-
Discount rate - Fund 1	1.7%	1.8%	2.1%	-
Discount rate - Fund 2	1.6%	1.9%	1.7%	-
Discount rate - Fund 3	-	-	-	1.7%

Note 31 Actuarial Assumptions and Methods (continued)

2015	Property	Liability	Medical Malpractice	Building Indemnity
Average weighted term to settlement - Fund 1	1.91	4.10	7.07	-
Average weighted term to settlement - Fund 2	1.16	4.35	2.65	-
Average weighted term to settlement - Fund 3	-	-	-	3.38
Percentage risk margin adopted - Fund 1	23.7%	37.2%	37.4%	-
Percentage risk margin adopted - Fund 2	18.8%	23.0%	25.0%	-
Percentage risk margin adopted - Fund 3	-	-	-	26.1%
Claims handling expense	5.0%	5.0%	5.0%	8.0%
Inflation rate (includes superimposed inflation)*	-	3.0%	3.0%	-
Discount rate - Fund 1	2.3%	2.6%	3.0%	-
Discount rate - Fund 2	2.1%	2.7%	2.5%	-
Discount rate - Fund 3	-	-	-	2.3%

* The valuation methods adopted do not have an explicit inflation assumption, although allowance is made for superimposed inflation (3%) for both Medical Malpractice and Long-Tail Classes.

The overall risk margin is determined allowing for the uncertainty of the outstanding claims estimate. Uncertainty is analysed taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, the general insurance environment, and the impact of legislative reform.

AASB1023 *General Insurance Contracts* does not prescribe a fixed risk margin or probability of sufficiency. However, it is a requirement of the Australian Prudential Regulation Authority guidelines for private sector insurers that a minimum of 75% probability of sufficiency be satisfied through the application of the risk margin. Taking into account the nature of the risks underwritten by SAFA and distributions regarded as relevant by the industry for those risks, the application of the above risk margins by class result in a 75% probability that the provision for outstanding claims will be sufficient.

Note 32 Subsidiaries

Playford Capital Pty Ltd became a wholly-owned subsidiary of SAFA on 1 July 2012. On 14 August 2014 the Directors of Playford Capital Pty Ltd declared a final dividend of \$0.5 million. Subsequent to the payment of the dividend on 4 September 2014 members resolved to appoint a liquidator to voluntarily wind up the activities of Playford Capital Pty Ltd, in accordance with regulations to the *Corporations Act 2001*. Playford Capital Pty Ltd was deregistered on 17 March 2015.

Note 33 Events After the End of the Reporting Period

No event has arisen since 30 June 2016 that would be likely to materially affect the operations or the state of affairs of SAFA.

Certification of the Financial Statements

We certify that the attached General Purpose Financial Statements for SAFA:

- comply with relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian Accounting Standards;
- are in accordance with the accounts and records of SAFA; and
- present a true and fair view of the financial position of SAFA as at 30 June 2016 and the results of its operations and cash flows for the financial year.

We certify that the internal controls employed by SAFA for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period and there are reasonable grounds to believe SAFA will be able to pay its debts as and when they become due and payable.



Craig Fowler
DIRECTOR FINANCE, SAFA



Andrew Blaskett
GENERAL MANAGER, SAFA



David Reynolds
CHIEF EXECUTIVE
UNDER TREASURER

Date: 16.9.16

Independent Audit Statement

South Australian Government Financing Authority

INDEPENDENT AUDITOR'S REPORT



Government of South Australia
Auditor-General's Department

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audgensa@audit.sa.gov.au
www.audit.sa.gov.au

To the Under Treasurer South Australian Government Financing Authority

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 25(2) of the *Government Financing Authority Act 1982*, I have audited the accompanying financial report of the South Australian Government Financing Authority for the financial year ended 30 June 2016. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2016
- a Statement of Financial Position as at 30 June 2016
- a Statement of Changes in Equity for the year ended 30 June 2016
- a Statement of Cash Flows for the year ended 30 June 2016
- notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information
- a Certificate from the Under Treasurer, General Manager (SAFA) and the Director, Finance (SAFA).

Under Treasurer's responsibility for the financial report

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

Auditor's responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing Standards. The auditing standards require that the auditor comply with relevant ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Under Treasurer, as well as evaluating the overall presentation of the financial report.

