



**Government
of South Australia**

TRS20D1813

Hon Stephen Mullighan MP
Member for Lee
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Treasurer

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Dear Mr Mullighan

APPLICATION UNDER THE *FREEDOM OF INFORMATION ACT 1991*

I refer to your application made under the *Freedom of Information Act 1991* (the Act), dated 29 May 2020.

Your application seeks access to:

"All minutes, briefings and correspondence titled 'Setting of Government Guarantee Fees Rates for the 2020-21 Financial Year' as described on the Objective document management system, between 14 November 2019 and 29 May 2020."

The legislative prescribed timeframe to determine this application has expired and is now deemed to have refused you access to all documents relevant to your application. I refer to my letter dated 12 June 2020 where I sought additional time to make my determination.

The purpose of this letter is to advise you of my determination. An extensive search was conducted within this office. A total of 1 document was identified as answering the terms of your application.

I grant you access in part to 1 document; a copy of which is enclosed.

Document Released in Part

This document is released in part as it was prepared internally and contains advice and recommendations which were considered for the purpose of decision making relating to the functions of Government.

These briefings are provided to me on the basis that they are both forthright and candid. If these briefings were to be disclosed, such advice and commentary would not be provided in a candid and forthright manner.

Whilst there is a strong public interest in government accountability and transparency, there is the competing public interest to ensure that full and frank advice can occur in confidence. It is necessary that I'm appropriately informed and updated on these matters.

On balance, it is not in the public interest to disclose the content of these documents as it is important for the Government to receive frank and comprehensive advice and opinions, including the expression of views which may be contentious. I therefore determine this exempt pursuant to clause 9(1)(a)(i) to the FOI Act.

This document consists of information concerning the financial affairs of SA Water, HomeStart and Urban Renewal Authority. These numbers estimate the cumulative impact that the guarantee fee rate would have on the forward estimates from these individual agencies. If disclosed, this information may adversely affect the efficient and effective conduct of government functions, ie the budget process. I therefore determine this exempt pursuant to clause 7(1)(c).

Exemptions

Clause 7 – Documents affecting business affairs concerning

- (1) *A document is an exempt document—*
 - (b) *if it contains matter—*
 - (i) *consisting of information (other than trade secrets) that has a commercial value to any agency or any other person; and*
 - (ii) *the disclosure of which—*
 - (A) *could reasonably be expected to have an adverse effect on those affairs or to prejudice the future supply of such information to the Government or to an agency; and*
 - (B) *would, on balance, be contrary to the public interest; or*
 - (c) *if it contains matter—*
 - (i) *consisting of information (other than trade secrets or information referred to in paragraph (b)) concerning the business, professional, commercial or financial affairs of any agency or any other person; and*
 - (ii) *the disclosure of which—*
 - (A) *could reasonably be expected to have an adverse effect on those affairs or to prejudice the future supply of such information to the Government or to an agency; and*
 - (B) *would, on balance, be contrary to the public interest.*

Clause 9 — Internal Working Documents

- (1) *a document is an exempt document if it contains matter—*
 - (a) *that relates to—*
 - (i) *any opinion, advice or recommendation that has been obtained, prepared or recorded; or**in the course of, or for the purpose of, the decision-making functions of the Government, a Minister or an agency; and*
the disclosure of which would, on balance, be contrary to the public interest.

Please note, in compliance with Premier and Cabinet Circular PC045 - *Disclosure Logs for Non-Personal Information Released through Freedom of Information* (PC045), the Department of Treasury and Finance is now required to publish a log of all non-personal information released under the Act.

In accordance with this Circular, any non-personal information determined for release as part of this application, may be published on the DTF website. A copy of PC045 can be found at the following address: <https://dpc.sa.gov.au/resources-and-publications/premier-and-cabinet-circulars>. Please visit the website for further information.

As I am determining this application as Principal Officer, section 29(6) of the Act does not provide for an internal review. If you are dissatisfied with my determination you are entitled to exercise your rights of external review with the Ombudsman.

Alternatively, you can apply to the South Australian Civil and Administrative Tribunal. If you wish to seek a review, section 39(3) of the Act states you must do so within 30 calendar days of receiving the determination.

If you require any further information, please contact Vicky Cathro on 8226 9769.

Yours sincerely



Hon Rob Lucas MLC
Principal Officer

26 September 2020

RELEASE IN PART

MINUTE



To: The Treasurer

SETTING OF GOVERNMENT GUARANTEE FEE RATES FOR THE 2020-21 FINANCIAL YEAR

Timing: ROUTINE — For Approval

Recommendations/Issues: It is recommended that you:

- note that SAFA has completed its annual review of the Government Guarantee Fee (GGF) rates applicable for the 2020-21 financial year;
- approve the Government Guarantee Fee rate for new borrowings in the 2020-21 financial year being set at **0.85%** pa for the standard guarantee fee paying agencies based on 'BBB' rated entities (includes HomeStart and SA Water) and **0.48%** pa for 'AA' rated entities (includes PIRSA); and
- approve the Local Government Finance Authority of South Australia (LGFA) (excluded from the standard methodology of calculating GGFs) continuing to be charged a guarantee fee rate of 0.20% pa on all its liabilities (including external borrowings and deposits from councils).

