



**Government of  
South Australia**

# **Guarantee Fee Pricing Policy**

**APRIL 2018**

Approved by the Treasurer on 20 April 2018

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## 1. Background

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

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

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

### 3. Agencies that are required to Pay a Guarantee Fee

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

#### **4. Liabilities Subject to a Guarantee Fee**

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

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

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

## 6. Guarantee Fee Calculation Methodology

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



## **7. Payment of Guarantee Fees**

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

**Appendix 1:**

**Maintenance and Approval History**

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

## APPENDIX 2:

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

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

<http://www.dpc.sa.gov.au/documents/rendition/B17579>

*\*Please note that DPC is responsible for maintaining this list and the list included in this attachment overleaf was last updated in 2014 and does not reflect recent Machinery of Government changes as at April 2018.*

**Category 1 Significant Business Activities**

<b>Category 1 Significant Business Activity</b>	<b>Competitive Neutrality Measure Adopted</b>	<b>Responsible Minister</b>
<b>Department of the Premier and Cabinet</b>		
Adelaide Festival Centre Trust* <ul style="list-style-type: none"> <li>o Bass ticketing service</li> <li>o Set building workshops</li> <li>o Theatre hire services</li> </ul>	Cost Reflective Pricing	Minister for the Arts
<b>Department of Further Education, Employment, Science and Technology</b>		
o TAFE SA	Corporatisation	Minister for Employment, Higher Education and Skills
<b>Department for Health and Ageing</b>		
o Medvet Science Pty Ltd	Corporatisation	Minister for Health
o SA Pathology Research and Diagnostic Pathology Services	Cost Reflective Pricing	Minister for Health
o SA Medical Imaging	Cost Reflective Pricing	
<b>Attorney-General's Department</b>		
Public Trustee*		
o Personal trusteeship services	Commercialisation	Attorney-General
<b>Department of Primary Industries and Regions South Australia</b>		
o Rural Solutions SA (includes Seed Services Australia)	Cost Reflective Pricing	Minister for Agriculture, Food and Fisheries
<b>Department for Communities and Social Inclusion</b>		
o Interpreting and Translating Services	Commercialisation	Minister for Communities and Social Inclusion

**Category 1 Significant Business Activities**

<b>Category 1 Significant Business Activity</b>	<b>Competitive Neutrality Measure Adopted</b>	<b>Responsible Minister</b>
<b>Department of Education and Child Development</b>		
<ul style="list-style-type: none"> <li>○ International program <i>Recruitment of full-fee paying overseas students</i></li> <li>○ <i>Provision of study tours to overseas students and educators</i></li> </ul>	Cost Reflective Pricing	Minister for Education and Child Development
<b>Adelaide Convention Centre*</b>	Corporatisation	Minister for Tourism
<b>Adelaide Entertainments Corporation*</b>	Cost Reflective Pricing	Minister for Tourism
<b>Adelaide Cemeteries Authority*</b>	Corporatisation	Minister for Planning
<b>HomeStart Finance*</b>	Commercialisation	Minister for Housing and Urban Development
<b>Forestry SA*</b>	Corporatisation	Minister for Forests
<b>Urban Renewal Authority*</b> <small>(trading as Renewal SA)</small>	Corporatisation	Minister for Housing and Urban Development
<b>Lotteries Commission of South Australia</b>	Corporatisation	Minister for Finance
<b>SA Water Corporation*</b>	Corporatisation	Minister for Water and the River Murray
<b>West Beach Trust*</b>	Corporatisation	Minister for Planning

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

**Category 2 Significant Business Activities**

<b>Category 2 Significant Business Activity</b>	<b>Competitive Neutrality Measure Adopted</b>	<b>Responsible Minister</b>
<b>Department of the Premier and Cabinet</b>		
<ul style="list-style-type: none"> <li>○ Artlab Australia</li> </ul>	Cost Reflective Pricing	Minister for the Arts
<b>Department of Education and Child Development</b>		
<ul style="list-style-type: none"> <li>○ Distribution Centre Services</li> <li>○ “Bookmark” library software sales and support</li> <li>○ Education Development Centre</li> <li>○ DECD Publishing</li> </ul>	Cost Reflective Pricing Cost Reflective Pricing Cost Reflective Pricing Cost Reflective Pricing	Minister for Education and Child Development
<b>Department of Environment, Water and Natural Resources</b>		
<ul style="list-style-type: none"> <li>○ State Flora</li> <li>○ Cleland Wildlife Park</li> <li>○ Seal Bay</li> <li>○ Naracoorte Caves</li> </ul>	Cost Reflective Pricing Cost Reflective Pricing Cost Reflective Pricing Cost Reflective Pricing	Minister for Sustainability, Environment and Conservation
<b>Department for Health and Ageing</b>		
<ul style="list-style-type: none"> <li>○ Modbury Hospital rental accommodation</li> <li>○ Royal Adelaide Hospital rental accommodation</li> <li>○ Flinders Medical Centre rental of flats</li> </ul>	Cost Reflective Pricing Cost Reflective Pricing Cost Reflective Pricing	Minister for Health
<b>Attorney-General’s Department</b>		
Attorney-General’s Department <ul style="list-style-type: none"> <li>○ Contestable Legal Services</li> </ul>	Cost Reflective Pricing	Attorney-General
<b>Department of Primary Industries and Regions South Australia</b>		
<ul style="list-style-type: none"> <li>○ Annual Ryegrass Toxicity Testing for Export Hay (SA Research &amp; Development Institute)</li> <li>○ PredictaB and other soil testing for cereal plant pathogens (SA Research &amp; Development Institute)</li> </ul>	Cost Reflective Pricing Cost Reflective Pricing	Minister for Agriculture, Food and Fisheries
<b>Department for Communities and Social Inclusion</b>		
Domiciliary Care <ul style="list-style-type: none"> <li>○ Therapy Solutions</li> <li>○ Domiciliary Equipment Service</li> </ul>	Cost Reflective Pricing Cost Reflective Pricing	Minister for Communities and Social Inclusion

