

NSW Generations Fund Annual Report 2018-19





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Treasurer's Message

I am pleased to present the first Annual Report of the NSW Generations Fund (NGF) for the 2018-19 financial year. The report has been prepared in accordance with section 7 of the *NSW Generations Fund Act 2018*.

The NSW Government announced the NGF in June 2018, a world-first sovereign wealth fund to guard against intergenerational budgetary pressures and keep debt sustainable in the long-term, while also delivering for communities today.

Seeded with \$10 billion in late 2018, \$7 billion following the sale of a 51 percent stake in WestConnex and \$3 billion from balance sheet reserves, the NGF had a balance of \$10.9 billion as at 30 June 2019, outperforming expectations.

The overall vision and purpose of the NGF is to support the State's Triple-A credit rating over the long-term and ensure the NSW Government can plan for the future by responsibly delivering the essential productive infrastructure for the people of New South Wales without burdening future generations with debt. It is legislated that funds within the NGF can only be used for the purpose of paying down debt, or funding community services and facilities projects.

The 2019-20 Budget introduced a 'four-pillar' strategy to ensure a sustainable fiscal and economic future for New South Wales.

The Four Pillars build on the State's strong foundations to ensure the economy remains strong, resilient to shocks and responsive to new opportunities. The NGF plays a critical role as a key pillar in managing the State's balance sheet, lowering the financial burden for future generations.

We have an obligation to leave the State's finances in a better position for future generations. The NGF adds a whole new level of resilience to the sturdy financial foundations our Government has already laid and will help the State withstand any future budget pressures.

I would like to thank the Board for its oversight and stewardship of the NGF and also acknowledge the efforts of those across NSW Government who came together to make the NGF a reality.

Dominic Perrottet, MP
Treasurer

Message from the Chair

The successful establishment of the NGF

On behalf of the NSW Generations Fund Advisory Board (the Board) I am pleased to introduce the first NSW Generations Fund Annual Report.

The NSW Government announced the establishment of the NGF as part of the 2018-19 Budget. The inaugural NSW Generations Fund Advisory Board meeting was held in August 2018.

The Board worked closely with NSW Treasury and TCorp (NSW Treasury Corporation) to formulate and endorse an investment strategy aligned to the Fund's long-term investment horizon and its policy aim of achieving intergenerational equity.

The NGF was seeded with \$10 billion in late 2018. The Board oversaw the successful deployment of the funds into financial markets by the State's funds management arm, TCorp.

The NGF is invested in a diverse range of assets including domestic and international equities, bonds, property and infrastructure.

The Fund's performance has been exceptionally strong to date, returning 9.6 percent in the seven months since establishment to 30 June 2019, a result exceeding the long-term investment objective of 4.5 percent above inflation. However, financial markets and the economic environment underpinning them remain uncertain, especially in the near term and so, such high returns on an ongoing basis should not be expected. The Board, aided by NSW Treasury and TCorp, will maintain its vigilance and take the necessary action for the Fund to achieve its long-term investment objectives.

Supporting investment in local communities through the My Community Project initiative

My Community Project (MCP) is the first community initiative funded by the NGF and overseen by the Board. MCP provides NSW residents with an opportunity to propose and vote on new projects in the community, with the projects acquiring the highest number of points receiving funding.

MCP was launched in early April 2019, with more than 1800 applications received from communities across the State. Following an assessment against the eligibility criteria, the Board endorsed over 1500 projects to be put up for public voting from 25 June 2019. The vote closed subsequent to the end of the financial year, on 15 August 2019, with 61,437 votes cast. There were 248 successful projects with \$24.7 million allocated across NSW.

Acknowledgement

On behalf of the Board, I would like to express our gratitude for the work done by all employees from NSW Treasury, TCorp, the Department of Planning, Industry and Environment (DPIE) and Service NSW who successfully navigated the establishment and first year of the NSW Generations Fund. We, as members of the Board, are committed to the sound governance of the Fund and delivering for the people of New South Wales now and into the future.

Glenn Stevens AC

Chair

NSW Generations Fund Advisory Board

Key NGF Highlights 2018-19

FINANCIAL HIGHLIGHTS

- Fund balance of **\$10.9 BILLION** at 30 June 2019
- **\$903 MILLION** in absolute investment returns since the Fund's inception in November 2018
- Expected to grow to more than **\$28 BILLION** over the next decade, creating a substantial pool of assets to support future debt retirement

COMMUNITY INVESTMENT HIGHLIGHTS

- Launch of the first community wellbeing program 'My Community Project' (MCP)
- 1854 citizen-led applications for project ideas to improve local communities across New South Wales
- Today's generation will share in the benefit of the NGF through its support of initiatives improving the wellbeing of communities and the lives of the people of New South Wales

JUNE
2018

NGF announced as part of the 2018-19 Budget

AUGUST
2018

Inaugural NGF Board Meeting

NOVEMBER -
DECEMBER
2018

NGF seeded with \$10 billion

APRIL
2019

MCP launches



The NGF Advisory Board

As at 30 June 2019, the Board consisted of the Chair and four other independent and government members. The Board provides strategic policy direction and oversight for the management and performance of the NGF.



Glenn Stevens AC
Chair

Glenn Stevens is the former Governor of the Reserve Bank of Australia (RBA) and worked at the highest levels of the RBA for 20 years. He played a significant role in central banking internationally and was instrumental in developing Australia's successful inflation targeting framework. Mr Stevens was the Chair of the Australian Council of Financial Regulators from 2006 to 2016, a member of the Financial Stability Board and was on several G20 committees.

Mr Stevens is a non-Executive Director of Macquarie Group and Macquarie Bank. He is a member of the Investment Committee of NWQ Capital Management, Director of the Lowy Institute, Deputy Chair of the Temora Aviation Museum and a volunteer pilot for Angel Flight.



Nicholas Johnson
Appointed Member

Nicholas Johnson has extensive strategic and advisory experience in financial services management both in Australia and overseas. He served as the Chief Executive Officer for Australia and the Managing Director, Senior Relationship Management, at Barclays Capital until his retirement in 2012. He had previously held senior positions with the Commonwealth Bank, Morgan Stanley, and Credit Suisse.

Mr Johnson is also the Chair of State Super and a Board Member of The Sydney Institute. His previous appointments include Chair of Pillar Administration, Chair of the National Arts School and Advisory Board Member of the North-West Rail Link Project.



Lisa McIntyre
Appointed Member

Lisa McIntyre is an experienced company director with a broad portfolio spanning healthcare, insurance, technology and e-learning sectors across Australia and overseas. She held senior roles at L.E.K. Consulting for over 20 years and is currently a Fellow at the University of Sydney.

Ms McIntyre also holds appointments as a non-Executive Director of icare, HCF Group and Studiosity. She is the Chair of the HCF Research Foundation, a Member of the Corporate Governance Committee at the Australian Institute of Company Directors and a Volunteer Ethics Teacher for primary school students.



Tim Reardon
**Official NSW
Government Member**

Tim Reardon is the Secretary of the NSW Department of Premier and Cabinet, leading delivery of the NSW Government's priorities including strategic infrastructure planning and project delivery. He was previously the Secretary of Transport and has more than 20 years in senior roles across public and private sectors around Australia.

Mr Reardon is also a member of the Board of Infrastructure NSW and held previous appointments on the Board of Jobs for NSW.



Michael Pratt AM
**Official NSW
Government Member**

Michael Pratt AM is the Secretary of NSW Treasury, responsible for the strategic management of the entirety of the State's finances, budget, assets, liabilities and financial risk management framework and transformation. Prior to his role at NSW Treasury, he was the NSW Customer Service Commissioner and has held senior executive positions with Standard Chartered Bank, Finsia, Westpac, National Australia Bank, Bank of New Zealand and Bank of Melbourne.

Mr Pratt's previous appointments include non-Executive Director roles at TAL Dai-ichi Life Australia and Credit Union Australia where he chaired their respective risk committees. He was also the Deputy Chair of icare, MasterCard International Inc New York, MasterCard Asia Pacific, BT Financial Services, Chair of Bennelong Funds Management, Chair of Shenzhen Credit Corporation and Executive Director of Standard Chartered Bank Hong Kong and China.