Independent Audit Statement (continued)

South Australian Government Financing Authority

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

My report refers only to the financial statements described above and does not provide assurance over the integrity of publication of the financial report on the South Australian Government Financing Authority's website nor does it provide an opinion on any other information which may have been hyperlinked to/from these statements.

Opinion

In my opinion, the financial report gives a true and fair view of the financial position of the South Australian Government Financing Authority as at 30 June 2016, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.



Andrew Richardson
Auditor-General
21 September 2016

APPENDIX A – SAFA CLIENT LISTING

Client	Treasury	Insurance	Fleet
Attorney-General's Department	•	•	•
Consumer and Business Services		•	•
Equal Opportunity Commission		•	•
Forensic Science SA		•	•
Guardianship Board		•	•
Office of Liquor, Gaming & Racing Services		•	•
Office of the Public Advocate		•	•
Police Complaints Authority			•
Public Trustee		•	•
State Ombudsman		•	•
Tenancies Attorney General's		•	•
Courts Administration Authority		•	•
SafeWork SA		•	•
SA Government Radio Network		•	
Department for Correctional Services		•	•
Operation Flinders Foundation			•
Electoral Commission of South Australia		•	•
Legal Services Commission of South Australia	•	•	•
Police Security Services		•	•
South Australian Fire and Emergency Services Commission (SAFECOM)		•	•
Country Fire Service		•	•
South Australian Metropolitan Fire Service		•	•
State Emergency Service (SES)		•	•
South Australian Police	•	•	•
Independent Gambling Authority		•	
Auditor-General's Department		•	•
Department for Communities and Social Inclusion (DCSI)	•	•	•
Corporate & Disability Services Units		•	
Disability Services		•	•
Domiciliary Care South Australia		•	•
Housing SA	•	•	•
Renewal SA	•	•	•
Office for Community Housing (Housing SA)	•	•	•
Multicultural SA		•	•
Office for Volunteers		•	•
Office for Women		•	•
Office for Youth		•	•
Parks Community Centre		•	
Department for Education and Child Development (DECD)	•	•	•
Families SA		•	•
SACE Board of South Australia	•	•	•
Education and Early Childhood Services Registration and Standards Board		•	
Department of Environment, Water and Natural Resources (DEWNR)		•	•
Adelaide Mount Lofty Ranges Natural Resources Management Board		•	•
Alinytjara Wilurara Natural Resources Management Board		•	•
Botanic Gardens S&C			•
Coorong Lower Lakes & Murray Mouth Projects			•
Environment Protection Authority		•	•
Eyre Peninsula Natural Resources Management Board		•	•
Kangaroo Island Natural Resources Management Board		•	•
Northern and Yorke Peninsula Natural Resources Management Board		•	•
Office of Water Security		•	•
Royal Zoological Society of South Australia	•	•	
SA Murray-Darling Basin Natural Resources Management Board		•	•
Seasonal Fire Program RC		•	•
South Australian Arid Lands Natural Resources Management Board		•	•
South East Natural Resources Management Board		•	•
South Eastern Water Conservation & Drainage Board		•	•
Stormwater Management Authority		•	
Office of Green Industries (formerly Zero Waste SA)		•	•