Noted and Approved/ Not-Approved-

Hon Rob Lucas MLC
Treasurer

11/4/20

Key Points:

- Government agencies pay guarantee fees to the Treasurer to reflect the benefit of the Government's backing of their obligations, the funding cost advantage provided by the Government's guarantee and an appropriate level of return to the Government for accepting the risk of default.
- The application of guarantee fees is consistent with the competitive neutrality principles contained in the Inter-Governmental Agreement between the State and Commonwealth Governments and supports transparency and accountability by ensuring relevant decisions are made reflecting true borrowing costs.
- The GGF Pricing Policy requires guarantee fee rates applying to government agencies be reviewed and approved annually.

- SAFA has completed its annual review of the guarantee fee rates applicable for the 2020-21 financial year and recommends that a rate of **0.85%** pa be set for the 'BBB' Rated entities such as SA Water, HomeStart Finance and Renewal SA; and **0.48%** pa be set for 'AA' rated entities such as Primary Industries and Regions SA.
- The proposed calculated GGF rate applies to any new borrowings of relevant agencies in the 2020-21 financial year including refinancing of existing debt and is fixed to the term of maturity of the underlying individual borrowing. Attachment 1 lists those agencies that currently pay guarantee fees.
- Borrowings by agencies in previous financial years will continue to attract previous set GGF rates and legacy rates (see table below).

	Credit Rating Band	
	BBB	AA
Proposed GGF rate for applicable debt in 2020-21	0.85%	0.48%
Existing GGF rate for applicable debt in the previous financial year (2019-20)	0.99 %	0.55%
Existing GGF rate for previous financial years		
2018-19	1.36%	0.64%
2017-18	1.88%	0.81%
2016-17	1.56%	0.69%
2015-16 and earlier	1.60%	0.50%
legacy debt for SA Water prior to 8 Oct 2014 regearing of debt	1.00%	


Calculation Methodology

- GGF rates are determined each year based on credit margins (spreads) in the Australian financial markets. The rates reflect the difference between the cost of borrowing of lower rated entities or entities that have no explicit assigned credit ratings (typically 'BBB' or 'AA') to the credit rating of the South Australian Government, and are based on the 4 year term to maturity curves.
- The rates calculated are obtained from observable data from Bloomberg Fair Value Corporate Curves. The observable data used for the calculation of the 2020-21 GGF rates is extracted from rates over the calendar period 1 January – 31 December 2019. An average spread is calculated from this data to determine the GGF rate.
- The spreads between SAFA's 'AA' borrowing costs and the costs of lower rated entities steadily declined throughout the year from around 105 basis points at the beginning of the 2019 calendar year to around 75 basis points toward the third quarter of the year, finishing around 85 basis points at the end of 2019 (refer to attachment 2).

- This has resulted in a fall in the Government Guarantee Fee rate from the current approved standard rate of 0.99% pa to 0.85% pa for 'BBB' rated entities, and 0.55% pa to 0.48% pa for 'AA' rated entities.
- The Treasurer has discretion to set a different guarantee fee rate for agencies other than the recommended rate, depending on prevailing circumstances such as severe dislocation in financial market conditions (2019 was not considered a severe dislocation). For consideration, the decrease in the recommended GGF rate applicable for 2020-21 could impact on borrowing patterns of the agencies for the remainder of this financial year in anticipation of the advantages gained from the decrease in the rate, notwithstanding any adverse movement in market rates, however this is not considered to be significant.
- The estimated cumulative impact of the decrease in the GGF rates on the forward estimates of the Budget on borrowings by the main contributing GGF paying agencies is shown in the table below (including new forecasted borrowings for SA Water). Reductions in Government Guarantee Fees will be offset by higher profits available to agencies for distribution to Government.

Agency	2020-21 \$m	2021-22 \$m	2022-23 \$m
SA Water			
HomeStart			
Total			

- In relation to LGFA It is recommended that you approve the guarantee fee arrangements remain unchanged, where LGFA will continue to pay 0.20% pa on all liabilities including external borrowings and deposits from councils. The arrangement in place for LGFA is on the basis that GGFs applicable to LGFA are not within the ambit of competitive neutrality policy but rather on the basis that the Treasurer guarantees LGFA's obligations.