About the Fund

THE NGF MISSION



The NGF supports current and future generations, helping maintain debt at sustainable levels consistent with a **Triple-A credit rating**

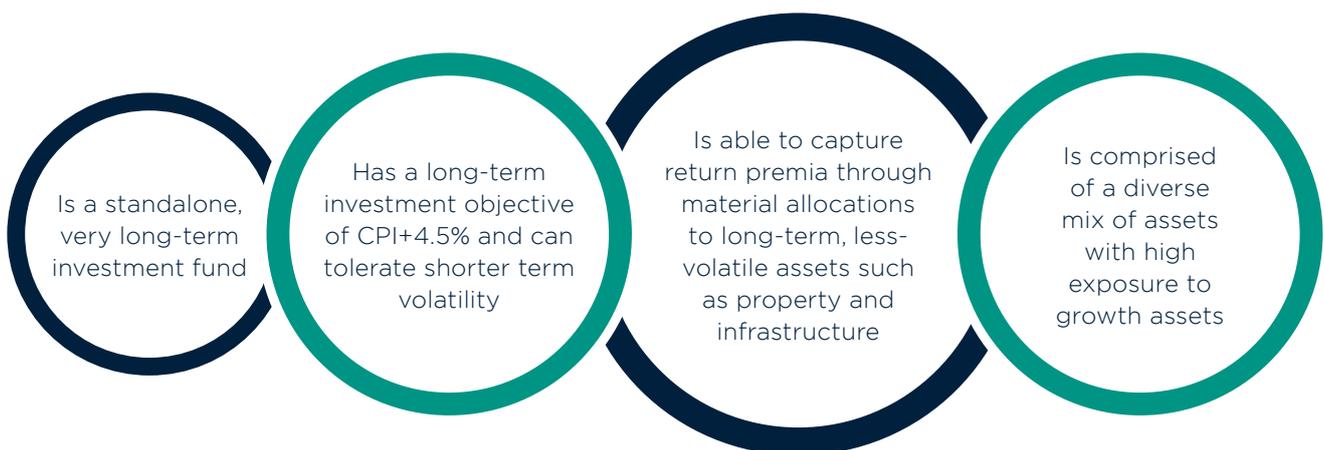


TCorp has partnered with the NSW Government, NSW Treasury and the NGF Advisory Board to support the development, launch and on-going investment management of the NGF - part of TCorp's **\$107 billion total funds under management**



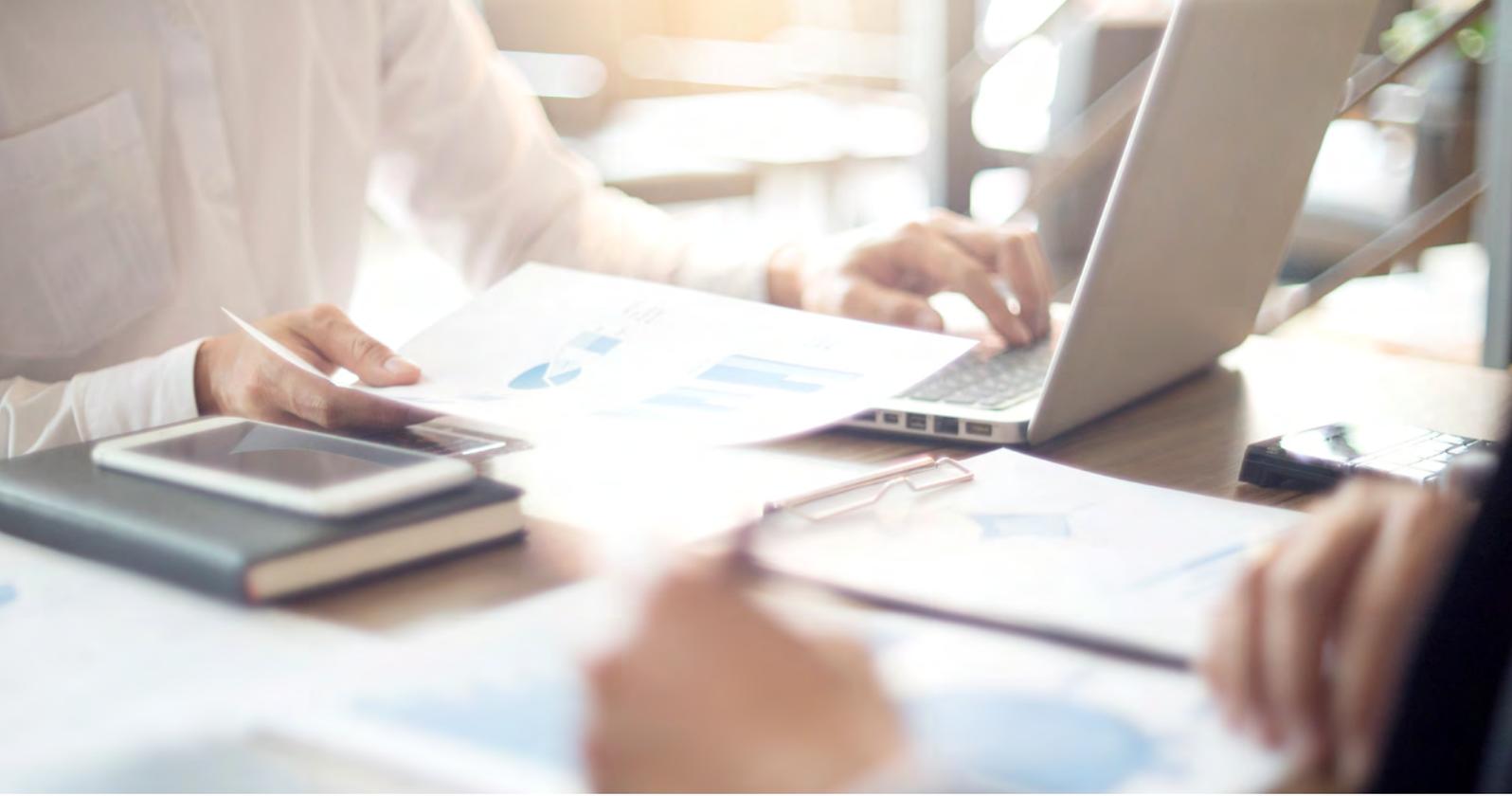
The NGF **promotes intergenerational equity through its dual-purpose mission**, ensuring the people of NSW benefit from its returns, today and tomorrow

INVESTING THE NGF



REACHED A
FUND BALANCE
OF **\$10.9 BILLION**
AT 30 JUNE 2019

DELIVERED **\$903 MILLION** IN
ABSOLUTE INVESTMENT
RETURNS SINCE INCEPTION



The NGF and the economic vision for NSW - lowering the debt burden for tomorrow

As the NSW Government invests the proceeds of asset recycling into its record infrastructure program, it is also ensuring the State is on a sustainable path into the future with the NGF. The NGF is one of the pillars within the 'four-pillar' strategy announced by the NSW Government in the 2019-20 Budget. While being a pillar in itself, the NGF is also helping to support the NSW Government's Outcomes Budgeting priorities, by directly contributing to achieving the Treasury cluster's State outcomes of:

- effective capital and balance sheet optimisation; and
- sustainable fiscal position to enable the delivery of outcomes.

The NSW Government's ongoing balance sheet reform agenda has helped unlock the State's potential and has been critical in achieving fiscal discipline consistent with a Triple-A credit rating.

The NGF represents a key element of this, as the NSW Government remains committed to easing the debt burden on future generations at a time when the State is also expected to face budgetary pressures.

The *NSW Generations Funds Act 2018* safeguards the invested assets for debt retirement. Both major credit ratings agencies (Moody's and S&P Global) have confirmed their recognition of the NGF as an offset to the State's debt. This allows the NGF to support the Triple-A credit rating in a way the State's other investment funds cannot.

As a long-term fund, the NGF is intended to grow over time, with real returns to be used to support intergenerational equity, as well as citizen and community-focused initiatives to improve the well-being of communities and the lives of the people across New South Wales.

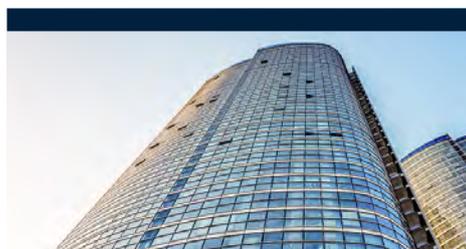
The Four Pillars

The 2019-20 Budget continues the NSW Government's legacy of strong financial management, delivering its election commitments, making unprecedented investments in frontline services and infrastructure, easing the cost of living for families and cutting taxes. At the same time, the NSW Government is also laying the foundations for a stronger economic and financial future.

The 2019-20 Budget introduced a four-pillar strategy to ensure a sustainable fiscal and economic future for New South Wales:

- **Economic Blueprint** - building on significant achievements to date, to set out the long-term strategies for the next phase of economic growth

- **Balance sheet management** - the NGF was seeded with \$10 billion in 2018 and expected to grow to more than \$28 billion over the next decade
- **Federal financial relations** - David Thodey AO will lead an expert panel providing a New South Wales perspective on sustainability of the federal funding system, and
- **Planning for outcomes** - sector-wide reform integrating outcome-focused target setting, business planning and performance management, improving alignment and effectiveness of agency budgets towards the delivery of State outcomes.