APPENDIX A – SAFA CLIENT LISTING

Client	Treasury	Insurance	Fleet
Department for Health and Ageing	•	•	•
<i>Central Northern Adelaide Health Service (CNAHS) -</i>			
Glenside Campus		•	•
Hampstead Centre		•	•
Lyell McEwin Health Services		•	•
Modbury Hospital		•	•
Queen Elizabeth Hospital		•	•
Royal Adelaide Hospital		•	•
Women's and Children's Hospital		•	•
Children, Youth & Women's Health Service		•	•
Country Health SA		•	•
Hills Mallee Southern Regional Health Service	•	•	
Northern Adelaide Hills Health Service		•	
SA Ambulance Service		•	•
SA Dental Service		•	•
<i>Southern Adelaide Health Service -</i>			
Flinders Medical Centre		•	•
Repatiation General Hospital		•	•
Department of Planning, Transport, and Infrastructure (DPTI)	•	•	•
Rail Commissioner		•	
Transport SA		•	•
Office for Recreation and Sport		•	•
Department of the Premier and Cabinet (DPC)	•	•	•
Employee Ombudsman Office		•	•
Government House		•	•
Government Publishing SA (GPSA)		•	
Industrial Court and Commission		•	•
Industrial Relations Court & Commission		•	•
Office for Ethical Standards & Professional Integrity		•	•
Office for Racing		•	•
Public Sector Injury Management Service		•	•
Public Sector Workforce Relations		•	•
Shared Services SA		•	
South Australian Health Practitioners Tribunal		•	
State Records of South Australia		•	•
Workers Compensation Tribunal		•	
Adelaide Cemeteries Authority	•	•	
Department of Primary Industries and Regions SA (PIRSA)	•	•	
Dairy Authority of South Australia		•	
Phylloxera & Grape Industry Board		•	•
SA Dog Fence Board		•	•
SA Research & Development Institute (SARDI)	•	•	•
Veterinary Surgeons Board of South Australia		•	
Department of State Development (DSD)		•	
Adelaide Festival Centre Trust	•	•	•
Adelaide Festival Corporation	•	•	•
Adelaide Film Festival		•	
Aboriginal Lands Trust		•	
Arts SA	•	•	•
Art Gallery of South Australia	•	•	•
ARTLAB Australia		•	•
Carrick Hill Estate		•	•
History Trust of South Australia		•	•
Public Library Services		•	•
SA Museum		•	•
State Library of South Australia		•	•
Australian Children's Performing Arts Company	•	•	
Carclew Youth Arts Centre	•		•
Country Arts SA		•	•

APPENDIX A – SAFA CLIENT LISTING

Client	Treasury	Insurance	Fleet
Jam Factory Craft & Design Inc.			•
South Australian Film Corporation	•	•	
State Opera of South Australia	•	•	•
State Theatre of South Australia	•	•	
Tandanya			•
Bio Innovation SA		•	•
Education Adelaide	•	•	•
Scope Global Pty Ltd	•		
TAFE SA	•	•	•
Defence SA		•	•
Department of Tourism			
South Australian Tourism Commission	•	•	•
Department of Treasury and Finance (DTF)		•	•
Corporate Services Ministerial Fleet			•
Electorate Services		•	•
State Procurement Board		•	
Distribution Lessor Corporation	•	•	
Fleet SA		•	
Funds SA	•	•	•
Generation Lessor Corporation	•	•	
Motor Accident Commission		•	•
Lifetime Support Authority	•	•	
Super SA	•		
Treasurer of South Australia	•		
Transmission Lessor Corporation	•	•	
PY Media			•
Forestry SA	•	•	•
Parliament SA		•	
SA Water	•	•	•
Allwater		•	
Murray Darling Basin Authority (SA Operations)		•	
Other			
Adelaide Venue Management Corporation	•	•	
Adelaide Convention Centre	•	•	
Adelaide Entertainments Corporation	•	•	
The Architectural Practice Board of South Australia		•	
Construction Industry (LSL) Board		•	
Essential Services Commission of South Australia	•	•	•
G4S – Custodial Services Pty Ltd – Mount Gambier Prison		•	
HomeStart Finance	•	•	•
Legal Profession Conduct Commissioner		•	
Local Government Association Mutual Liability Scheme		•	
Local Government Finance Authority of South Australia	•		
Pharmacy Regulation Authority of SA		•	
Return to Work SA (formerly WorkCover SA)		•	
SA Lotteries		•	
SA Pathology	•	•	•
State Governor's Establishment		•	
Surf Life Saving South Australia Inc.		•	
Teacher's Registration Board of South Australia		•	
University of South Australia	•		
Volunteer Marine Rescue Organisations		•	
West Beach Trust	•	•	•

APPENDIX B – SAFA STAFF AS AT 30 JUNE 2016*

EXECUTIVE

Andrew Blaskett General Manager

Jacinta John Executive Support Coordinator

Administration

Maureen Donnell Personal Assistant Legal^(PT)

Bridget Pacifico Legal Support Officer

Eva Vratiss Business Support Officer^(PT)

FINANCIAL MARKETS AND CLIENT SERVICES

Andrew Kennedy Director

Financial Markets

Adam Sandford Treasury Analyst

David Hocking Cash Management Dealer

Analytics

Robert Arnold Senior Quantitative Analyst

Conway Teh Advisory Analyst^(PT)