Tim Burfield
Acting General Manager, SAFA

23 March 2020

Contact Officer:	Tim Burfield, Acting General Manager, SAFA
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Supported / Not Supported



David Reynolds

CHIEF EXECUTIVE

Department of Treasury and Finance

Date... 7 / 4 / 20

Attachment 1

Current Guarantee Fee Paying Agencies as at December 2019.

Government Agencies

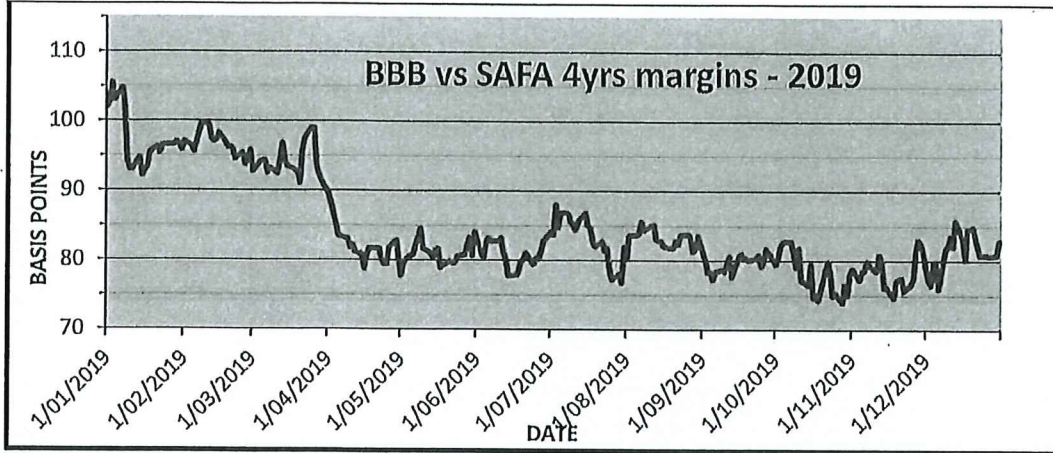
Adelaide Cemeteries Authority
Adelaide Convention Centre
Adelaide Festival Centre Trust
HomeStart Finance
West Beach Trust
Renewal SA
SA Water
Scope Global
LGFA (0.20% pa arrangement)

Non-Government Agencies

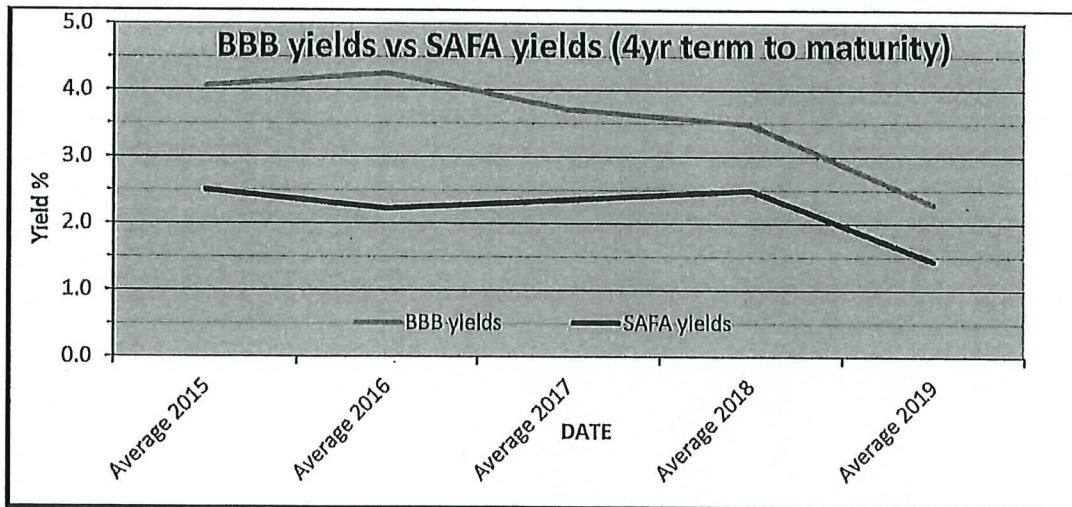
Australian Fashion Labels (as part of the government guarantee provided under the Unlocking Capital for Jobs Program).

Attachment 2

BBB margins vs SAFA 4 Year margins over 2019



Bloomberg Fair Value Corporate Curve BBB yields vs SAFA yields (4 year term to maturity)



	Yield BBB 4yr	Yield AA 4yr	Yield SAFA 4yr		Spread BBB 4yr	Spread AA 4yr
Average 2015	4.059	3.187	2.499	Average 2015	1.560	0.688
Average 2016	4.256	3.093	2.222	Average 2016	2.033	0.871
Average 2017	3.709	2.989	2.353	Average 2017	1.356	0.636
Average 2018	3.486	3.043	2.494	Average 2018	0.991	0.548
Average 2019	2.289	1.917	1.442	Average 2019	0.847	0.480