Economic Blueprint

The Economic Blueprint will drive the next phase of the State's economic growth



Planning For Outcomes

The Government is focusing on delivering outcomes, not bigger governments



Federal Financial Relations

Let's have a conversation on how the revenue system can work better for all



Balance Sheet Management

The Government is lowering the financial burden for future generations



Announcement and Passage of Legislation

The NSW Government introduced the NGF as part of the 2018-19 Budget. A world-first sovereign wealth fund, it supports both the State's Triple-A credit rating over the long-term and generates returns to be invested into local communities today. The dedicated debt retirement fund helps to ensure the NSW Government can plan for the future, by responsibly delivering the essential productive infrastructure for the residents of New South Wales without burdening future generations with debt.

Parliament passed the *NSW Generations Funds Act 2018* (the Act), the NGF's enabling legislation, in June 2018 with it also receiving assent in the same month. The Act creates two ring-fenced funds:

- **The Debt Retirement Fund (DRF)¹**, whose purpose is to provide funding for reducing the debt of the State in accordance with the principles of sound financial management set out in section 7 of the *Fiscal Responsibility Act* (2012); and

- **The Community Services and Facilities Fund (CSFF)**, whose purpose is to provide funding for cost-effective facilities and services throughout New South Wales to improve the wellbeing of communities and the lives of the people across the state.

In addition to establishing the two Funds, the Act also regulates payments into, and out of, each Fund. Importantly, the Act allows for payments into the NGF of any income (including distributions, dividends and interest) or sale proceeds of any relevant NSW equity interest.

This currently only includes the State's remaining 49 percent share of WestConnex following the successful transaction announced in August 2018.

Establishing the NGF Advisory Board

In late June 2018, the Board was established to advise the Treasurer on the NGF's investment strategy (i.e. the mix of assets it is invested in) and to provide advice to the Treasurer and Premier on citizen-proposed initiatives submitted for funding through the CSFF.

The Treasurer appointed Glenn Stevens, former Governor of the Reserve Bank of Australia, as Chair of the Board, along with two independent members, Nicholas Johnson and Lisa McIntyre. Michael Pratt, AM, Secretary of NSW Treasury and Tim Reardon, Secretary of the Department of Premier and Cabinet (DPC) are the official Government members.

¹ The NGF comprises both the Debt Retirement Fund and the Community Services and Facilities Fund. References to the NGF investment strategy and fund balance will refer to the Debt Retirement Fund only, unless otherwise specified. References to the 'NSW Generations Funds' will mean the Debt Retirement and Community Services and Facilities Funds together.

Seeding the Funds

In November 2018, the NGF received its first inflow, seeded with \$3 billion from the State's balance sheet reserves. A further \$7 billion was invested in December 2018, funded from proceeds received from the NSW Government's successful sale of its 51 percent stake in WestConnex. The Board oversaw the formation of the NGF's investment strategy and initial deployment into financial markets by the State's investments funds management arm, TCorp.

The NGF's investment strategy is aligned to its long-term investment horizon, and targets returns of 4.5 percent above inflation. Guided by the Board, the Fund is invested in a diverse range of assets including domestic and international equities, bonds, property and infrastructure assets.

As at 30 June 2019 the Fund was valued at \$10.9 billion, boosted by better than expected investment performance. While the NGF's investment strategy is designed to maximise returns over the long-term, it is not immune to financial market volatility, and therefore returns volatility over shorter timeframes. Looking ahead however, the NGF is projected to grow to more than \$28 billion by June 2029, further strengthening the State's balance sheet.

As the NGF continues to grow, it will help support funding of community projects through the Community Services and Facilities Fund (CSFF). The first initiative to be funded is My Community Project (MCP) which provides NSW residents with an opportunity to propose and

vote for new projects in their local area. Eligible projects obtaining the highest number of points will receive funding. Projects include all-ability playgrounds, community mobility services, public gardens, upgrades to local sporting facilities, public artworks and festivals, programs for at-risk youth and healthy lifestyle initiatives.

The 2018-19 NSW Budget allocated \$27.5 million to the CSFF during this financial year for the purposes of funding the MCP initiative, including grants, set-up and administration costs. Approximately \$2 million was spent by DPC to administer the grants program, including a payment of \$749,743 to Service NSW for the development of the voting platform, communications and engagement activities and the provision of support services via their contact phone centre and service centres across New South Wales.

The first projects will be funded in the second half of 2019, following the announcement of grant recipients in September 2019. Further details on MCP outcomes will be provided in next year's annual report.

The successful projects can be viewed at <https://mycommunityproject.service.nsw.gov.au/>.



Governance of the NSW Generations Funds



The NSW Generations Funds are controlled and managed by the NSW Treasurer, as the responsible minister who, in exercising their functions under the Act may obtain and have regard to any advice, recommendations or other information provided to them by any person or body they consider relevant. The Act also provides the Treasurer the ability to delegate the exercise of any function under the Act (except the power of delegation itself). Delegations regarding certain administrative activities have been appointed to NSW Treasury, by instruments of delegation approved by the Treasurer when the NGF was first established.

In addition, the NSW Treasurer established the NGF Advisory Board. This five-person Board, with its balanced mix of senior government and business leaders, oversees the NGF. Chaired by former Governor of the Reserve Bank of Australia Glenn Stevens, the Board convened for the first time in August 2018. In this short time, it has overseen the formulation of the NGF's investment strategy and initial deployment of funds, as well as the set-up and implementation of the My Community Project initiative, the first community-based initiative to be funded out of the Community Services and Facilities Fund.



The NSW Treasurer approved the NGF Advisory Board's Charter, which sets out the Board's key roles and responsibilities, specifically:

- recommending to the Treasurer the investment strategy for the Debt Retirement Fund and other associated functions;
- making recommendations to the Treasurer relating to the design, process, procedures and implementation for programs or initiatives to be funded from the Community Services and Facilities Fund and other associated functions; and
- any other functions that are conferred or imposed on it by the Treasurer or any other Act of the NSW Parliament.

In discharging its responsibilities, the Board is supported by the following entities:

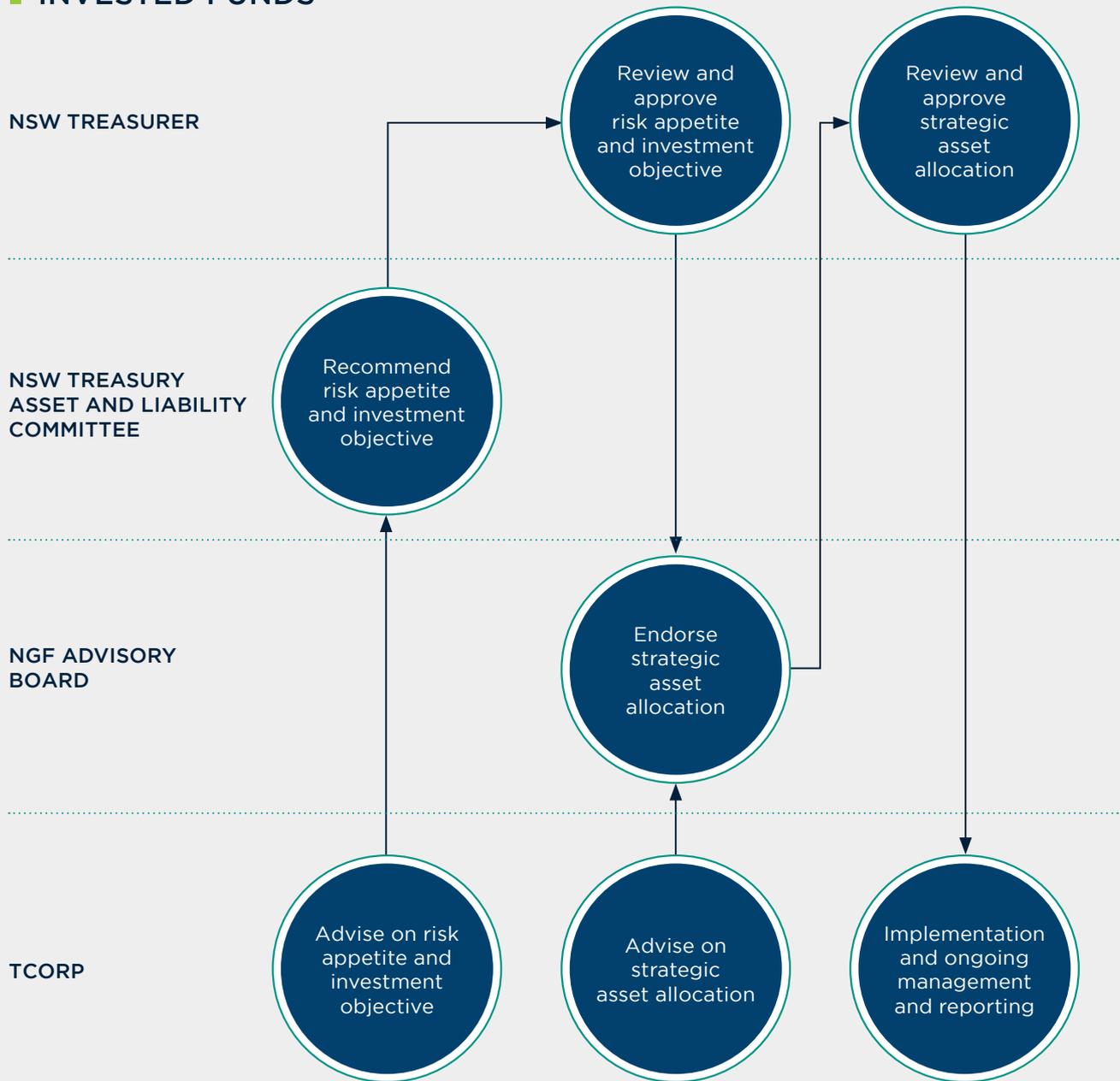
- **NSW Treasury** - provides the Board's Secretariat and is also responsible for advising the Treasurer on the NGF from a policy perspective, such as credit rating, fiscal strategy and budget-related impacts. The Treasury Asset and Liability Committee (ALCO) also considers the NGF from a whole-of-state balance sheet and risk management perspective.