Client Services

Don Munro Manager, Client & Advisory Services

FLEET MANAGEMENT

Glenn Gaisford Acting Director

Fleet Management and Vehicle Disposal

Pauline

Bilsborough Senior Contract Manager – FM

John Batageli Senior Contract Manager – VDM

Evan Makris Senior Contract Officer

Peter White Senior Contract Officer

Bruce Davidson Rectification Officer

Martin Griggs Business Analyst

Severina O'Dwyer Finance Officer

Pham Oanh Project Officer

Julian Stone Business Analyst Reporting

Accident Management

Elisa Centofanti Acting Manager, Accident Management

Wally Ferber Vehicle Assessor

John Lunn Accident Claims Officer

Orlando Russo Vehicle Assessor

Short-Term Hire

Barry Phillips Manager, Government Pool

Rose Carter Customer Services Officer

Daniel Clayton Customer Services Officer

Darryl Francis Car Pool Attendant

INSURANCE

Tim Burfield Director

Claims Management

Deborah Machell Claims Manager

Jane Hart Principal Claims Officer

Helen Goodhew Senior Claims Officer

Andrew Grant Senior Claims Officer

Marilyn Kronbergs Senior Claims Officer

Jason Guthridge Senior Claims Officer

Teresa Campbell Claims Officer

Underwriting

Liane Lawton Underwriting Manager^(PT)

Tricia Ielasi Senior Underwriting Analyst^(PT)

Tara McAvaney Client Relationship Officer^(PT)

Helen Dworak Client Relationship Officer^(EL)

Peter

McCorquodale Client Relationship Officer

Building Indemnity

Jenny White Project Manager

APPENDIX B – SAFA STAFF AS AT 30 JUNE 2016*

FINANCE

Craig Fowler Director

Finance and Management Reporting

Trisca Price Manager, Financial & Management Reporting^(PT)
 Andrew Bettison Senior Financial Accountant
 Katherine Hanuszewicz Senior Financial Accountant^(PT)
 Michelle Pike Senior Financial Accountant^(PT)
 Kylie Richards Senior Finance Officer
 Annie Wong Senior Financial Accountant
 Kristy Dunstan Senior Reporting Analyst
 Nathan Porter Senior Treasury System Accountant
 Melissa Crisafi Treasury Accountant^(PT)
 Skye Launer Finance Officer
 Matthew Cooper Contractor

Operations

Paula Howitt Manager, Operations
 Tom Green Senior Settlements Officer
 Charlie Noujaim Settlements Officer

Systems and Business Improvement

Andrew Robinson Acting Manager, Systems and Business Improvement
 Rex Whitford Consultant^(CO)
 Peter Argiro Business Analyst, General Ledger
 John Wong Business Analyst, Insurance
 Terry Healey Business Analyst
 Michael Darvill Senior Systems Administrator
 Michelle Van Oss Business Analyst, Insurance^{(PT)(EL)}
 Brad Clee Contractor

CORPORATE GOVERNANCE & PLANNING

David Posaner Director

Governance and Planning

Michael Vroulis Senior Manager, Governance & Planning
 John Strawbridge Manager, Governance and Corporate Projects
 Lisa Ellul Senior Project Officer^(PT)
 Reshma Machin Senior Policy Officer^(PT)
 Kathy Yankoff Policy Officer
 Paul Fechner Project Officer, Records Management
 Kevin Winfield Business Support Officer
 Tamika Wilson Trainee

Industry Assistance Contract Management

Rebecca Wigglesworth Principal Contract Manager^(PT)

Ian Campbell Contract Manager
 Brent Wade Contract Manager
 Jennifer Hennessy Contract Officer^(PT)
 Elisabeth Prosser Contract Manager
 Leah Medhurst Contract Manager

Legal

Virginia Martindale Managing Legal Counsel – Insurance^(OP)
 Rob Fuller Executive Solicitor Finance^(OP)
 Audrey Bosboom Senior Solicitor^(OP)
 Kerry Davey Senior Solicitor^(OP)
 Jessica Cibich Senior Solicitor^(OP)
 Kathryn Johnston Solicitor^(OP)
 Jarrod Lengs Solicitor^(OP)

Compliance

Ver Prado Senior Manager, Audit and Compliance
 Shakhlo Rasulova Senior Audit and Compliance Officer
 Jayson Cuaresma Audit and Compliance Officer

Public Private Partnerships

Peter Marchi Manager, Projects

(CO) - contractor

(EL) - on extended leave

(PT) - part-time

(OP) - out posted from Crown Solicitor's Office

* Under the terms and conditions of a Service Level Agreement, SAFA is staffed by employees of DTF assigned to SAFA.