- **Department of Planning Industry and Environment (DPIE)** - provides the team which administers the My Community Project (MCP) initiative, including developing the guidelines, arranging for the assessment of applications, administering the funding to successful applicants and project monitoring. The MCP team was part of DPC prior to the recent Machinery of Government changes, which were announced during the financial year.
- **Service NSW** - developed and hosted the IT infrastructure which made the MCP online vote possible and provided customer support throughout the program via their contact centre and service centres located across NSW.
- **TCorp** - manages the invested funds on a day-to-day basis and provides investment advisory services to the Board, including advising on the Fund's risk and return objectives, as well as the investment strategy.

Funds Governance Structures

The figures below highlight the key governance elements related to managing the NGF:

GOVERNANCE STRUCTURE - INVESTED FUNDS

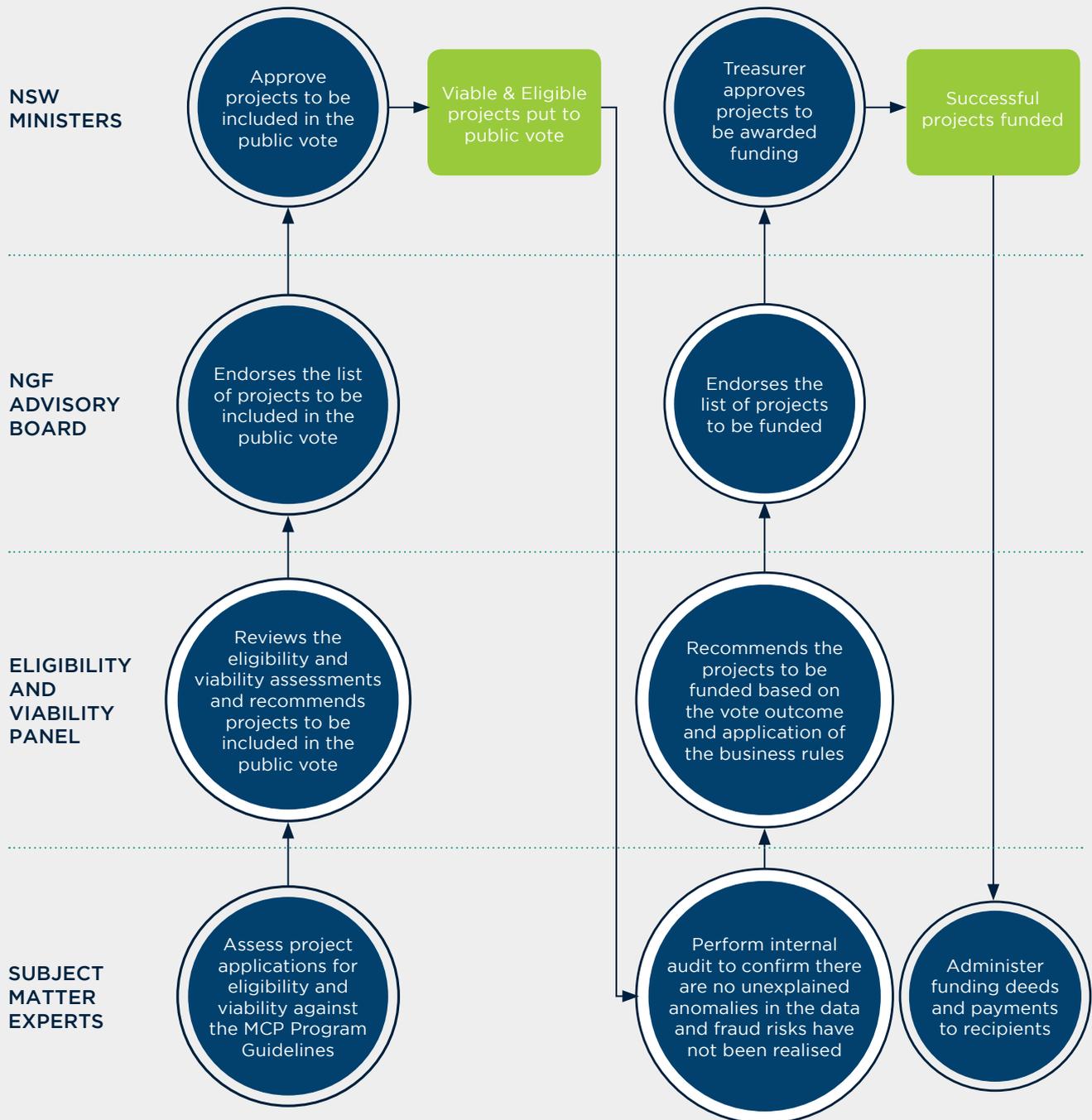


The Treasury ALCO recommends the NGF's risk appetite and investment objective to the Treasurer for approval, based on advice and consultation with TCorp. This aspect of the Fund's governance ties in with ALCO's remit of overseeing and managing risks to the whole-of-state balance sheet. From this perspective, ALCO is well-placed to advise on New South Wales' broader policy and fiscal objectives which the Fund helps support, also taking into account the State's overall risk appetite.

Once the Treasurer approves the Fund's risk appetite and investment objective, the Board works with TCorp to develop an investment strategy consistent with these parameters. The Treasurer then approves the strategy based on the Board's endorsement, with TCorp implementing accordingly.

The NGF's investment objective, risk appetite and investment strategy will be reviewed annually to ensure the Fund remains well-placed to meet its long-run objective. This involves positioning the Fund to take advantage of emerging opportunities and making sure risks to the NGF's performance are well-managed.

GOVERNANCE STRUCTURE - COMMUNITY GRANTS INITIATIVES (e.g. MCP)



Strong governance has been established around the MCP initiative to ensure it delivers against the Community Service and Facilities Fund requirements under the Act, and that the application and voting processes, along with the vote outcomes, are transparent and robust.

Subject matter experts from across government agencies and supported by specialist consultants assess project applications against the Program Guidelines to ensure they meet the eligibility and viability criteria. An Evaluation Panel (comprising representatives from DPIE, NSW Treasury and the Local Government Association of NSW) then reviews the assessed applications. Projects deemed eligible for public voting are then recommended to the Board for endorsement and subsequent approval by Ministers.

Following the closure of the public vote, a similar process has been undertaken in recommending projects to receive funding.

O'Connor Marsden was engaged to provide probity advice throughout all stages of MCP to ensure the initiative's integrity, and the vote results were audited by Deloitte.



(L to R): Michael Pratt AM, Secretary, NSW Treasury; Tim Reardon, Secretary, Department of Premier and Cabinet; Lisa McIntyre, Director, Advisory Board, NSW Generations Fund; The Hon. Dominic Perrottet MP, NSW Treasurer; Nicholas Johnson, Director, Advisory Board, NSW Generations Fund; Glenn Stevens, Chair, Advisory Board, NSW Generations Fund; David Deverall, Chief Executive, TCorp; Angela Cummine, Board Secretary, NSW Generations Fund.

Photograph courtesy of NSW Generations Fund.

Advisory Board meetings and attendance

The Board meets on a quarterly basis, with additional meetings convened to consider arising issues. During this financial year, the Board held a number of out-of-session meetings to facilitate the set-up of the NGF and the My Community Project initiative.

The number of meetings held, and participants in attendance, during the financial year, is summarised in the table below:

TABLE 1 - NGF Advisory Board meetings and attendance 2018-19

	Regular Board Meetings	Out-of-session meetings ¹	Total
Number of meetings	4	5	9
G Stevens ²	2/4	2/5	4/9
N Johnson	4/4	5/5	9/9
L McIntyre	4/4	5/5	9/9
M Pratt	4/4	4/5	8/9
T Reardon	4/4	4/5	8/9

¹ The out-of-session meeting held on 26 March 2019 was for appointed members.

² The Board approved a leave of absence without pay, due to illness, for Mr Stevens for the period 21 January 2019 to 30 June 2019. Nicholas Johnson acted as chair in Mr Stevens' absence.

Advisory Board remuneration

The Chair and independent members of the Board are remunerated in line with the criteria set out in the NSW Public Service Commission's *Classification and Remuneration Framework for NSW Government Boards and Committees* (the Framework). Remuneration received by the Chair and independent members reflects the level of responsibility, expertise and time commitment required to manage the NGF.

Consistent with the Framework, the Chair receives a salary of \$80,000 per annum and independent members receive an annual salary of \$45,000. The NSW Treasury Secretary and Secretary of Department of Premier and Cabinet are not remunerated for their roles as they are ex-officio.

Key Advisory Board Activities for 2018-19

As this report documents the NGF's first year, the activities of the Board were focused on establishing and implementing key aspects of the NGF. These included:

- Overseeing the establishment of the My Community Project initiative,
- Recommending projects for public voting,
- Endorsing the NGF's strategic asset allocation, and
- Overseeing the deployment of \$10 billion into financial markets.





Developing the investment strategy



The NGF is a long-term fund, designed to grow over time and ease the debt burden on future generations at a time when the State will also face budgetary pressures. The investment strategy underpinning the Fund recognises this and has been formulated accordingly.

Considerable work was done by TCorp, ALCO and the Board to determine the appropriate investment settings given both the Fund's long investment horizon and its policy objectives. The NGF's investment strategy is specifically aligned with its objectives and unique characteristics, with its defining attributes including:

- A very long, inter-generational, investment time horizon;
- No short or medium term cashflow requirements;
- Significant funds under management, which are projected to grow materially over the coming years; and
- A direct link to helping the NSW Government maintain debt at sustainable levels over the long-term, consistent with a Triple-A credit rating.

These attributes were all taken into consideration by TCorp in developing the NGF's investment return objective and strategy. The long-term investment horizon means the NGF can be more return-seeking than other State funds while adopting a well-considered level of risk.

This has resulted in an investment return objective of 4.5 percent over inflation for the NGF. This objective was endorsed by ALCO and approved by the Treasurer.

TABLE 2 - Fund performance 2018-19

	YTD (%)	Since Inception (%)
Net Return (after fees)	9.56	9.56
Strategic Asset Allocation (SAA) benchmark ¹	9.47	9.47
Net relative to SAA benchmark	0.09	0.09
Investment Return Objective ² (CPI + 4.5%)	5.42	5.42
Net Relative to Investment Return Objective	4.14	4.14

(a) Note financial performance is reported for the period 15 November 2018, following initial investment in markets, to 30 June 2019.

The investment strategy, approved by the Treasurer and based on the Board's endorsement, aligns to the investment objective. The long-term investment strategy has resulted in a significant allocation to growth-oriented assets, and as such the NGF has a 40 percent allocation to listed equities across Australian and international markets.

In addition, the Fund's attributes facilitate investment into a broader suite of diversifying underlying investment strategies, designed to reduce the volatility that is associated with the listed equity markets. These diversifiers help smooth the path of expected returns and assist with the delivery of investment returns in excess of inflation.

The Fund is targeting several diversifying investment strategies including property, infrastructure, credit and private markets opportunities located in domestic

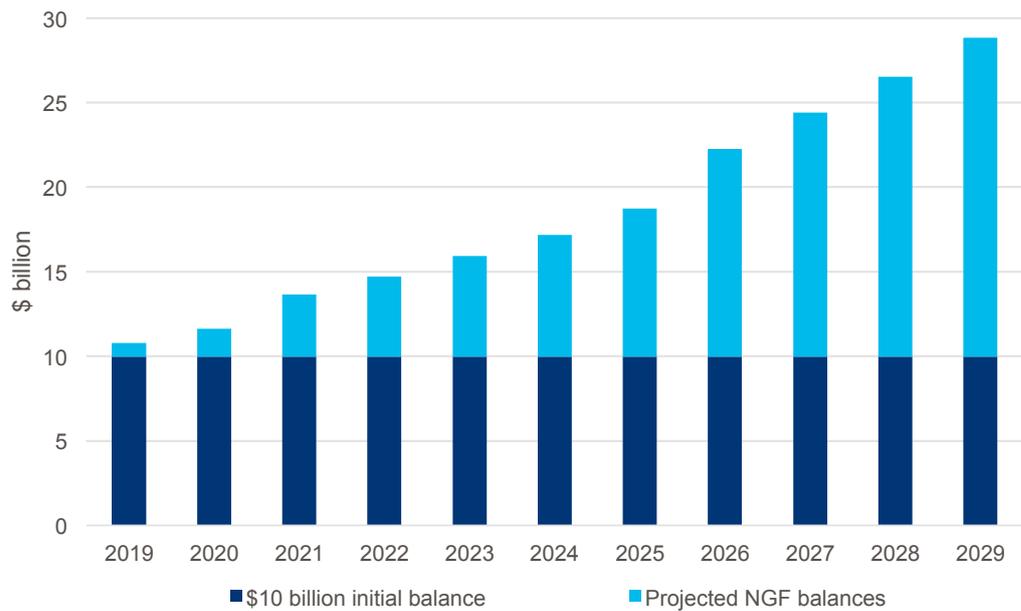
and international markets. Collectively these diversifying strategies represent 55 percent of the Fund's long-term investment strategy. Finally, 5 percent of the NGF's long-term investment strategy is allocated to cash-style investments.

The prudent deployment of large amounts of capital into the diversifying investment strategies is scheduled to take a number of years. TCorp is actively pursuing investments in the global property and infrastructure markets and a number of initial investments have already been made or are close to completion. As the NGF's long-term investment strategy is implemented over time, the Fund is being actively managed to take advantage of market opportunities and currently has high levels of liquidity available for investment.

¹ The SAA expresses the NGF's investment strategy (i.e. the mix of assets the Fund is invested in). The SAA benchmark return is the weighted average return of the NGF's respective underlying asset class benchmarks. These underlying benchmarks are used to measure the performance of individual asset classes within the NGF. For example, the underlying benchmark for the NGF's domestic equities allocation is the S&P/ASX 300 Accumulation index.

² CPI for the period November 2018 to June 2019 is based on Australian All Groups CPI, as published by the ABS (6401.0 Consumer Price Index, Australia).

CHART 1 – Projected NGF balance is growing over the next 10 years^(a)



(a) Projected NGF returns also include distributions from NGF equity interests. This chart is indicative, based on inflow intentions as at 30 June 2019, which may change over time.

Although the State’s minority interest in WestConnex is not formally included within the NGF’s investment strategy, it is tied to the NGF via legislation. The *NSW Generations Funds Act 2018* states any income (including distributions, dividends and interest) or sale proceeds of any relevant NSW equity interest, is to be paid into the NGF.

This approach helps ensure the WestConnex minority interest contributes to the NGF over time and continues to help benefit the people of NSW now and into the future.

This active approach to balance sheet management will support the NSW Government’s infrastructure program, without burdening future generations with unmanageable debt.



Community Services and Facilities Fund

**SUPPORTING COMMUNITY
WELLBEING TODAY**



While the NGF supports future generations, the Community Services and Facilities Fund (CSFF) delivers for today's citizens through supporting initiatives such as My Community Project (MCP).

Funded by the CSFF, MCP empowers residents across New South Wales by giving them the opportunity to nominate and vote for projects to enhance their communities. Under MCP citizens in each of the State's 93 electorates are able to vote for projects valued between \$20,000 and \$200,000.

This funding range bridges a gap between small and medium sized grant programs and gives residents across the State the power to develop and choose projects to suit the needs of their community.

To ensure the funding provided through the Community Services and Facilities Fund (CSFF) is consistent with the NGF Act, all approved projects had to demonstrate alignment with one of the following six program categories:

- **Accessible communities** – makes everyday life more inclusive to all community members by increasing accessibility and mobility;
- **Cultural communities** – adds to the cultural and artistic life of the community by increasing opportunities for residents to participate in arts and cultural activities;
- **Healthy communities** – supports the community’s physical and mental wellbeing, by enabling healthy and active lifestyles;
- **Liveable communities** – improves local amenity and environment;
- **Revitalising communities** – fosters stronger community bonds, encourages social engagement and participation in public programs; and
- **Safe communities** – promotes a safe and secure community where people can participate and enjoy the benefits of community life.

My Community Project opened for applications in April 2019, with citizens aged 16 years or older eligible to vote for community proposals from July 2019. Over 1800 proposals were received and each was assessed by a team and reviewed by a grants panel to ensure it met strict eligibility and viability guidelines, including:

- Alignment with at least one of six program categories to make communities more liveable, cultural, accessible, safe, revitalised or healthy;
- Being open, accessible and available to the wider community;
- Having landowner consent where required; and
- Being a legal activity.