APPENDIX C – DEALER PANEL

SAFA Inscribed Stock Dealer Panel

Australia and New Zealand Banking Group Limited
Bank of America Merrill Lynch
Citigroup Global Markets Australia Limited
Commonwealth Bank of Australia
Deutsche Bank AG - Australian Branch
HSBC Bank Australia Limited
JPMorgan Australia Limited
National Australia Bank Limited
Nomura Australia Limited
RBC Capital Markets Ltd
Toronto Dominion Bank
UBS Australia Limited
Westpac Banking Corporation

SAFA Commercial Paper Dealer Panel

Australia and New Zealand Banking Group Limited
Commonwealth Bank of Australia
Deutsche Bank AG - Australian Branch
Macquarie Bank Limited
National Australia Bank Limited
Westpac Banking Corporation

Euro Commercial Paper Program Panel

Bank of America Merrill Lynch
Barclays Capital
Citi
Commonwealth Bank of Australia, Hong Kong Branch
ING Bank NV
National Australia Bank Limited
RBC Capital Markets Ltd
RBS Group (Australia) Ltd
UBS Investment Bank

APPENDIX D – SUMMARY OF THE GOVERNMENT OF SOUTH AUSTRALIA'S CATASTROPHE REINSURANCE PROGRAM 2015-16

Industrial Special Risks (Property and Business Interruption)

Level of cover	\$1000m
Each and every event deductible	\$1m
Aggregate annual deductible for losses in excess of \$1m each and every event	\$15m

Public and Products Liability

Level of cover	\$750m
Each and every event deductible - local government claims	\$3m
- other claims	\$1m
Aggregate annual deductible for losses in excess of \$1m/\$3m each and every event	\$20m

Professional Indemnity

Level of cover	\$300m
Each and every event deductible - local government claims	\$3m
- other claims	\$1m
Aggregate annual deductible for losses in excess of \$1m/\$3m each and every event	\$20m

Directors and Officers Liability

Level of cover	\$75m
Each and every event deductible - local government claims	\$3m
- other claims	\$1m
Aggregate annual deductible for losses in excess of \$1m/\$3m each and every event	\$20m

Medical Malpractice

Level of cover	\$100m
Each and every event deductible	\$15m
No aggregate annual deductible	

Aviation Liability

Level of cover	\$500m
Each and every event deductible	\$5000

Terrorism Liability

Level of cover	\$250m
Each and every event deductible	\$25m

Network Security and Privacy Liability

Level of cover	\$30m
Each and every event deductible	\$0.5m

m = million

CONTACT DETAILS

South Australian Government Financing Authority

Level 5
State Administration Centre
200 Victoria Square
ADELAIDE South Australia 5000
GPO Box 1045
ADELAIDE South Australia 5001
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Facsimiles: 618 811 51364
618 811 51363
618 811 51365
ABN: 75 277 967 856
E-mail: mail.SAFA@sa.gov.au
Internet: <http://www.safa.sa.gov.au>

SAICORP

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GPO Box 1045
ADELAIDE South Australia 5001
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Facsimile: 618 811 51366
ABN: 75 277 967 856
E-mail: office.SAICORP@sa.gov.au
Internet: <http://www.safa.sa.gov.au>

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Level 9
State Administration Centre
200 Victoria Square
ADELAIDE South Australia 5000
GPO Box 1943
ADELAIDE South Australia 5001
Telephone: 618 8226 5800
ABN: 75 277 967 856
E-mail: fleetsaadmin@sa.gov.au
Internet: <http://www.fleet.sa.gov.au>

SAFA Bonds

SAFA Inscribed Stock Registrar
Telephone: 1800 088 585
612 8280 7111
Facsimile: (02) 9287 0303
Internet: www.linkmarketservices.com.au
Locked Bag A14
SYDNEY SOUTH NSW 1235

Investment-Linked Migration and Investor Retirement Visa Bonds

Telephone: 618 8226 9450
Facsimile: 618 8226 9478

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