The following 1854 applications across the six categories were received, reflecting the diverse needs and interests of NSW communities:

- 212 applications for Accessible Communities
- 207 for Cultural Communities
- 669 for Healthy Communities
- 250 for Liveable Communities
- 393 for Revitalising Communities
- 123 for Safe Communities.

More than 1500 project ideas met program guidelines and were progressed to the community voting stage.

The vote closed subsequent to the end of the financial year, on 15 August 2019, with over 61,000 votes cast across NSW. There were 248 successful projects, sharing in a total investment of \$24.7 million. The successful projects can be viewed at <https://mycommunityproject.service.nsw.gov.au/>.



Treasury

Financial Statements





INDEPENDENT AUDITOR'S REPORT

NSW Generations (Debt Retirement) Fund

To Members of the New South Wales Parliament

Opinions

Opinion on the audit of the financial report

I have audited the accompanying special purpose financial report (the financial report) of the NSW Generations (Debt Retirement) Fund (the Fund), which comprise the Statement of the Fund's Activities for the period ended 30 June 2019, the Statement of the Fund's Position as at 30 June 2019, notes to the financial report, and the Statement by the Treasurer. The financial report has been prepared by the Treasurer using the basis of accounting described in Note 2 to the financial report for the purpose of fulfilling the Treasurer's annual reporting obligations under section 7 of the *NSW Generations Funds Act 2018* (the Act).

In my opinion, in all material respects, the financial report presents fairly, the Fund's position as at 30 June 2019 and its activities for the period ended 30 June 2019, in accordance with the basis of accounting described in Note 2 to the financial report.

Opinion on whether payments complied with the Act

I have undertaken an audit to provide reasonable assurance whether payments from the Fund have, in all material respects, been made in accordance with the Act for the year ended 30 June 2019.

In my opinion, in all material respects, payments from the Fund have been made in accordance with the Act for the period ended 30 June 2019.

My opinions should be read in conjunction with the rest of this report.

Basis for Opinions

I conducted my audit in accordance with Australian Auditing Standards and Standards on Assurance Engagements, including ASAE 3100 'Compliance Engagements' (ASAE 3100). My responsibilities under the standards are described in the 'Auditor's Responsibilities' section of my report.

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

I am independent of the Fund in accordance with the requirements of the:

- Australian Auditing Standards and Standards on Assurance Engagements
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as the auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

In conducting my audit, I have applied ASQC 1 'Quality Control for firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements and Related Service Engagements'.

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to Note 2 to the financial report which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the Treasurer's annual reporting responsibilities under the Act. As a result, the financial report may not be suitable for another purpose.

The Treasurer's Responsibilities for the Financial Report

The Treasurer is responsible for the preparation and fair presentation of the financial report in accordance with the basis of accounting described in Note 2 to the financial report. The Treasurer's responsibility also includes such internal control as the Treasurer determines is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error. The Treasurer has determined that the accounting policies described in Note 2 are appropriate for fulfilling the Treasurer's annual reporting responsibilities under the Act.

In preparing the financial report, the Treasurer is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters relating to going concern and using the going concern basis of accounting.

The Treasurer's Responsibilities under the *NSW Generations Funds Act 2018*

The Treasurer is responsible for ensuring payments made from the Fund have been made in accordance with the Act. The Treasurer's responsibility also includes such internal control as the Treasurer determines is necessary to comply with the requirements of the Act.

Auditor's Responsibilities

Audit of the financial report

My objectives are to:

- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial report.

A description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Fund carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.

Audit of whether payments complied with the Act

My responsibility is to express an opinion on whether payments from the Fund have been made in accordance with the Act. ASAE 3100 requires that I plan and perform procedures to obtain reasonable assurance whether payments from the Fund have, in all material respects, complied with specific requirements of the Act.

This audit involved performing procedures to obtain audit evidence on whether the payments complied with the Act. The procedures selected depend on my judgement, including the identification and assessment of the risks of material non-compliance with specific requirements of the Act.

My procedures included obtaining an understanding of the internal controls over payments from the Fund and examination, on a test basis, of evidence supporting the Fund's compliance with Act.

Inherent Limitations

Because of the inherent limitations of any compliance procedure, together with the Fund's internal control structure it is possible that fraud, error or non-compliance with the Act may occur and not be detected. My procedures have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered all requirements of the Act.

An audit for the period ended 30 June 2019 does not provide assurance on whether compliance with the Act will continue in the future.

Use of Report

My report was prepared for the purpose of fulfilling the Treasurer's annual reporting obligations under the Act. I disclaim any assumption of responsibility for any reliance on the report for any other purpose other than for which it was prepared.



Margaret Crawford
Auditor-General for New South Wales

29 October 2019
SYDNEY



Treasury

NSW Generations (Debt Retirement) Fund

Financial Report
for the year ended 30 June 2019

NSW Generations (Debt Retirement) Fund

**Financial Report
for the period ended 30 June 2019**

STATEMENT BY THE TREASURER

Pursuant to Section 7 of the *NSW Generations Funds Act 2018*, I declare that in my opinion:

- (a) The accompanying financial report provides details of the transactions of the NSW Generations (Debt Retirement) Fund for the period ended 30 June 2019; and
- (b) The financial report has been prepared as a special purpose financial report and related notes in accordance with the basis of accounting described in Note 2.

Further, I am not aware of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.



**The Hon. Dominic Perrottet MP
Treasurer**

29 October 2019

NSW Generations (Debt Retirement) Fund

Statement of the Fund's Activities and Position for the period ended 30 June 2019

	Note	2019 \$'000
Receipts		
Government contribution	3	8,900,000
Distributions	3	1,080,972
Interest earned	3	7,102
GST received	3	1
Total receipts		<u>9,988,075</u>
Payments		
Total payments		<u>-</u>
Net receipts		<u>9,988,075</u>
Statement of the Fund's Position as at 30 June 2019		
Opening balance of the Fund		-
Net receipts		9,988,075
Income/(loss) from investments	4	902,653
Closing balance of the Fund		<u>10,890,728</u>
Balance of Fund held in		
Cash and cash equivalents		6,755
Investment in NSW Generations (Debt Retirement) Fund Investment Trust	4	10,883,973
		<u>10,890,728</u>

The accompanying notes form part of the financial report.

NSW Generations (Debt Retirement) Fund

Notes to the Financial Report for the period ended 30 June 2019

1. INFORMATION ON THE NSW GENERATIONS (DEBT RETIREMENT) FUND

Reporting entity

NSW Generations (Debt Retirement) Fund (the Fund) is required to prepare an annual report under Section 7 of the *NSW Generations Funds Act 2018* (the Act). Section 8 of the Act states that the purpose of the Fund is to provide funding for reducing the debt of the State in accordance with the principles of sound financial management set out in section 7 of the *Fiscal Responsibility Act 2012*.

Section 4 of the Act establishes the Fund as a Special Deposit Account (SDA). Section 4 of the *Public Finance and Audit Act 1983* defines a SDA as an account of funds which the Treasurer is, by statutory or other authority, required to hold otherwise than for or on account of the Consolidated Fund. The Treasurer is responsible for the Act and the Fund.

The annual report for the Fund is a Special Purpose Financial Report with the reporting date being from the establishment of the fund 27 June 2018 to 30 June 2019. The Fund is an SDA of the Crown Finance Entity.

The financial report was authorised for issue by the Treasurer on the date the accompanying Statement by the Treasurer was signed.

Key Activities

The Fund was established to provide funding for reducing the debt of the State in accordance with the principles of sound financial management set out in section 7 of the *Fiscal Responsibility Act 2012*.

Funding Sources for the NSW Generations (Debt Retirement) Fund

Section 9(1) of the Act prescribes the amounts payable into the Fund. These are:

- a) all money appropriated by Parliament, or advanced by the Treasurer, for payment into the Fund,
- b) all money appropriated by Parliament to the Treasurer for the general purposes of the Government (and not for the purposes of individual Government Sector Finance agencies) and directed by the Treasurer to be paid into the Fund,
- c) any money that is directed by the Treasurer under section 9(2) to be paid into the Fund,
- d) all money that is income (including distributions, dividends and interest) paid to the holder of any relevant NSW equity interest,
- e) the proceeds of the sale of any relevant NSW equity interest,
- f) the proceeds of the investment of money in the Fund,
- g) all other money directed or authorised to be paid into the Fund by or under any Act or law.

Section 9(2) of the Act provides that the Treasurer may direct that an amount of money be paid into the Debt Retirement Fund if the Treasurer is satisfied that it is windfall tax revenue in excess of Budget forecasts.

Section 9(3) of the Act provides that the Treasurer is taken to have been given an appropriation out of the Consolidated Fund under the authority of this section, on the day a direction is given under section 9(2), for the amount specified in the direction for the purpose of its payment into the Debt Retirement Fund.

NSW Generations (Debt Retirement) Fund

Notes to the Financial Report for the period ended 30 June 2019

1. INFORMATION ON THE NSW GENERATIONS (DEBT RETIREMENT) FUND (continued)

Payments out of the Fund

Section 10 of the Act prescribes payments from the Fund. These are:

- a) the payment of all or any part of a debt of the State that the Treasurer is satisfied is a payment that promotes the purpose of the Fund,
- b) administrative expenses relating to the control and management of the Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Fund's financial report is a special purpose financial report which has been prepared on a cash basis except for the Fund's investments in other financial assets which are measured at fair value. The cash basis of accounting recognises transactions and events only when cash is received or paid by the Fund. Receipts are realised and recorded when the cash is received. Payments are recorded when cash is actually paid. The investments in other financial assets are remeasured to fair value at the reporting date.

The presentation focus in the financial report is balances of the Fund at the reporting date and changes during the year.

All amounts are rounded to the nearest thousand (\$'000) dollars and are expressed in Australian dollars.

Statement of compliance

The financial report and notes have been prepared in accordance with the policies detailed in this accounting policy note.

Value of the Fund

The total balance of the Fund consists of cash and funds invested in the NSW Generations (Debt Retirement) Fund.

Cash is controlled by the Fund when the Fund can use the cash for the achievement of its own objectives or otherwise benefit from the cash and exclude or regulate the access of others to that benefit. Cash collected by, or appropriated or granted to the Fund, which the Fund can use to fund its operating objectives, acquire capital assets or repay its debt is controlled by the Fund.

The cash held by the Fund is classified as a restricted asset as it can only be applied as allowed by the Act as detailed in Note 1.

Funds invested in the NSW Generations (Debt Retirement) Fund Investment Trust (Investment Trust) are investments held in the NSW Generations (Debt Retirement) Fund, a unit trust investment facility administrated by the NSW Treasury Corporation (TCorp). The Investment Trust's strategy is designed to provide funding for reducing the debt of the State.

NSW Generations (Debt Retirement) Fund

Notes to the Financial Report for the period ended 30 June 2019

3. RECEIPTS

The Fund is authorised to receive amounts in accordance with Section 9 of the Act.

	2019 \$'000
Section 9(1)(b) receipts	
Government contribution	8,900,000
Section 9(1)(d) receipts	
Distributions from State's investment in WestConnex	1,080,972
Section 9(1)(f) receipts	
Interest earned	7,102
Section 9(1)(g) receipts	
GST received	1
Total receipts	<u>9,988,075</u>

4. INVESTMENT IN NSW GENERATIONS (DEBT RETIREMENT) FUND INVESTMENT TRUST

Opening balance	-
Add: Investments - cash transferred in from the operating bank account	9,981,320
Add/(Less): Net income/(loss) from investments:	
Distribution reinvested	268,910
Unrealised gain/(loss) on other financial assets	633,743
	<u>902,653</u>
Closing balance	<u>10,883,973</u>

The Fund is authorised to invest in accordance with Section 11 of the Act. Implemented during 2018-19, the Investment Trust is the investment vehicle for the Fund in assisting the NSW Government to meet its objective of reducing the debt of the State. The Investment Trust is managed by TCorp.

NSW Generations (Debt Retirement) Fund

Notes to the Financial Report for the period ended 30 June 2019

4. INVESTMENT IN NSW GENERATIONS (DEBT RETIREMENT) FUND INVESTMENT TRUST (continued)

Asset allocation and investment instructions of the Investment Trust are governed by the Investment Services Agreement (ISA) signed by the Treasurer and TCorp on 1 November 2018.

Asset Allocation

The actual asset allocation of the Investment Trust as at the reporting date:

Asset class	Strategic Asset Allocation (%)	Actual Asset Allocation (%)	Value (\$'000)
Australian Shares	14.0	13.6	1,480,220
International Shares	20.0	20.1	2,187,679
Emerging Market Shares	6.0	6.3	685,690
Alternatives	6.0	5.8	631,270
Alternatives Asset Proxy	15.0	14.9	1,621,712
Opportunistic	5.0	4.8	522,431
Emerging Market Debt	6.0	6.3	685,690
Bank Loan	5.0	4.7	511,547
High Yield	3.0	2.9	315,635
Cash	20.0	20.6	2,242,099
Total	100.0	100.0	10,883,973

Performance returns

The investment return objective of the Investment Trust is to achieve CPI plus 4.5% p.a over rolling 10-year periods. The fund performance against the benchmark is as below:

	YTD (%)	Since inception (%)
Net return (<i>after fees</i>)	9.56	9.56
Strategic Asset Allocation (SAA) benchmark	9.47	9.47
Net relative to SAA benchmark	0.09	0.09

5. FINANCIAL INSTRUMENTS

The Fund's main risks arising from financial instruments are interest rate and other price risks.

The Investment Trust is a unit trust investment facility and is subject to other price risks only. The unit price of the facility is equal to the total fair value of the net assets held by the facility divided by the number of units on issue. Unit prices are calculated daily. Investments in the Investment Trust limits the Fund's exposure to risk as it allows diversification across a pool of funds with different investment horizons and a mix of asset classes.

The Fund's other financial instrument is cash held in the Treasury Banking System which is subject to interest rate risk. As at 30 June 2019, a rise or fall of 1 per cent in interest rate over the course of the year would result in an increase or decrease in interest earned of approximately \$67,555.

NSW Generations (Debt Retirement) Fund

Notes to the Financial Report for the period ended 30 June 2019

5. FINANCIAL INSTRUMENTS (continued)

Risk management

TCorp actively manages financial instrument risks, and the ISA is reviewed regularly and updated to include changes in market conditions and/or management's direction. The documents clearly set out investment management objectives, restrictions, and establish performance benchmarks. The ISA is authorised and approved at the Senior Executive Level within NSW Treasury and/or the Treasurer.

Proposed changes to the ISA must go through a consultative process between TCorp and the Financial Risk Management (FRM) team at NSW Treasury. Regular meetings take place between TCorp, FRM and the Chief Financial Officer to monitor the performance and management of the investment.

6. EVENTS AFTER THE REPORTING DATE

There are no events after reporting date requiring disclosure.

End of audited financial report



INDEPENDENT AUDITOR'S REPORT

NSW Generations (Community Services and Facilities) Fund

To Members of the New South Wales Parliament

Opinions

Opinion on the audit of the financial report

I have audited the accompanying special purpose financial report (the financial report) of the NSW Generations (Community Services and Facilities) Fund (the Fund), which comprise the Statement of the Fund's Activities for the period ended 30 June 2019, the Statement of the Fund's Position as at 30 June 2019, notes to the financial report, and the Statement by the Treasurer. The financial report has been prepared by the Treasurer using the basis of accounting described in Note 2 to the financial report for the purpose of fulfilling the Treasurer's annual reporting obligations under section 7 of the *NSW Generations Funds Act 2018* (the Act).

In my opinion, in all material respects, the financial report presents fairly, the Fund's position as at 30 June 2019 and its activities for the period ended 30 June 2019, in accordance with the basis of accounting described in Note 2 to the financial report.

Opinion on whether payments complied with the Act

I have undertaken an audit to provide reasonable assurance whether payments from the Fund have, in all material respects, been made in accordance with the Act for the year ended 30 June 2019.

In my opinion, in all material respects, payments from the Fund have been made in accordance with the Act for the period ended 30 June 2019.

My opinions should be read in conjunction with the rest of this report.

Basis for Opinions

I conducted my audit in accordance with Australian Auditing Standards and Standards on Assurance Engagements, including ASAE 3100 'Compliance Engagements' (ASAE 3100). My responsibilities under the standards are described in the 'Auditor's Responsibilities' section of my report.

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

I am independent of the Fund in accordance with the requirements of the:

- Australian Auditing Standards and Standards on Assurance Engagements
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as the auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

In conducting my audit, I have applied ASQC 1 'Quality Control for firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements and Related Service Engagements'.

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to Note 2 to the financial report which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the Treasurer's annual reporting responsibilities under the Act. As a result, the financial report may not be suitable for another purpose.

The Treasurer's Responsibilities for the Financial Report

The Treasurer is responsible for the preparation and fair presentation of the financial report in accordance with the basis of accounting described in Note 2 to the financial report. The Treasurer's responsibility also includes such internal control as the Treasurer determines is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error. The Treasurer has determined that the accounting policies described in Note 2 are appropriate for fulfilling the Treasurer's annual reporting responsibilities under the Act.

In preparing the financial report, the Treasurer is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters relating to going concern and using the going concern basis of accounting.

The Treasurer's Responsibilities under the *NSW Generations Funds Act 2018*

The Treasurer is responsible for ensuring payments made from the Fund have been made in accordance with the Act. The Treasurer's responsibility also includes such internal control as the Treasurer determines is necessary to comply with the requirements of the Act.

Auditor's Responsibilities

Audit of the financial report

My objectives are to:

- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial report.

A description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Fund carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.

Audit of whether payments complied with the Act

My responsibility is to express an opinion on whether payments from the Fund have been made in accordance with the Act. ASAE 3100 requires that I plan and perform procedures to obtain reasonable assurance whether payments from the Fund have, in all material respects, complied with specific requirements of the Act.

This audit involved performing procedures to obtain audit evidence on whether the payments complied with the Act. The procedures selected depend on my judgement, including the identification and assessment of the risks of material non-compliance with specific requirements of the Act.

My procedures included obtaining an understanding of the internal controls over payments from the Fund and examination, on a test basis, of evidence supporting the Fund's compliance with Act.

Inherent Limitations

Because of the inherent limitations of any compliance procedure, together with the Fund's internal control structure it is possible that fraud, error or non-compliance with the Act may occur and not be detected. My procedures have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered all requirements of the Act.

An audit for the period ended 30 June 2019 does not provide assurance on whether compliance with the Act will continue in the future.

Use of Report

My report was prepared for the purpose of fulfilling the Treasurer's annual reporting obligations under the Act. I disclaim any assumption of responsibility for any reliance on the report for any other purpose other than for which it was prepared.



Margaret Crawford
Auditor-General for New South Wales

29 October 2019
SYDNEY



Treasury

NSW Generations (Community Services and Facilities) Fund

Financial Report
for the year ended 30 June 2019

NSW Generations (Community Services and Facilities) Fund

**Financial Report
for the period ended 30 June 2019**

STATEMENT BY THE TREASURER

Pursuant to Section 7 of the *NSW Generations Funds Act 2018*, I declare that in my opinion:

- (a) The accompanying financial report provides details of the transactions of the NSW Generations (Community Services and Facilities) Fund for the period ended 30 June 2019; and
- (b) The financial report has been prepared as a special purpose financial report and related notes in accordance with the basis of accounting described in Note 2.

Further, I am not aware of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.



**The Hon. Dominic Perrottet MP
Treasurer**

 October 2019

NSW Generations (Community Services and Facilities) Fund

Statement of the Fund's Activities and Position
for the period ended 30 June 2019

	Note	2019 \$'000
Receipts		
Government contribution	3	27,500
Interest earned	3	420
Other	3	200
GST received	3	3
Total receipts		<u>28,123</u>
Payments		
Administrative expenses	4	378
Total payments		<u>378</u>
Net receipts		<u>27,745</u>
 The Fund's Position as at 30 June		
Opening balance of the Fund - cash		-
Net receipts		27,745
Closing balance of the Fund		<u>27,745</u>

The accompanying notes form part of the financial report.

NSW Generations (Community Services and Facilities) Fund

Notes to the Financial Report for the period ended 30 June 2019

1. INFORMATION ON THE NSW GENERATIONS (COMMUNITY SERVICES AND FACILITIES) FUND

Reporting entity

The NSW Generations (Community Services and Facilities) Fund (the Fund) is required to prepare an annual report under Section 7 of the *NSW Generations Funds Act 2018* (the Act). Section 12(1) of the Act states that the purpose of the Fund is to provide funding for cost-effective facilities and services throughout New South Wales that improve the wellbeing of communities and the lives of the people of New South Wales, including facilities and service for the purposes of:

- (a) protecting public health and preventing disease, illness, injury, disability or premature death, and
- (b) promoting conditions in which persons can be healthy and safe, and
- (c) promoting involvement with community or culture, and
- (d) increasing participation in programs, services or activities that aim to improve the overall wellbeing of the community, and
- (e) any other purposes prescribed by the regulations.

Section 12(2) of the Act provides that the Treasurer is not to recommend the making of a regulation for the purposes of subsection 12(1)(e) of the Act unless the Treasurer certifies that the Treasurer is satisfied that the purpose to be prescribed is a purpose that relates to the improvement of the wellbeing of communities and the lives of the people of New South Wales.

Section 4 of the Act establishes the Fund as a Special Deposit Account (SDA). Section 4 of the *Public Finance and Audit Act 1983* defines a SDA as an account of funds which the Treasurer is, by statutory or other authority, required to hold otherwise than for or on account of the Consolidated Fund. The Treasurer is responsible for the funding and investment operations of the Fund.

The annual report for the Fund is a Special Purpose Financial Report with the reporting date being from the establishment date 27 June 2018 to 30 June 2019. The Fund is an SDA of the Crown Finance Entity.

The financial report was authorised for issue by the Treasurer on the date the accompanying Statement by the Treasurer was signed.

Key Activities

The Fund was established for the provision of funding for cost-effective facilities and services throughout New South Wales that improve the wellbeing of communities and lives of people of New South Wales.

Funding Sources for the Fund

Section 13 of the Act prescribes the amounts payable into the Fund. These are:

- a) all money appropriated by Parliament, or advanced by the Treasurer, for payment into the Fund,
- b) all money appropriated by Parliament to the Treasurer for the general purposes of the Government (and not for the purposes of individual authority within the meaning of the *Public Finance and Audit Act 1983*) and directed by the Treasurer to be paid into the Fund,
- c) the repayment of the principal, or payment of interest, on money loaned from the Fund (including fees associated with the loan),
- d) the repayment of any other money provided from the Fund by way of any other financial assistance,
- e) all other money directed or authorised to be paid into the Fund by or under any Act or law.

NSW Generations (Community Services and Facilities) Fund

Notes to the Financial Report for the period ended 30 June 2019

1. INFORMATION ON THE NSW GENERATIONS (COMMUNITY SERVICES AND FACILITIES) FUND (continued)

Payments out of the Fund

Section 14(1) of the Act prescribes payments from the Fund. These are:

- a) all or any part of the cost of any project, program or initiative that the Treasurer is satisfied promotes the purpose of the Fund,
- b) administrative expenses relating to the control and management of the Fund,
- c) any money directed or authorised to be paid from the Fund by or under this Act or any other Act or law.

Section 14(2) provides that payments from the Fund for the cost of a project, program or initiative may be provided by way of a grant, subsidy, loan or other financial assistance and may be subject to such conditions as the Treasurer thinks fit to impose.

Section 14(3) prescribes, without limiting Section 14(2), those conditions may relate to the following:

- a) meeting specified performance targets or outcomes,
- b) repayments of the whole or any part of such financial assistance (including repayment if specified performance targets or outcomes are not met as required under a condition of the provision of the financial assistance),
- c) the payment of interest on financial assistance provided by way of a loan,
- d) the periods or intervals at which repayments are to be made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Fund's financial report is a special purpose financial report which has been prepared on a cash basis. The cash basis of accounting recognises transactions and events only when cash is received or paid by the Fund. Receipts are realised and recorded when cash is received. Payments are recorded when cash is actually paid.

The presentation focus in the financial report is balances of the Fund at the reporting date and changes during the year.

All amounts are rounded to the nearest thousand (\$'000) dollars and are expressed in Australian dollars.

Statement of compliance

The financial report and notes have been prepared in accordance with the policies detailed in this accounting policy note.

Value of the Fund

The total balance of the Fund consists of cash only.

NSW Generations (Community Services and Facilities) Fund

Notes to the Financial Report for the period ended 30 June 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash is controlled by the Fund when the Fund can use the cash for the achievement of its own objectives or otherwise benefit from the cash and exclude or regulate the access of others to that benefit. Cash collected by, or appropriated or granted to the Fund, which the Fund can use to fund its operating objectives, acquire capital assets or repay its debt is controlled by the Fund.

The cash held by the Fund is classified as a restricted asset as it can only be applied as allowed by the Act as detailed in Note 1.

3. RECEIPTS

The Fund is authorised to receive amounts in accordance with Section 13 of the Act.

	2019 \$'000
Section 13(b) receipts	
Government contribution	27,500
Section 13(c) receipts	
Interest earned	420
Section 13(e) receipts	
Other	200
GST received	3
Total Receipts	<u>28,123</u>

4. PAYMENTS

Payments from the Fund are in accordance with Section 14 of the Act.

Section 14(1)(b) payments	
Directors fees	161
Operating expenses	217
Total payments	<u>378</u>

5. FINANCIAL INSTRUMENTS

Risk management

The Fund's only financial instrument is the cash held in the Treasury Banking System which is subject to interest rate risk. As at 30 June 2019, a rise or fall of 1 percent in interest rate over the course of the year would result in an increase or decrease in interest earned of approximately \$277,446.

6. EVENTS AFTER THE REPORTING DATE

There are no events after reporting date requiring disclosure.

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This annual report was produced wholly by NSW Treasury officers. There were no external production costs and the annual report is available in electronic format only on the NSW Treasury website www.treasury.nsw.gov.au

31 December 2019



Treasury